

# AMG Metallurgical Group NV (AMVMF) CEO Heinz Schimmelbusch on Q4 2020 Results - Earnings Call Transcript

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AMG Metallurgical Group NV ([OTCPK:AMVMF](#)) Q4 2020 Earnings Conference Call  
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## Company Participants

Michele Fischer - IR

Heinz Schimmelbusch - President and CEO

Jackson Dunckel - CFO

Eric Jackson - COO

## Conference Call Participants

Stijn Demeester - ING

Martijn Drijver - ABN AMRO Bank

Krishan Agarwal - Citigroup Inc.

Henk Veerman - Kempen

## Operator

Ladies and gentlemen, thank you for standing by, and welcome to the AMG Q4 2020 Earnings Conference Call. time, [Operator Instructions] I must advise that today's conference is being recorded. Thursday, 25th of February 2021. And I would now like to hand the conference over to your first speaker for today, Michele Fischer. Thank you. Please go ahead.

## Michele Fischer

Welcome to AMG's fourth quarter 2020 earnings call. Joining me on this call are Dr. Heinz Schimmelbusch, the Chairman of the Management Board and Chief Executive Officer; Mr. Jackson Dunckel, the Chief Financial Officer; and Mr. Eric Jackson, the Chief Operating Officer. AMG's fourth quarter 2020 earnings press release issued yesterday is on AMG's website.

Today's call will begin with a review of the fourth quarter 2020 business highlights by Dr. Schimmelbusch, Mr. Jackson will comment on AMG's financial results, Mr. Dunckel will comment on AMG's financial results and Mr. Jackson will discuss operations. At the

completion of Mr. Jackson's remarks, Dr. Schimmelbusch will comment on strategy and outlook.

We will then open the call to take your questions. Before I pass the call to Dr. Schimmelbusch, I would like to comment on forward-looking statements. This conference call could contain forward-looking statements about AMG Advanced Metallurgical Group. Forward-looking statements are not historical facts, but may include statements concerning AMG's plans, expectations, future revenues or performance, financing needs, plans and intentions relating to acquisitions, AMG's competitive strengths and weaknesses, reserves, financial position and future operations and development, AMG's business strategy and the trends AMG anticipates in the industries and political and legal environment in which it operates and other similar or different information that is not historical information.

When used in this conference call, the words expects, believe, anticipates, plan, may, will, should and similar expressions and the negatives thereof are intended to identify forward-looking statements. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that any predictions, forecasts or similar projections contained by such forward-looking statements will not be achieved. These forward-looking statements speak only as the date of this conference call.

AMG expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in AMG's expectations with regard thereto or any change in events, conditions or circumstances on which any forward-looking statement is based. I will now pass the floor to Dr. Schimmelbusch, AMG's Chairman of the Management Board and Chief Executive Officer.

### **Heinz Schimmelbusch**

Thank you, Michele. AMG's highest priority is the health and safety of our employees. Out of over 3,000 AMG employees at 33 sites in 15 countries, AMG has 3 active confirmed coronavirus cases globally. That compares to a peak of 34 cases in early December. AMG has 0 current COVID hospitalization cases.

We are also pleased with the safety performance across AMG's business units. The lost time incident rate, the number of lost time incidents per 100 employees, is now at 0.62, a 23% improvement over the very good figure of the previous year. The total incident rate, the number of OSHA-recordable equivalent incident per 100 employees, was 1.05, a 28% improvement over 2019.

Both ratios are year-end, all-time lows for AMG and compares very favorably with industry standards of primary metal manufacturing. 23 of our 33 sites, that's about 70%, had 0 workplace injuries in 2020, which is, again, a further indication that 0 workplace injuries is an obtainable goal.

In regards to AMG Critical Materials during the fourth quarter, all of our commodity prices within our portfolio started to stabilize and turn around. As an example, during the fourth quarter 2020, the ferrovandium price rose from \$10.23 per pound at the end of September to \$11.2 per pound at the end of December. As of February 17, '21, this year, the ferrovandium price stands at \$15.25 per pound, a 45% increase compared to the average Q4 2020 price. Regarding spodumene, the average price in Q4 was \$393 per ton.

And as of February '17, it was \$430 per ton, an increase of 9%. That trails the rise in lithium carbonate prices which are up 69%. It should be noted, of course, that vanadium and lithium are our key investment areas. AMG Technologies benefited from its market diversification, but is recovering at a slower pace as a result of dramatic impact of the pandemic on the aerospace industry.

