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Annual Press Conference for 2021

Speech by
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Good morning, ladies and gentlemen, and welcome to our Annual Press Conference.

In 2021, for the second year in a row, the coronavirus pandemic made exceptional demands on businesses everywhere. In economic terms, WACKER made it through this period well – even better than expected. For WACKER, 2021 was a record-breaking year.

Group sales entered a new dimension, surpassing the six-billion-euro mark for the first time. This increase was down to strong organic growth across all four of our business divisions. EBITDA more than doubled to over 1.5 billion euros, despite a substantial increase in prices for raw materials.

This type of success can only be achieved together, in a strong team. It is our employees who have enabled WACKER to always keep its production and business operations running – at all sites worldwide, flexibly and disciplined – since the start of the pandemic. I personally am proud of how our WACKER team has mastered this difficult situation. That is why I and my colleagues on the Executive Board express our thanks to each and every employee.

I also wish to express my gratitude to all our customers and suppliers for their partnership and also for their understanding. Amid supply bottlenecks, material shortages and logistics problems, last year was not always easy. We know that the trust of our customers is the key to our long-term economic success.

The pandemic is not over yet. Even after the coronavirus and its effects have ultimately been overcome, economic conditions will remain challenging. We have observed this for some time already, in the form of substantially higher prices for raw materials and energy, persistent bottlenecks in the supply chain and higher inflation rates. This trend has further intensified and accelerated in past weeks due to the war in Ukraine and its impact.

Volatility will remain our constant companion. As a consequence, it is important for us as a company to position ourselves such that we can deal with such challenges and mitigate their effects. The keyword here is resilience. Maintaining resilience is a never-ending task – and a guarantee of success.

Ladies and gentlemen,
we are optimistic about the new business year. We want to continue growing our sales and deliver EBITDA at a level close to that of the previous year – even amid higher energy and raw-material prices.

More about that later. First, I would like to take a detailed look at last year's facts and figures.

After the pandemic-related recession of 2020, the global economy expanded last year. All regions saw significant growth. The upswing was especially strong in Asia, but the USA and Europe also recorded substantial increases in gross domestic product. Overall, GDP was up by nearly 6 percent globally.

Amid these underlying conditions, WACKER generated sales of 6.21 billion euros in 2021, a year-over-year increase of 32 percent. This strong rise was mainly driven by better prices and higher volumes. Customer demand remained high throughout the year – across all of our divisions. Exchange-rate effects, on the other hand, dampened sales somewhat.

EBITDA – that is earnings before interest, taxes, depreciation and amortization – more than doubled year over year to 1.5 billion euros, which corresponds to an EBITDA margin of roughly 25 percent.

This significant earnings growth was shaped by two opposing trends. On the one hand, our profitability was enhanced not only by higher prices and volume growth, but also by substantial cost savings. We saved some 160 million euros in 2021 with our Shape the Future efficiency program alone. The ongoing cost-cutting programs within our business divisions added to these savings. Higher prices for raw materials and energy, on the other hand, cost us roughly 500 million euros in EBITDA last year.

EBIT – earnings before interest and taxes – totaled a good 1.1 billion euros. This reflects, above all, the significant increase in EBITDA, coupled with virtually unchanged depreciation, which, as in the previous year, amounted to roughly 400 million euros in 2021.

Our net income for the year more than quadrupled. We posted a profit of 828 million euros for 2021.

Our dividend policy is to distribute about 50 percent of net income to our shareholders. The Executive and Supervisory Boards will therefore propose a dividend of 8 euros per share at the Annual Shareholders' Meeting. That corresponds to a payout of almost 400 million euros.

Ladies and gentlemen,
I have already mentioned that all of our business divisions grew their sales significantly last year. The clear leader was our Polysilicon division, which almost doubled its sales year over year. But our other business divisions posted double-digit percentage growth rates as well.

Silicones, our largest business division, recorded annual sales of 2.6 billion euros, up 16 percent. Earnings grew even faster. EBITDA climbed 43 percent to 553 million euros. This strong rise was mainly driven by better prices and very high demand. For several years now, we have prioritized high-margin specialties in our silicones business, a clear strategy that is paying off more and more.

