

Q4 2019 AMG Advanced Metallurgical Group NV Earnings Call

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TEXT version of Transcript

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Corporate Participants

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* Eric E. Jackson

AMG Advanced Metallurgical Group N.V. - COO & Member of Management Board

* Heinz C. Schimmelbusch

AMG Advanced Metallurgical Group N.V. - Chairman of the Management Board & CEO

* Jackson M. Dunckel

AMG Advanced Metallurgical Group N.V. - CFO & Member of Management Board

* Michele Fischer

AMG Advanced Metallurgical Group N.V. - VP of IR

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Conference Call Participants

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* Henk Veerman

Kempen & Co. N.V., Research Division - Research Analyst

* Krishan M. Agarwal

Citigroup Inc, Research Division - Analyst

* Martijn P. den Drijver

ABN AMRO Bank N.V., Research Division - Analyst

* Stijn Demeester

ING Groep N.V., Research Division - Research Analyst

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Presentation

Operator [1]

Good day, and welcome to the AMG Earnings Q4 and Full Year 2019 Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Michele Fischer, Vice President of Investor Relations. Please go ahead, ma'am.

Michele Fischer, AMG Advanced Metallurgical Group N.V. - VP of IR [2]

Welcome to AMG's Fourth Quarter 2019 Earnings Call. Joining me on this call are Dr. Heinz Schimmelbusch, the Chairman of the Management Board and the Chief Executive Officer; Mr. Jackson Dunckel, the Chief Financial Officer; and Mr. Eric Jackson, the Chief Operating Officer.

AMG's fourth quarter 2019 earnings press release issued earlier today is on AMG's website. Today's call will begin with a review of the fourth quarter 2019 business highlights by Dr. Schimmelbusch. 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 in the 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, believes, 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, the 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 of the date of this conference call. AMG expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in AMG's expectations with regard thereto or any change in events, conditions or circumstances on which 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 C. Schimmelbusch, AMG Advanced Metallurgical Group N.V. - Chairman of the Management Board & CEO [3]

Thank you, Michele. For AMG, 2019 was a year with strong operational headwinds in form of unprecedented low prices for our key products, and further price declines even after we reached a recessionary price level. Despite this, during the fourth quarter, we have made substantial progress in risk reduction and strategic value creation. Additionally, we continue to stay focused on operating efficiency to counteract the environment of low prices. Despite these headwinds, with prices across the board substantially below even 2008 crisis levels, AMG achieved an EBITDA of \$121 million and operating cash flow of \$47 million and the return on capital employed of 13.7% in 2019.

As usual, in the AMG portfolio, AMG Technologies operated under different cycle times and acted as an EBITDA stabilizer. The vanadium market posed a special challenge with the upward price spike in 2018, followed by a sharp downward price spike in 2019, negatively impacting EBITDA by more than \$70 million, other things being equal, compared to the prior year.

During the fourth quarter, we signed an MOU, subject to regulatory approval, with the Saudi Arabian General Investment Authority and Shell Overseas Services Limited for a feasibility study for the construction of an Ohio-type refinery waste recycling facility in the Kingdom of Saudi Arabia. AMG Lithium GmbH will invest in the lithium hydroxide refinery to be built in Zeitz, Saxony-Anhalt, Germany. This facility will upgrade a variety of lower-grade lithium chemical products into high-quality material suitable for usage in lithium ion battery cells. This battery-grade hydroxide plant will also have the advantage of being in close proximity to our European customers. The first module will be designed to deliver 20,000 tonnes per annum of battery-grade hydroxide to the market by end of 2022, beginning of 2023.