It is important to note that AMG Engineering's order intake in 2020 exceeded \$200 million for the year due to significant orders in market segments outside aerospace, including strong orders of induction, melting and remelting furnaces for specialty steel producers and higher demand as a result of the rapidly recovering automotive sector.

Our strategic investments have been actively progressing in 2020 and year-to-date despite the challenging market environment. The construction of the recycling plant in Zanesville, Ohio, which will essentially double our recycling capacity for refinery residues, is proceeding as planned, utilizing the funds from our municipal bond issue. To date, we have spent \$110 million and committed 260 -- \$206 million, and we believe commissioning will start in the first quarter of 2020 -- 2022. The focus of the activities of Shell AMG Recycling BV includes large recycling projects for refinery waste in the Kingdom of Saudi Arabia and in China, as previously announced.

AMG's spodumene plant in Brazil is operating at full capacity and the production is sold under long-term contracts. As previously announced, AMG Brazil has entered into an exclusive cooperation agreement with one of its major customers for lithium concentrates. This agreement provides for AMG Brazil to supply 200,000 tons over a 5- year supply term, which will be obtained from an expansion, targeting 40,000 tons per annum of AMG Brazil existing spodumene plant.

The agreement also includes an advanced payment for spodumene deliveries, which will fund AMG's Brazil investment in the expansion in full. In regard to AMG Lithium GmbH, AMG Supervisory Board approved moving ahead with the detailed engineering contract as well as the purchase of the long-term lead items and the purchase of the site in Bitterfeld in Saxony-Anhalt, Germany. I would now like to pass the floor to Jackson Dunkel, AMG's Chief Financial Officer. Jackson?

### **Jackson Dunkel**

Thank you, Heinz. I'll be referring to the fourth quarter 2020 investor presentation posted yesterday on our website. Before we get started, I'd like to note that the cover of the presentation shows a picture of our Zanesville vanadium project, with the raw material storage building on the left and the roaster and flue gas desulfurization unit on the right. Starting on Page 3. This shows an overview of the financial highlights of the quarter.

Revenue for the quarter decreased by 6% to \$254 million. This decrease was mainly driven by lower revenue in the AMG Technologies segment as a result of pandemic-related impacts. Q4 2020 EBITDA was \$22.5 million, which was in line with the prior year's EBITDA of \$22.8 million.

Despite the relatively flat EBITDA result, it's worthwhile to compare Q4 2020 with Q4 2019 on a more detailed basis in order to see the relative strength inherent in the current quarter. Prices decreased quarter-over-quarter, vanadium prices decreased 12%, spodumene prices

decreased 25% and chrome prices decreased 12%. Offsetting this price headwind, we had increased volumes from spodumene, antimony, graphite and silicon.

But in addition, we had \$11 million less SG&A as well as lower operating costs across our business due to cost-cutting. This combination of stronger volumes and lower costs led to the flat results versus last year. Nonetheless, COVID-19 still affected our operations, and we think it's beneficial for our investors to quantify the impact on our operations.

For Q4 2020, our estimated COVID-19 EBITDA impact is approximately \$12 million. This figure is based on a detailed bottoms-up analysis of our results versus our budget, and most of it was in our aerospace-facing segments, namely engineering, titanium alloys and chrome. Net loss attributable to shareholders for Q4 was \$2.8 million versus a \$14.2 million loss in the prior year. The loss in the prior year primarily relates to a noncash inventory cost adjustment in our vanadium business.

Now I'll turn to a review of our 2 segments. Let's start with AMG Critical Materials, which is shown on Page 4 of our presentation. On the top left, you can see that Q4 revenues increased by 1% versus the prior year. This increase was largely driven by higher sales volumes in 5 of the 7 business units, namely spodumene, aluminum, antimony, graphite and silicon. These volume increases were partially offset by lower sales volumes of ferrovanadium and lower prices versus Q4 2019 in vanadium, chrome, tantalum and spodumene.

Critical Materials fourth quarter gross profit before nonrecurring items increased by 1% to \$21.8 million due to increased revenue. SG&A expenses in the fourth quarter of 2020 were \$13.4 million or \$6.4 million lower than Q4 2019 due to lower variable compensation expense, lower professional fees as well as cost reduction efforts across the businesses. EBITDA for the Critical Materials segment was \$16.4 million, a 26% increase over Q4 2019.

Moving on to AMG Technologies on Page 5 of the presentation and starting on the top left, you can see that revenue decreased \$16.3 million this quarter versus the prior year. This decrease was due to reduced aerospace activity and volume reductions as well as lower profitability associated with metal price declines for the titanium alloys and coatings business. These declines were partially offset by higher revenue from heat treatment services and sales of remelting furnaces.