Our polymers business also performed well. Global demand from the construction industry and for polymer binder systems, such as adhesives, remained high. The Polymers division generated sales of around 1.7 billion euros in 2021 – a year-over-year increase of 29 percent. The main growth drivers were higher prices and increased volumes. EBITDA came in at around 250 million euros. That means we came close to the previous year's strong result despite substantially higher raw-material costs.

Our Biosolutions division lifted both sales and earnings in 2021. Sales grew 20 percent to around 300 million euros, mainly due to improved prices and volume growth in biopharmaceuticals and cyclodextrins. EBITDA came in slightly higher than the year before at 39 million euros. Earnings were held back by expenses for integrating our new site in San Diego.

Our polysilicon business saw a veritable surge in sales and earnings, for several reasons: First – substantially higher prices, especially for solar-grade polysilicon. Second – volume growth in semiconductor-grade polysilicon and in particularly high-quality material for the solar industry. Third – our continued efforts to reduce costs.

For the full year, the Polysilicon division generated sales of 1.5 billion euros, up 93 percent. EBITDA saw even stronger growth. It totaled about 660 million euros last year, up from 5 million euros the year before. Substantially higher polysilicon prices in the solar sector were the main reason for this growth.

Ladies and gentlemen,
I have completed my review of divisional trends. Now, I would like to return to the financial statements and look at key data from the statement of cash flows. It, too, reflects our extremely strong year.

Our net cash flow totaled around 760 million euros in 2021. That puts us another 9 percent ahead of an already strong prior-year figure. The increase is all the more remarkable given that we significantly expanded our capital expenditure budget at the same time. At 340 million euros, capital expenditures were more than 50 percent higher year over year. In addition, we contributed 250 million euros out of current cashflow to a contractual trust arrangement to finance our pension obligations. I will speak in more detail about this later.

Due to high cash inflows from operating activities, we reported net financial assets in the triple-digit millions for fiscal 2021 – over half a billion euros as of December 31.

Our investing activities in 2021 were centered on several projects within and outside Germany.

At our Nanjing polymer site in China, we are building a new reactor for dispersions and a spray dryer for dispersible polymer powders. The dispersion reactor is scheduled to come on stream in the second half of the year. The spray dryer is to enter production in 2023.

Turning to Amsterdam, we invested in building up capacity for the manufacture of vaccines, as well as in facilities for producing biopharmaceuticals.

In our silicones business, we made investments in a series of small- and medium-scale projects for intermediates and downstream products for high-margin specialty chemicals – and in infrastructure measures at our fully integrated sites in Burghausen and Nünchritz.

All these investments will help us meet strong customer demand. As clearly demonstrated by the past year, demand for many of our products is enormous – despite the pandemic.

Ladies and gentlemen,
Our business is very international. We generate 85 percent of our sales outside Germany, and a good 60 percent outside Europe.

Because of strong demand, our 2021 sales grew significantly in all regions. The biggest increase was in Asia, where we posted sales of 2.6 billion euros. a year-over-year increase of 56 percent. Sales in Europe increased by 23 percent to 2.4 billion euros. Our business in the Americas has also expanded. Sales in the region rose to nearly 900 million euros – an increase of 8 percent.

Our headcount edged up last year. WACKER currently has some 14,400 employees in total worldwide. 10,000 work in Germany and 4,400 at international sites.

Ladies and gentlemen,
A look at our balance sheet also shows how well WACKER performed in 2021. Our total assets grew 17 percent year over year – to 8.1 billion euros.

The biggest change was in liquidity. Due to the high cash inflows from operating activities, we reported liquid assets of nearly 2 billion euros as of December 31, 2021.

Equity increased substantially, to 3.1 billion euros. Our equity ratio now stands at 38 percent. The increase has two main causes, one being our strong net income for the year, which added almost 830 million euros to retained earnings. Also, our provisions for pensions fell substantially.

