WACKER

# Wacker Chemie AG

# Conference Call

# Q1 2015

## April 30th, 2015

Dr Staudigl, CEO

Dr Rauhut, CFO

Hoffmann, CFA, IR

**Hoffmann:**

Welcome to the **Q1 2015** conference call on Wacker Chemie AG.
My name is Joerg Hoffmann, Head of Investor Relations.
As usual, we have Dr. Rudolf Staudigl, our CEO and Dr. Joachim Rauhut, our CFO with us on the call today.

Please note that during this call we may make statements which contain predictions, estimates or other information which are forward-looking statements. These statements are based on current expectations and certain assumptions and are therefore subject to certain risks and uncertainties. Some of these risks and uncertainties are beyond WACKER's control and could cause the actual results to differ materially from results, performances or achievements that may be expressed or implied in such forward-looking statements. WACKER may not update those risk factors or the forward-looking statements made during this call, nor does it assume any obligation to do so.

We published today our quarterly report, a press release on our numbers, and an excel-file detailing our data.
A written version of today's prepared speeches will be posted on our website about half an hour after this call. You will find all of this on our website www.wacker.com under the caption Investor Relations.

**Dr Staudigl:**

Ladies and Gentlemen,
Welcome to our first quarter 2015 conference call.

With strong shipments and some tailwinds from currency effects, **WACKER** reported a, what we think, very good result today. We achieved sales of 1.33 billion Euros and an EBITDA of 267 million Euros in the first quarter.

Last year the effects of retained prepayments and damages had a big impact on Q1 results, amounting to 114 million Euros. In comparison, to that reported Q1 result, I think we should look at the underlying profitability of our business, where we are seeing a significant improvement in earnings. Excluding special effects, our Q1 EBITDA was 53 per cent or 91 million Euros higher than last year.

Compared to last year, **Chemicals** increased its absolute EBITDA contribution by almost 50 million Euros, as **Siltronic** saw a very impressive improvement year over year of 25 million Euros. Year over year, **POLYSILICON** excluding special effects was up 12 per cent despite already absorbing ramp-up costs in Tennessee.
As you know, we are looking at a strategic shift in our portfolio with a change in the ownership structure of **Siltronic**. Let me talk about our rationale for this move and on our view of **Siltronic** today. Reshaping the **Siltronic** ownership structure could be beneficial for both **WACKER** and **Siltronic**. As a result, **WACKER** could invest additionally available funds in reinforcing its chemical and polysilicon businesses. In the event of an IPO, **Siltronic** could harness additional growth opportunities by accessing the capital markets itself in case it is needed. A further option under consideration as communicated on March 10th is a divestment to a strategic investor. Please

understand that we can’t discuss the current project status for obvious reasons.

**Siltronic** has done its homework over the last years and the results are beginning to show. We have improved the global manufacturing footprint by reducing the complexity and number of our sites. The acquisition of the majority of the JV in Singapore created a new impetus for cost reductions, sharing best practices supports now the continuation of ambitious cost roadmaps across the entire business. **Siltronic** was able to withstand the massive price declines we have seen in this industry for the last years without much of an impact on its EBITDA.

The Q1 EBITDA margin of about 17 per cent demonstrates the successful effort to maintain market share in a growing market through operational excellence efforts and to reduce costs significantly at the same time.

Demand for 300mm wafers is growing at above market-average rates. Multiple markets are now driving this business, effectively complementing and even substituting PC demand. More and more everyday devices, such as smartphones and car sensors, require enhanced semiconductor content. As a result, Gartner, a leading information technology research and advisory company, has raised its market growth forecast for 300mm wafers to 6 per cent for 2015, from the 4.5 per cent of its previous forecast. Given already high utilization rates in the industry, it is likely that the value chain will soon come under pressure to improve yields and operational excellence to meet growing demand.

With strong volumes in the semiconductor wafer industry and high industry operating rates, there is some good news on pricing. We are observing stabilizing prices for 300mm and some improvements in 200mm in Q1. This is far from what the

industry needs to get back to reinvestment levels, but it is a good start.
We are looking forward to seeing the industry's effort to raise prices showing clear results.
The potential changes at **Siltronic** constitute at a strategic shift in our portfolio. **Siltronic** is a highly competitive technology leader in its industry, recognized for its quality product delivering into all leading design rules. The team at **Siltronic** are working hard to bridge the gap in profitability to the much larger competitors in the Far East and they are making very good progress.

A result of **Siltronic's** potential exit from our portfolio would lead to an increasing focus on our chemical activities, which provides for a much clearer industry profile and a reduction in the mid-to long-term capital intensity of the Group.
Going forward, **WACKER** will continue to focus on its successful cost roadmaps, transforming our business by investing more into downstream activities, resulting in lower capital intensity growth. This means, for instance, adding more tech centers where needed to be even closer to our customers with tailor-made specialty solutions, coupled with a strong focus on process improvement and productivity.