Fourth quarter 2020 gross profit before nonrecurring items decreased by \$8.5 million to \$13.7 million due to lower revenue. Fourth quarter SG&A expenses decreased by \$4.8 million or 27% compared to the fourth quarter of 2019 due to lower variable compensation expense, lower professional fees as well as cost reduction efforts across the business. AMG Technologies' fourth quarter EBITDA decreased by 37% to \$6.1 million due to lower profitability related to challenging economic environment, offset partially by cost reduction efforts.

The order backlog at AMG Engineering was \$198 million at December 31 -- order backlog in AMG Engineering was \$198 million as of December 31, 2020, an 11% decrease from \$223 million as of the prior year. The company signed \$46 million in new orders during the fourth quarter of 2020. The quarter benefited from strong orders of induction melting and arc remelting furnaces for specialty steel producers.

We did have a cancellation of one-off experimental furnace, which is in our order book for \$14.3 million. Because of the strength of our contract, we received a payment that more than offset the cost we've incurred to date. Given the nature of the furnace, we do not think that this cancellation is indicative of any further quarter cancellations. On a full year basis, including the cancellation, the company signed \$209 million in new orders, representing a 0.8x book-to-bill ratio.

Turning now to Page 6 of the presentation. On the top left, you can see that AMG's Q4 2020 SG&A expenses were \$26 million versus \$37 million in Q4 2019. For the full year, SG&A was \$118 million, a drop of \$26 million versus the prior year. This decrease was driven by lower variable compensation expenses, low professional fees and cost cutting. AMG's fourth quarter 2020 net finance costs were \$4.9 million compared to \$6.1 million in Q4 2019. The decline in the fourth quarter was mainly driven by favorable foreign exchange rates. But on a full year basis, the key driver was lower interest rates, which reduced net finance cost by \$7 million.

Our interest rate hedging strategy utilizes interest rate caps, which enables us to benefit as rates decline. In addition, AMG capitalized \$3.8 million of interest costs in the fourth quarter compared to \$2.8 million in the prior year, driven by the interest associated with the company's tax-exempt municipal bond supporting the vanadium expansion in Ohio. AMG reported an income tax expense of \$11.2 million for the full year 2020 as compared to a benefit of \$5.1 million in 2019.

In addition to higher profitability in certain jurisdictions, this increased tax expense was mainly driven by a year-over-year increase in noncash tax expense due to movements in the Brazilian real. Movements in the Brazilian real exchange rate impacts the valuation of the company's deferred tax assets. The devaluation of the real during 2020 resulted in an additional noncash tax expense of \$11.1 million compared to a benefit of \$0.6 million in 2019. AMG paid taxes of \$8.6 million in 2020, compared to tax payments of \$24.6 million in 2019.

As a result of the year-over-year volatility in income and the timing of cash payments, the present cash tax rate is not indicative of the current year performance as payments in the current year are attributable to income from prior years and not to 2020. Once earnings have stabilized, we believe that the cash tax rate is the more meaningful metric with regard to AMG's taxes due to the volatile nature of the company's deferred tax balances.

Turning to Page 7 of the presentation. You can see on the top left, the cash flow from operating activities was \$11.4 million in Q4 2020, compared to \$55.5 million in Q4 last year. This decrease was mainly due to lower cash generated from working capital during the quarter relative to the prior year. Q4 2020 prices and volumes rose versus the third quarter. And in a period of sequential increases, we expand our working capital requirements. This is the exact opposite of what happened in Q4 2019, which experienced sequential decreases in prices and volumes.

AMG's annualized return on capital employed was 3.5% for 2020, due to the depressed profitability associated with the coronavirus pandemic and significant recent investments in strategic projects. AMG finished the fourth quarter of 2020 with \$288 million of net debt. The increase versus year-end levels was mainly due to significant investment in growth initiatives,

particularly the vanadium expansion. AMG's balance sheet is sound and the company enjoys significant liquidity.

As of December 31, 2020, AMG had \$207 million of unrestricted cash and total liquidity of \$377 million. That concludes my remarks. But before I pass the floor Eric Jackson, AMG's Chief Operating Officer, I would like to point you to Page 10 in the appendix, which shows both the change in prices for Q4 2020 versus Q4 2019, as well as the current spot prices and the increases we are currently experiencing in every one of our materials. Eric?