As you know, pension obligations have continued to climb in recent years – not just at WACKER, but also at many other companies. The clear reason for this is the European Central Bank’s zero-interest policy. In a zero-interest environment, pension funds cannot on their own generate the returns that are needed to fund pension obligations. In recent years, therefore, we have repeatedly had to make large special payments to our pension fund.

For this reason, we have been working for quite some time now on a fundamental reform of our company pension system. Last year we took a big step forward. We reached an agreement on key aspects of the reform with employee representatives. Starting this year, we plan to offer new hires in Germany retirement benefits in the shape of direct commitments on a funded basis. We will secure the pension entitlements earned via a contractual trust arrangement, which will use its assets solely to finance the pension obligations. We made use of our strong financial position and paid 250 million euros into this CTA. This has already reduced our provisions for pensions, and we expect further alleviation of the burden on our financial position in the future.

Ladies and gentlemen,
What are our expectations for the current year?

Although the war in Ukraine and the pandemic pose substantial risks for the global economy, we are optimistic about 2022.

Economic analysts expect global economic output to grow. The upswing is projected to be strongest in Asian countries, but Europe and the USA should also see robust growth.

Major uncertainties remain, of course. Aside from the coronavirus, these are first and foremost, the war in Ukraine and its consequences, and in addition rapidly rising debt levels in many countries as a consequence of stimulus programs as well as high inflation rates and the possibility of an end to the accommodative monetary policy of central banks. The extent to which these factors will adversely affect the economy cannot be estimated reliably at this time. This applies in particular to the impact of the conflict in Ukraine.

Business has been strong year-to-date. Demand is high in all our business divisions. Group sales for the first two months were substantially higher year over year, as was EBITDA. Overall, we expect to generate first-quarter Group sales of roughly 2 billion euros. Q1 Group EBITDA is also likely to grow substantially. Higher prices for our products and high demand from our customers are the main positive factors here. It is also helpful that some of the raw materials and energy we are now using in production were procured at comparatively favorable prices in 2021.

That will change later in the year. Many of our key raw materials have become much more expensive in recent months. We expect a full-year earnings impact of around one billion euros from higher prices for raw materials and energy. However, it is important to note that we intend to pass on a substantial portion of these additional costs in the form of higher prices.

In particular, the exorbitant rise in electricity prices in Germany gives us cause for concern. Our production is very energy-intensive. That is why we have for years advocated for an internationally competitive industrial electricity price in the region of 4 cents per kilowatt-hour.

Our processes are among the most efficient in the world – making them among the most economical, too. Yet we have to pay an electricity price that is much higher than what our competitors in other parts of the world pay. Higher efficiency alone will not close that price gap – especially since we are already among the global leaders with respect to efficient processes.

The price increases over recent months show just how important an internationally competitive industrial electricity price is – especially for highly export-driven sectors like the chemical industry. Also: renewable energy sources have to be ramped up extensively and rapidly. Only then will green electricity be available at competitive prices in the quantities we absolutely need to achieve defossilization of our production. If we are to retain our strong manufacturing industry, German policymakers must be more active on this front than in the past.

The new federal government has sent the right signals in this respect. However, what ultimately counts is implementation. As for WACKER, we are prepared to systematically follow the path toward carbon neutrality.

We are, of course, also concerned by events in eastern Europe. At this time, it is difficult to reliably estimate what additional economic consequences may arise from Russia's invasion of Ukraine. It is a fact that gas and electricity prices have already increased sharply.

Speaking for WACKER, I can say that we perceive the greatest risk to come from potentially massive and persistent restrictions of gas supplies in Germany. The direct consequences for us on the volume side will be minor, however. All of the CIS states combined make up less than 2 percent of Group sales.

Our overall assumption remains that our chemical business will perform well during the rest of the year. We expect to see markedly higher prices, volume growth and positive product-mix effects for chemicals.

In our polysilicon business, we also anticipate higher prices and a better product mix. Volume will not reach last year’s level, however, since we no longer have major product inventory that we could sell in addition to our ongoing production output.

What are our expectations for each of our business divisions?