All of these are core strengths of our **POLYSILICON** and **Chemicals** business. Our target is to achieve higher levels of cash generation and ROCE. All of this increases **WACKER's** flexibility in reacting to future challenges in a decisive fashion and generate value for our shareholders at the same time.
Before Joachim details our performance this quarter, let me state that, overall I think, we achieved a good result this quarter. Yet, looking into the detail of course, I see that there is still more to do and to gain. We continue to drive our cost reduction roadmaps, which have already contributed to this good result.

**Dr Rauhut**

I will provide you now with more detail on our segments and other items. In addition, I will touch on guidance at a segment level in line with our visibility.

Our **Chemicals** businesses reported Q1 sales of 809 million Euros, up 15 per cent over last year and 13 per cent over Q4. EBITDA in the **Chemicals** segments in aggregate improved by 54 per cent year over year and increasing by 74 million Euros from Q4 to 136 million Euros in Q1. Higher volumes, positive effects from currencies and better pricing in some products supported this result. Higher costs compared to Q1 last year for silicon metal and VAM, however, reduced the result.

**SILICONES** reports higher sales at 475 million Euros, 12 per cent over Q1 and sequentially 13 per cent better. Positive price, volume and currency effects supported this. EBITDA in the quarter was at 68 million Euros some 38 per cent higher than last year and twice as high as in the seasonally slow Q4. We saw good volumes in electronics, automotive and medical applications. Holding performance back were industrial coatings, personal care and, given the winter season, some slower construction products.
Our capital-intensive Siloxane plants operated at full utilization rates during the quarter.

Looking into the next quarters at **SILICONES**, we expect to accelerate the positive trend in volumes, although a slower European macro environment poses a risk factor. Looking into the full year, we now expect to report sales growth of more than 10 per cent with improving margins. When modelling the full year, please bear in mind that the fourth quarter tends to see lower sales and earnings for seasonal reasons. Earnings improvements in **SILICONES** depend on volume growth and currency movements. Expectations on raw materials are mixed.

**POLYMERS** reported sales of 285 million Euros, about 19 per cent better than last year supported by currency. In dispersible powders, we achieved low double-digit volume growth while liquid dispersions saw lower growth rates. EBITDA in the segment moved up sharply. At 60 million Euros, EBITDA was almost twice the level of Q1 2014. Currency effects compensated for rising raw materials year over year. Good utilization rates, positive mix effects and productivity gains supported EBITDA in the quarter.

For the full year, we are looking in **POLYMERS** at sales growth of about 10 per cent with an EBITDA margin in the high teens. Volume increases in new powder markets complement dispersions growth in coatings and packaging. To support this we expand our VAE dispersions capacity in the US and specialty monomer production in Burghausen. A pipeline link to a cracker in Kentucky secures our ethylene sourcing and promises to generate cost reductions, as the direct access to the ethane based refinery supplements costly cooled railcars.

**BIOSOLUTIONS** reported Q1 sales of 49 million Euros and an EBITDA of 9 million Euros, following higher volumes and price increases and some currency support. The quarter saw good volumes in pharma and agro applications.
For the full year, we expect sales and EBITDA in **BIOSOLUTIONS** to increase substantially.

Sales in **POLYSILICON** reached 289 million Euros in Q1, 11 percent higher than Q1 last year and over previous quarter, following strong demand for high purity solar-silicon and slightly better pricing. EBITDA came in essentially as guided when we last met. You will remember, that I asked you then to model the year with about 25 million Euros per month in EBITDA as we expense more ramp costs in Tennessee and at current exchange rates.

This quarter in **POLYSILICON** was exactly as guided, with an EBITDA of 79 million Euros, but including 4.7 million Euros in retained prepayments and damages.

Excluding last year's special effects, EBITDA increased by 12 per cent year over year. Sequentially, however EBITDA was down as ramp costs in Tennessee increased significantly.
Euro pricing in **POLYSILICON** has remained more or less flat sequentially, despite the significant US Dollar and Renmimbi price declines observed in the Chinese market. Construction at the site in Tennessee proceeded as planned; capex in the first quarter was 134 million Euros.

Looking into the next quarters for **POLYSILICON**, we see our full year pre-operational expenses for the Tennessee plant increasing now to almost 100 million Euros, the increase being largely due to currency. At current polysilicon price levels, we still want to generate about 25 million Euros per month in EBITDA, which is an ambitious target.

**Siltronic** sales came in at 239 million Euros 17 per cent higher than last year and supported by a weaker Euro. EBITDA of 40 million Euros reflects high utilization, good cost performance and a pricing environment that stabilized during the quarter, despite slightly lower average prices versus Q4.
Net currency effects on EBITDA were small as transaction effects on accounts receivables almost compensated hedging losses in Q1. As a result, the EBITDA margin was 17 per cent. At 9 million Euros, EBIT in the segment was positive for the second quarter in a row. While 300mm US Dollar prices today are about 10 per cent lower than in Q1 last year, the Euro conversion almost corrects this. In Euro terms, prices for 300mm today are at the level of Q1 a year ago. Good progress on its cost roadmaps, coupled with higher utilization rates lead to a significant improvement in **Siltronic** operations. Industry

utilization rates during the quarter were in the 90's, this reflects a slowly tightening market for 300mm wafers in our view.