### **Eric Jackson**

Thank you, Jackson. AMG's first priority is to provide its employees with a safe working environment. The coronavirus created additional challenges during the year, however, we're pleased to report that AMG's safety record for the year continued a trend of multiyear improvement and set all-time lows for lost time incident rate and total recordable incident rates.

Our performance is substantially better than our industrial peers. And as Dr. Schimmelbusch mentioned, as of today, only 3 of our more than 3,000 employees are COVID-19 positive. Our business units are aggressively managing the challenges of the coronavirus.

And to date, we have not needed to curtail any of our operations due the medical reasons. In addition to safety, our operating priorities continue to be to maximize cash flow, lower our cost structure, manage risk and deliver our major strategic initiatives and investments on time and on budget.

Although prices for virtually all of our products were substantially lower in the fourth quarter year-over-year, volumes were generally strong and prices stabilized and began to improve quarter-over-quarter sequentially. Prices have continued to strengthen in the first quarter 2021, in some cases substantially. Ferrovandium, lithium carbonate, which our spodumene sales prices are indexed to, and antimony, for instance, have increased by more than 30% year-to-date.

We believe that these prices are starting to reflect what we see as strong supply-demand dynamics as the economy starts to normalize. We are well positioned to capitalize on price improvement in virtually all of our businesses. However, it is important to note that improvement in our operating results lagged spot price increases by 2 to 4 months depending on the product. In addition to our continued focus on cost reduction and working capital management, we progressed a number of important initiatives in the quarter.

In Brazil, we signed long-term sales contracts diversifying our spodumene customer base, operated at full capacity, and as previously announced, secured a significant prepayment which will be paid in March to expand our spodumene production from 90,000 tons per annum to 130,000 tons per annum. We also started production of chrome metal at our AMG chrome facility in New Castle, Pennsylvania, and have successfully qualified material with a number of U.S. customers. This is notable in the context of the U.S.' increasing focus on the importance of critical material supply chains.

We also concluded important commercial contracts in tantalum, silicon, graphite and antimony. This is a result of our ongoing risk management program. The impact of the

coronavirus continues to be most acutely felt in our aerospace-related end markets. However, our engineering order backlog remains strong. We have rightsized these businesses to reflect today's market, but we're fully positioned to capitalize on aerospace-related market opportunities as they improve.

AMG Engineering signed a number of orders with high-performance steel and titanium customers in China, where the market is showing signs of improvement and actually quite strong. We continue to focus on those parts of the business that are under our control and progress operational initiatives and strategic growth projects. I would now like to pass the floor to Dr. Heinz Schimmelbusch, AMG's Chief Executive Officer.

### **Heinz Schimmelbusch**

Thank you, Eric. As regard to financial outlook, I will restrain from my typical statement about how difficult it is to predict EBITDA in these uncertain times. Having said that, we predict, as previously announced, that the EBITDA in '21 will exceed \$100 million. Operator, we would now like to open the line for questions.

### **Question-and-Answer Session**

#### **Operator**

[Operator Instructions] Our first question comes from the line of Krishan Agarwal from Citigroup.

#### **Krishan Agarwal**

Okay. The numbers for fourth quarter was surprisingly very strong and exhibited a very strong operating leverage into the business. I mean despite revenues being flattish, the EBITDA has gone up a lot. So in that context, the annualized run rate for 2021 EBITDA work out close to \$100 million. Even if you assume that you don't benefit from the increasing pricing in all of your noncritical material businesses.

So I mean the consensus estimates are somewhere in between \$130 million to \$140 million for full year EBITDA. I know your guidance is sort of \$100 million plus. So would you violently disagree with the consensus number as being overly optimistic? Or those numbers are sort of in the right ballpark given that pricing everywhere is going up and then the volumes probably will also come back sometime in -- from second quarter onwards?

#### **HeinzSchimmelbusch**

As a general rule, when we say something about the future EBITDA, we always debate this very thoroughly and then decide to be conservative.

#### **Krishan Agarwal**

Okay. Okay. Understand. So numbers are conservative to the extent that prices may be really volatile. Got your point. My second question is on your expansion plans. The ferrovanadium expansion is pretty much well-known and taking the progress for 2022 commissioning. Can

you discuss the time line and the CapEx for this 40,000 ton expansion of the Brazilian capacity, which is bagged by the supply terms for the 200,000 tons of material for 5 years?

**HeinzSchimmelbusch**

Eric? Yes, the timeline of the spodumene expansion.

**Eric Jackson**

Yes, spodumene expansion. Well, we are progressing that as we speak. As I mentioned, we will receive the prepayment in March and we expect to commission that within a period of approximately 18 months. Although again, it's early in that process and so we haven't given clear guidance on that to date.