Sales at our Silicones division are projected to be in the region of 3 billion euros in 2022. The EBITDA margin is expected to be on par with last year. This sales growth will be driven by the higher average prices we will charge to compensate for higher expenses for energy, raw-material and logistics, as well as by higher volumes for specialty applications.

For example, we are working with automotive manufacturers to develop cured silicone films for use as fuel-cell liners. Also, in the solar thermal energy sector, our silicone-based heat transfer fluids offer highly promising opportunities. Compared with organic media, these fluids enable parabolic trough power plants to operate at higher temperatures and thus much more efficiently. These are just two examples of hundreds that I could give you. Silicones are veritably multi-talented, because their characteristics can be customized. The applications for which they can be used are accordingly very diverse.

Our 60-percent stake in the Chinese specialty silane manufacturer SICO Performance Material, which we acquired last autumn, will also make a positive impact. SICO is one of China’s leading manufacturers of organofunctional silanes. These silanes are important ingredients in high-performance adhesives and sealants, as well as in coatings and composites. With our investment in SICO, we are further expanding our range of high-quality specialty products in Asia and moving closer to our customers in these fast-growing consumer markets.

At our Polymers division, we expect to lift sales to around 2 billion euros. This growth will be driven by higher volumes. Prices for dispersions and dispersible polymer powders will be higher than last year, so as to offset increases in raw-material and energy prices. The EBITDA margin is expected to be on par with last year.

The Polymers division remains focused on supplying polymeric binders for sophisticated construction, coating and bonding applications. In this area, customer demand for sustainable, environmentally compatible solutions is rising. By developing corresponding product lines, we are seizing these market opportunities.

Biocide-free powder paints are one example. They are not mixed with water until immediately before a wall is painted. The advantage is that they no longer require biocides to preserve them. In addition, it is now possible to mix just the right amount of paint for the job. This, in turn, means less waste, as no paint is left over. Here, too, it is evident that sustainability is part of our business model.

At our Biosolutions division, we expect sales to grow by a low-double-digit percentage, with growth fueled by bioengineered products, particularly biologics. EBITDA is expected to be slightly lower than last year. Factors including higher spending on digitalization efforts in the biologics business will diminish earnings.

The Biosolutions division will benefit from growth potential in the food and pharmaceutical markets. As a contract development and manufacturing organization for biologics, we are meeting growing demand through our sites in Jena, Halle, Amsterdam and San Diego.

At the Amsterdam site, production includes pharmaceutical proteins and vaccines. Currently, we are investing in new production facilities there. At the San Diego site we acquired last year, we manufacture plasmid DNA, which is a starting material for innovative therapeutic agents, including nucleic-acid-based gene therapies, mRNA actives and viral vectors.

In the food market, we are catering to the healthy-eating trend. Activities include the production of functional ingredients that support the circulatory system and promote heart health. We are also developing media proteins, which will be used to produce cell-based meat.

At our Polysilicon division, we expect to post sales of around 1.6 billion euros in 2022. Higher average prices and a further improved product mix will drive this trend. EBITDA is projected to come in between 330 and 500 million euros.

We have a clear strategy for our polysilicon business. Our focus is firstly on increasing the volume we provide to semiconductor-sector customers. Polysilicon from WACKER can already be found in nearly half the computer chips installed worldwide. When it comes to solar-grade polysilicon, we rely on particularly high-quality product for the manufacture of highly efficient monocrystalline solar cells. Here, too, we rank among the world’s leading suppliers.

We expect continued growth in the medium term for both semiconductor-grade polysilicon and for high-quality material for the solar industry. The drivers for this growth are the megatrends digitalization, climate change mitigation and renewable energy.

In summary, our guidance is: Group sales in the region of 7 billion euros. EBITDA of between 1.2 and 1.5 billion euros – with the higher number actually near the record earnings figure for 2021. The EBITDA margin will decline significantly year over year. This also applies to net cash flow, our net financial assets and Group net income. In our earnings figures, we will see the impact of markedly higher raw-material and energy prices. And cash flow will additionally reflect our higher capital expenditures, projected at between 550 and 600 million euros.