For the next quarters, we expect to see the weak Euro continue supporting sales, while hedging costs for the next three quarters should amount to about 40 million Euros.

**Siltronic** has improved so much that absent hedging effects, at similar utilization rates, and even without price increases from today, it now has the potential to reach 20 per cent EBITDA margins in line with WACKER's 2017 targets. For 2015 full year, we expect a significant EBITDA increase over last year as mentioned in the last call.

Sales in **Others** came in at 52 million Euros with EBITDA in amounting to 12 million Euros. This reflects a strong business in de-icing salt during the quarter.

Currency effects on sales and EBITDA were substantial in Q1 Currency effects contributed almost 100 million Euros to sales in Q1, when compared to Q1 last year. In addition to this, the transaction effects on accounts receivables supported profits in many of our businesses. For the full year 2015, we now expect a positive impact on EBITDA from currency of 125 million Euros, of which about 70 million show in EBITDA.

Q1 saw positive **net cash flow** at 17 million Euros, substantially below from Q1 last year, when net cash flow was 105 million Euros due to the absence of large special effects and prepayment inflows as well an increasing capex for the Tennessee project in the quarter under review.
The level of **prepayments** in our balance sheet decreased by 6 per cent to 646 million Euros, as we shipped under legacy prepaid contracts.

**Net financial debt** increased to 1,2 billion Euros, 11 per cent higher than at year-end, following capex and reduction of prepayments. The translation effect of a weaker Euro on debt was about 90 million Euros.
We expect **capex** for the full year now at 725 million Euros as we finish the Tennessee project among cost inflation and US Dollar appreciation.

For the full year, we expect a further increase in **net financial debt** between 200 and 300 million Euros year over year, both from capex and translation effects as our local financing in the USA and other countries increases in Euro terms. This translates into a positive **net cash flow** for the full year 2015.

Our **financial result** improved in the quarter under review to minus 7 million Euros. This includes construction related interest, interest accruals on pensions and other provisions as well as a positive impact of 12 million Euros from the appreciation of certain asset values.

Our **tax rate** in Q1 was 40.8 per cent. The high level reflects non-tax deductible start-up costs and losses at overseas subsidiaries. Our tax guidance for the full year remains unchanged. We still expect a tax rate of about 50 per cent for the full year, as non-deductible expenses for the ramp in Tennessee increase through the year. We talked about the group effects of these non-tax deductible costs before. They weigh on profit before tax, but offer no relief in the tax line. With increasing earnings, however, this effect gradually decreases and we should see lower tax rates, converging on to the German statutory rates of about 30 per cent.

You will note in our balance sheet the significant increase in **pension obligations** during the quarter. These reflect the net liability of defined benefit obligations. The increase of pension liabilities during the quarter of 460 million Euros relates to a significant quarter over quarter decline in the discount factor from 2.3 to 1.65 per cent in Germany.

My view is that this exaggerates the economic liability embedded in our pension scheme. The historical performance of our pension fund is around 4 per cent. Using a smaller, hypothetical return rate today will only result in distortionary positive impacts on the financial result going forward as pension fund returns exceed the discount rate of 1.65 per cent. **Net income** for the period amounted to 70 million Euros, about 10 per cent higher than last year despite lower special effects, resulting in 1.42 Euro earnings per share. **Siltronic** had a positive contribution to Group net income in Q1.

Let me sum up guidance now.
We are looking confidently into the second quarter and expect a sales and EBITDA performance at about the level of Q1. Please bear in mind that currency tailwinds will wind down in the course of the year as raw materials and other input factors influenced by FX may see some inflation.

Overall, our guidance given at the last call remains essentially unchanged. As I said at the last call, we are still seeing some risks to the development of our business this year. Full year GDP forecasts for instance are still difficult today. We should also consider the risk of Greece exiting the Eurozone, a potentially deeper crisis in the Ukraine as well as monetary policy changes and their effects on exchange rates.

Against this background, we expect full year Group sales to increase at about 10 per cent year over year with support from a weaker Euro.
Following strong shipments and our cost reduction efforts, we expect EBITDA excluding special effects for the full year 2015 to increase somewhat over 2014 to about 900 million Euros. While there are risks associated with this forecast, as

mentioned before, you should note that our conviction to achieve and maybe even get to a small upside to this forecast has improved.
For the remainder of the year we expect to see retentions of prepayments and inflows from damage payments again. While these especial effects in 2015 will not reach 2014 levels, we believe today that they could run well over 100 million Euros.

In summary, this means that with some potential prepayment retentions and damage payments, we are confident that we can reach one billion Euros in reported EBITDA for 2015.