**Krishan Agarwal**

Okay. I'm assuming that once you get the prepayment and you have made up your internal workings and probably will also disclose the potential CapEx on the expansion?

**Eric Jackson**

Well, we are moving the project full speed ahead right now in preliminary engineering. And of course, it's essentially a debottlenecking in many parts of our existing business. It's a debottlenecking of our existing operation.

**Krishan Agarwal**

So the capacity goes up from 90 to 130 only from the debottlenecking?

**HeinzSchimmelbusch**

Yes.

**Krishan Agarwal**

Okay. Okay. Got it. And then, I mean, the vanadium and this 40,000 ton expansion, would you have kind of an indicative range in terms of incremental EBITDA contribution in the long run, say, from 2 to 3 years from here onwards?

**HeinzSchimmelbusch**

No. The expanded capacity is a copy in many ways of the existing capacity, it's doubling that capacity. And you have done a lot of analogies on the EBITDA contribution at various ferrovanadium prices from the existing capacities by 2.

**Krishan Agarwal**

Okay. Okay. Got it. And then on the SG&A, I mean, this run rate for the last 3 quarters have been very low. What is your expectation in terms of how much of these cost savings you will

be able to retain in 2021? Or in other words, how much of the cost is likely to come back when the operation come back to normal levels?

**HeinzSchimmelbusch**

Well, the operations are essentially at normal levels. And we enjoy the fruits of a comprehensive cost-cutting effort across the board and across the cost categories. So as business expands, that should be relatively safe.

**Krishan Agarwal**

Okay. Okay. And my last question is kind of a guidance for the 2021 CapEx if -- given that 2020 CapEx was relatively higher because of the expansion CapEx in ferrovanadium. And then kind of a related question, if you can remind the sensitivities to vanadium pricing given the prices have gone up 45%. And I remember last time, the sensitivity was \$1 million for every \$1 decrease in the pricing.

**HeinzSchimmelbusch**

Jackson, FX?

**Jackson Dunckel**

Sorry, I was thinking more about the SG&A. Capital expenditures, we project those to be \$180 million for next year.

**Krishan Agarwal**

You mean 2021 this year?

**Jackson Dunckel**

Excuse me, 2021 this year. We're already in this year. Thank you.

**Krishan Agarwal**

Yes. And then vanadium price sensitivities, if you have any?

**Jackson Dunckel**

Vanadium price sensitivity? Well..

**Krishan Agarwal**

EBITDA.

**Jackson Dunckel**

Yes, yes. So it's still the same. So for every dollar, we get a \$2 million increase in EBITDA. And obviously, we double the capacity, that would be \$4 million. Every dollar of price increase.

**HeinzSchimmelbusch**

But that, of course, is other things being equal and other things are sometimes not equal as molybdenum prices and nickel prices and other fees. And the fee component is to be considered, and the fee component has a tendency to go up.

**Operator**

And your next question comes from the line of Stijn Demeester from ING.

**Stijn Demeester**

Stijn Demeester, ING. Can you hear me?

**HeinzSchimmelbusch**

Yes.

**Jackson Dunckel**

Yes.

**Stijn Demeester**

Yes. Congratulations on the results and the renewal of the mandate. I guess. I have 3 questions, if I may. The first one is on the recycling fee component that you just mentioned. You said it has a tendency to go up. Would you care to quantify or give us a sense of the tailwind that you would see in 2021 with regards to recycling fee component? That's my first question.

**HeinzSchimmelbusch**

No, no. We don't specify recycling fees. These are highly sensitive negotiations and we don't want to go in details here. But as I said, they have gone up historically, and I think that trend will continue as the market position we hold is very solid.

**Stijn Demeester**

Okay. A follow-up on vanadium. I saw the volumes in the fourth quarter were down, how does this tie in with the Glencore offtake contract which is -- with Glencore buying all available production? Has there been some downtime in the fourth quarter? Or are there other dynamics at play in regards to vanadium production?

**HeinzSchimmelbusch**

So you shouldn't read anything into that of materiality. This is just a seasonal -- small seasonal variations.

**Stijn Demeester**

Okay, okay. A question on lithium. The pricing dynamics in the lithium market have been quite interesting. Lithium carbonate prices have seriously outpaced spodumene prices. If I'm correct, your contract prices are tied to carbonate. So how should we see contract prices evolve in 2021 given the different dynamics of these 2 variables?