Ladies and gentlemen,
That concludes my review of our expectations for the current year. On balance, we can say that WACKER has succeeded in mastering the challenges posed by the pandemic. After the sales slump in 2020, we are back on a solid growth trajectory.

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Our Shape the Future efficiency program has also helped us a lot. You will recall that, since late 2019, we have been working on a package of measures to make WACKER fit for the future. That means doing three things: Strengthening our customer orientation by enhancing our regional presence, making WACKER leaner, faster and more flexible and cutting costs significantly.

Shape the Future already saved us around 160 million euros in 2021. This year, our objective is to achieve savings of more than 200 million euros and to bring the program to an end. From 2023 onward, we expect to see annual cost savings of roughly 250 million euros.

Ladies and gentlemen,
We will now take a look at the future and open the next chapter in our success story. The first highlight is the new and ambitious sustainability goals we presented late last year. We want to achieve climate neutrality by 2045. The year 2030 will be an important milestone on this journey.

For us, there are two aspects to sustainability: First, we are going to significantly improve our own ecological footprint: by 2030, we aim to reduce our absolute greenhouse gas emissions by 50 percent. Second, the growing importance of sustainability is opening up attractive business opportunities for us. The products and applications we offer enable our customers to achieve their own sustainability goals. More than two-thirds of our product portfolio already contribute to this value driver. One thing is clear: without our chemicals it will not be possible to tackle the challenges posed by climate protection.

At this juncture I would like to draw your attention to the 2021 Annual Report. Its keynote essay is entitled “The Chemical Industry – Creating Solutions for a Sustainable World.” In compellingly written stories, features and interviews covering 25 pages in total, we talk about what sustainability means for WACKER in detail, the specific measures we are taking to achieve our sustainable development goals and where we see business opportunities.

Our new growth targets, which we aim to achieve by 2030, are another highlight. We intend to make the most of the many and diverse possibilities our product portfolio provides. That is precisely what our customers and the markets expect of us. We have already received a lot of positive feedback from our customers in this regard. At the end of March, we will present our new growth strategy to the capital markets. The course is clear: we want to accelerate our growth in the years ahead.

Our strategy still includes selling the remaining shares we hold in Siltronic AG in the medium term. We have been pursuing this goal ever since we took Siltronic public in 2015, because we want to focus on accelerating expansion of our core business. We currently hold just over 30 percent of Siltronic.

As you know, we wanted to sell our shares to the Taiwanese company GlobalWafers. Regrettably, we were unable to complete the transaction. Germany's Ministry of Economic Affairs and Climate Action had not approved the sale when the contract closing period expired on January 31, 2022. We regret the ministry's decision, as we remain convinced that Siltronic and GlobalWafers would be stronger as a single entity than each company is on its own. Together, they would have been the world's No. 2 silicon wafer manufacturer, with exceptionally strong roots in Europe.

Nevertheless, the ministry's decision does not alter our medium-term goal of selling our investment in Siltronic AG. There is no need to hurry, because Siltronic has developed very well, has an exceptional competitive position and is very profitable. Our stake is therefore an accretive investment. WACKER has sufficient funds and liquidity to tackle and implement our growth targets.

Ladies and gentlemen,
Today was the first time, in my capacity as CEO, that I could present to you the results of the past year and the future outlook for our company. 2021 was a very eventful year for WACKER and also for me personally. We made progress in a number of areas – and we continue to focus on the future.

I am convinced that WACKER has excellent potential to continue achieving profitable growth – and we want to make the most of this. We have a clear strategy, meaning we know which direction we want to go. Our finances are solid. We have the financial scope to grow. We are close to our customers, in terms of both products and geography, which is our key to long-term success. We are focused on sustainability, meaning we are doing our homework and leveraging our expertise in solutions for sustainability to ensure our future business success. We are developing the right products in line with our aspiration of “creating tomorrow’s solutions.” But most importantly: we have an outstanding team – people who work together with enthusiasm to build a positive future. WACKER stands for the future – and for the optimism to shape it.

Ladies and gentlemen, that brings me to the end of my remarks. We look forward to your questions.

Thank you.