**HeinzSchimmelbusch**

Well, first of all, we are indexed in our production to carbonate, and we do not predict prices.

**Stijn Demeester**

Understood. But there's no risk that sort of the lower spodumene price results in, yes, sort of pressure on your contract price?

**HeinzSchimmelbusch**

Well, I think it's a good position to be in.

**Stijn Demeester**

Okay. Okay. My final question is on Technologies. If you take the delta between the EBITDA achieved in 2020 and then the guidance of \$100 million plus, let's call it, \$100 million. How big of a contributor do you expect Technologies to be within this delta?

**HeinzSchimmelbusch**

Jackson?

**Jackson Dunckel**

Can you just define the delta for me, Stijn?

**Stijn Demeester**

Delta between 2020 EBITDA and the guidance of \$100 million plus, let's call it, \$30 million. Do you expect meaningful contribution from Technologies in 2021?

**Jackson Dunckel**

We do expect meaningful contribution, but it's tilted towards the second half of the year. So we do expect a recovery to start, but to start in the second half of the year.

**Stijn Demeester**

Okay. Understood. A final question, if I may squeeze it in. So SG&A savings that were achieved in the fourth quarter, do you see these structural cost savings? And how should we see them relative to the \$50 million cost savings announcement in previous quarters? In my view, these cost savings were announced for end of 2021, so what is the relations with the -- relationship with the cost savings achieved in this quarter?

**Jackson Dunckel**

So we need to distinguish between operating cost savings, where we have an \$18 million cost-saving program that we would expect to be permanent; and SG&A cost savings, which in some cases were due to variable compensation decrease, right? So the operating cost savings, as Dr. Schimmelbusch said, has reset our costs. But the SG&A savings will likely be less in 2021.

**HeinzSchimmelbusch**

As variable compensation components go up.

**Jackson Dunckel**

As variable compensation components go up.

**Stijn Demeester**

Okay. Understood. So it's mostly temporary.

**Jackson Dunckel**

Well, no, we do not expect to get back anywhere near to the 2019 SG&A levels in 2021.

**HeinzSchimmelbusch**

Well, if, of course, if the variable cost component goes up because of bonus payments, that's a good thing.

**Jackson Dunckel**

Yes. It reflects higher EBITDA.

**HeinzSchimmelbusch**

Because that indicates that the earnings go up higher than the cost.

**Operator**

And our next question comes from the line of Martijn den Drijver from ABN AMRO ODDO.

**Martijn Drijver**

My first question is about the German lithium hydroxide plant. The Board has approved the purchase of the long lead items and the terrain. Should we view that as an official FID of this project?

**HeinzSchimmelbusch**

What's FID?

**Martijn Drijver**

Final investment decision?

**HeinzSchimmelbusch**

Yes, final investment decision. You can see it that way.

**Martijn Drijver**

Okay. And then a follow-up on that, if that is the case, do you have an offtake agreement in place and have you obtained the subsidies that you were seeking? So can you elaborate a little bit on what made you decide to go forward now?

**HeinzSchimmelbusch**

Well, a variety of negotiations are ongoing as typical for such developments. And we are very confident to -- as the project develops to be sold. And that also depends, of course, on the market, and the market is very strong. So this is a very crucial, strategic decision and we believe in that -- in the wisdom of this decision to be a first mover of high-quality hydroxide battery plant -- battery quality hydroxide plant in the center of Continental Europe, that we are surrounded by customers who very much prefer trucking distance to overseas shipping lines.

**Martijn Drijver**

Got it. And just a follow-up again on this subject. Can you share with us, if possible, when you expect to see contributions from this lithium hydroxide plant? And secondly, in the past, you've indicated that if the 20,000 tons is up and running, the contribution would be roughly \$50 million in EBITDA. Is that still the case given the current pricing structures?

**HeinzSchimmelbusch**

We believe that the time line is '22, the start-up, and '23, you can expect contributions from that operation.

**Martijn Drijver**

And in 2023, you mean meaningful? Or is that a gradual ramp-up?

**HeinzSchimmelbusch**

Meaningful. Meaningful.

**Martijn Drijver**

Great. Just one follow-up question on SP1+. So a question for Eric. The ECA, obviously, provides you with financing market prices. But is there some sort of discount due to the fact that this client is providing financing in the form of a prepayment?

**Eric Jackson**

No, the -- yes, the agreement we signed has a minimum -- it's indexed to the carbonate, as we mentioned, and it has a minimum price, and it's an attractive proposition for us especially as we are a very low-cost producer, and this is incremental volume in our Brazilian operation. So I don't think we want to give any details on pricing other than that.

**HeinzSchimmelbusch**

No, no. But you can say that you can see the minimum price structure as a negative discount.

**Martijn Drijver**

Okay. I will move on then to vanadium. Cambridge II commissioning in Q1 2020. If I look at my notes from the third quarter...

**HeinzSchimmelbusch**

No, no, no. 2022. 2022. You said...

**Martijn Drijver**

Yes, Q1 -- excuse me, Q1 2022.

**HeinzSchimmelbusch**

Correct.

**Martijn Drijver**

If I look at my notes, that looks from the third quarter, it seems as though that's a little bit later than we discussed the last time. Eric explained then that there was going to be partial operation start-ups already of the new plant and a later start of the full plant. Is that just my expectation of things? Or has -- is there really some sort of delay here?

**HeinzSchimmelbusch**

Yes. We are on time and on budget in our definition and always have been. And maybe the -- you are referring to the fact that this plant has 2 essential parts, the roasting part and the furnace part. And the roasting part starts earlier than the furnace part.

**Martijn Drijver**

And that is leading to EBITDA already? Or is that just to support higher efficiency of Cambridge I?

**HeinzSchimmelbusch**

Well, that is contributive of course, because the overall profitability spread throughout the operation. So the roasting element is profitable. So if it starts earlier, then it contributes earlier.

**Martijn Drijver**

Okay. And on Cambridge II, again, coming back to what we discussed in the last quarter, you mentioned that negotiations were still ongoing as to the capacity of Cambridge II, so not fully contracted yet. What is the situation today? Are you fully contracted?

**HeinzSchimmelbusch**

You can say that we are -- when we start up, we start up under fully contracted. And that, of course, lasts for a certain period of time, and that then is being replaced by additional contracts. So that's a structure as typical in the recycling business.

**Martijn Drijver**

Great. And then just a clarification on the results of Critical Materials. I seem to recall that there was some sort of delay of a transaction in the third quarter, which led to a catch-up in the fourth quarter, around \$15 million of sales in the fourth quarter that did not generate any margin. Is that the correct understanding? Because that implies actually that if we were to adjust for that, the EBITDA margin would be even higher, the underlying EBITDA margin would even be higher in the fourth quarter.

**A - Jackson M. Dunckel,**

I'm sorry, I'm not -- what delay are you referring to?

**Martijn Drijver**

If my memory serves me right, there was some sort of internal transaction which did not take place in the third quarter, which should take place in...

**A - Jackson M. Dunckel,**

Oh, that doesn't affect sales or anything. That's just the separation of our chrome business, that Eric Jackson mentioned, and the start-up being able to produce chrome. So we split -- the business is actually for titanium alloys and coatings, and we split a portion of it off for our chrome business, and that happened in the fourth quarter and we started production.

**HeinzSchimmelbusch**

That's not meaningful.

**A - Jackson M. Dunckel,**

It's not -- I mean, it has nothing to do with sales. It was just an internal organization.

**Martijn Drijver**

And then on the -- this is more of a bookkeeping question, please, I hope. The \$4 million environmental provision, perhaps I missed it, but is this it? Or is this still an ongoing remediation program that may still lead to other provisions and cash-outs going forward?

**A - Jackson M. Dunckel,**

Well, you'll see in our balance sheet that the remaining amount for that is \$5 million. So that - which includes that incremental \$4 million. So we're extremely close to finalizing the remediation, and we will take a full survey and figure out if there's anything left.

**Martijn Drijver**

Okay. And my final question. Did you have any meaningful governmental support in the second half? And if so, what was the delta with the first half?

**HeinzSchimmelbusch**

We don't -- no, no, we are sort of -- we're always hopeful that we get governmental support, and then we are always disappointed.

**Martijn Drijver**

Okay. So nothing meaningful, I guess?

**HeinzSchimmelbusch**

No.

**Operator**

And our next question comes from the line of Henk Veerman from Kempen.

**Henk Veerman**

I have a couple of remaining questions that so far are not answered yet. The first one is on Technologies. So in Technologies, I think it was just mentioned that you see sort of a recovery in the second half of 2021. So is that based on your expectations of the market? Or is that more the timing of your existing order book? Because obviously, I think everybody has noticed that order intake has sort of gradually recovered in the last couple of quarters like a one-off?

**HeinzSchimmelbusch**

It's mainly based on the order book.

## **Henk Veerman**

Okay. Okay. And that is -- okay, that's clear. And that's predominantly, I guess, then the aerospace-related orders? Or is that something that will...

## **HeinzSchimmelbusch**

No. The order book, as specified earlier, is populated with non-aerospace elements. The new orders are diversified orders, mainly in the recycling, remelting, high-performance steel market in Asia.

## **Henk Veerman**

Okay. And then the -- yes, okay. That is -- sorry, okay, that confirms it. But then the aerospace business, is that something that you expect to recover only in 2022 then? Or do you sort of expect a gradual sort of increase in order intake in your aerospace in market this year?

## **HeinzSchimmelbusch**

The order book has strong components of aerospace, which are being executed. Because we have contracts and the contracts are valid and the contracts are being executed. And that's part of the order book. And then there is a new component, which is, as I said, diversified. And we, of course, expect further recovery of orders, but that is also mainly not aerospace. Or it is not directly aerospace, it is indirectly aerospace as regard to high-performance steel and recycling activities have an aerospace backlog.

## **Henk Veerman**

Okay. And then the other question on Technologies is that I can remember from the previous conference calls, I think it was sometimes mentioned that you would go -- within Technologies, within Engineering, the old Engineering business, you would go from sort of a build-and-sell business model towards more like you own and operate these furnaces business model, at least for partial -- a part of your business. Is that still the plan? And if so, what have...

## **HeinzSchimmelbusch**

That's not only the plan, that's all existing. As you know, a large part of our Engineering business is operating either on an own-and-operate model or outright the operation -- production operations of such furnaces as industrial businesses. So heat treatment services, so a large automotive part business is alive and well in 3 plants in Germany, U.S. and Mexico. That's an own-and-operate business model. In Nuremberg, we operate 20 vacuum furnaces, about, last time I counted, and the industrial operations businesses models. So that is a trend. We are seeking further opportunities to turn onetime sales into competitive sales by offering the customer to technically outsource certain operations to us.

## **Henk Veerman**

Okay. And then 2 small follow-ups on the cash flow statement. I just wanted to confirm that on the previous question on the government support, is there also no significant sort of

government sort of tax deferrals included in the cash flow statement for the full year 2020? And then the other question on the cash flow statement is I noticed there is a contribution by noncontrolling interests. And I thought -- initially thought that was also related to the payment being made by, let's say, the lithium client for the [SP1] for the [SPPlus] expansion. Is that true? Or does that payment relate to something else?

**A - Jackson M. Dunckel,**

So let me start with your first question, there is there is no government cash flow in this. We did receive deferrals of tax in Germany for 1 quarter, but we ended up having to pay them all before the end of the year. So we didn't get any tax deferrals.

**Henk Veerman**

And that will be -- so I think a new line in your cash flow statement, these contributions they're noncontrolling interest, right, it's \$0.6 million. It's a small amount, but does that also relate to the SP -- so the expansion -- lithium expansion in Brazil related to this client? Or is this unrelated?

**HeinzSchimmelbusch**

No, that's not related to this kind. But what was it, \$0.6 million?

**Henk Veerman**

Yes. \$0.6 million.

**HeinzSchimmelbusch**

We might come back on that question. I mean, it's not material.

**Operator**

And our next question comes from the line of Krishan Agarwal from Citigroup.

**Krishan Agarwal**

A quick follow-up on the engineering oil and product technology business. Earlier, one of the reasons for the lower revenues in the business was the type of restrictions and your inability to certify the project, which are already completed. What is the status of those projects in terms of certification or has it sort of come back to normal?

**HeinzSchimmelbusch**

I don't...

**A - Jackson M. Dunckel,**

Sorry, can you repeat the question?

**HeinzSchimmelbusch**

Slowly.

**Krishan Agarwal**

Yes. Yes. In the Technology business or in the Engineering business, I would say, one of the reasons for the revenue decline was your inability to certify the projects, which were significantly completed, and hence, you couldn't recognize the revenues. What is the status update of those projects in terms of certification and the revenue recognition?

**HeinzSchimmelbusch**

The main reason for those delays were travel restrictions. And that they have, to a certain degree, normalized. And the normalization process is still ongoing. So it's not a major factor anymore, but it's still there as the main parameter.

**Krishan Agarwal**

Okay. So the business is normally back to order inflow and execution and no more travel delays as such. Okay.

**Operator**

Thank you, ladies and gentlemen, and that was our last question, we are now concluding the call. You may now disconnect. Thank you so much, sir.

**Jackson Duncel**

Thank you.

**Heinz Schimmelbusch**

Thank you, everyone.

**Michele Fischer**

Thank you, everyone.