In AMG Technologies, we finalized the acquisition of the assets of International Specialty Alloys division, ISA, a leading U.S. producer of titanium master alloys and other binary alloys for the aerospace market located in New Castle, Pennsylvania from Kennametal Incorporated. AMG Technologies sees more opportunities for growth through industry consolidation and through the nurturing of technology start-ups to develop new materials and coating technologies. Therefore, since the beginning of 2019, we have been developing a route to a separate public listing of AMG Technologies. To this end, we have

appointed ABN AMRO and Citi as joint global coordinators of an Amsterdam IPO. Presently, the priority is to establish AMG Technologies IPO readiness including corporate structures and respective audits and then awaiting appropriate market windows. Upon formation, AMG Technologies will be a truly stand-alone public company, where AMG's board representatives will join with the majority of independent board members.

I would now like to pass the floor to Jackson Dunckel, AMG's Chief Financial Officer. Jackson?

Jackson M. Dunckel, AMG Advanced Metallurgical Group N.V. - CFO & Member of Management Board [4]

Thank you, Heinz. I'll be referring to the fourth quarter 2019 investor presentation posted today on our website. Starting on Page 3 with an overview of the financial highlights of the quarter. AMG's financial performance in the fourth quarter was lower versus the prior year. But as we discuss the results, it is important to bear in mind that the fourth quarter of 2018 was the best quarter in AMG's history. That 2018 quarter was marked by rising prices throughout the quarter and came after a year of rising prices. In contrast, the 2019 fourth quarter we experienced falling prices throughout the quarter after almost a year of falling prices.

Revenue for the quarter decreased by 22% to \$269 million due to lower revenues in both Critical Materials and technologies, primarily driven by lower average prices in both divisions versus Q4 of last year. EBITDA decreased by 64% to \$22.8 million in Q4 2019 from \$62.8 million in Q4 of last year, which was, again, primarily due to lower vanadium profitability.

Net income attributable to shareholders for Q4 decreased to a loss of \$14.2 million compared to income of \$29 million in the prior year. However, net loss adjusted for the inventory cost adjustment and the asset impairment expense was \$5.8 million in Q4, and for the calendar year 2019, adjusted net income totaled \$19.8 million.

Now I'd like to turn to 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 see that Q4 revenues decreased by 23% to \$170 million versus the prior year. This decline was largely driven by lower average ferrovanadium prices. But Critical Materials experienced lower prices in all 7 of its business units. These price decreases were partially offset by higher volumes in vanadium and chrome metal and it is worth noting that AMG experienced flat or increasing volumes in 5 out of 7 of our business units. Critical Materials Q4 gross profit on an adjusted basis decreased by \$28.6 million or 57% compared to last year's fourth quarter. The reduction in gross profit was largely driven by lower vanadium profitability exacerbated by somewhat lower profitability across the other 6 business units.

Critical Materials Q4 SG&A expenses increased \$3.7 million compared to the fourth quarter of 2018 to \$19.8 million in Q4 2019, primarily due to exceptional legal expense.

EBITDA for the Critical Materials segment was \$13.1 million or 69% lower than Q4 2018, with an EBITDA margin of 8%.

Capital expenditures for Critical Materials were \$32.9 million in the quarter, mainly driven by the Brazilian spodumene project as well as our vanadium project in Zanesville, Ohio.

Moving on to AMG Technologies on Page 5 of the presentation and starting on the top left of the page. You can see that Q4 2019 revenue decreased by \$24.6 million or 20% and to \$98.4 million due to lower heat treatment services sales, lower metals prices impacting our titanium alloys and coatings business and a \$7.5 million customer payment related to the early termination of a customer contract recorded in the fourth quarter of 2018. These declines were offset by higher revenue from AMG Engineering's after sales services as well as higher sales of vacuum furnaces such as turbine blade coaters and remelting furnaces.

Fourth quarter gross profit decreased by \$14.1 million compared to the fourth quarter of 2018 due to the lower revenues noted above, but also due to the comparison with Q4 2018, which included the \$7.5 million customer payment.

Gross margin was 23% compared to 29% in Q4 2018.

SG&A expenses decreased by 9% to \$17.4 million in Q4 2019, primarily due to lower variable compensation expense.

AMG Technologies Q4 EBITDA decreased by 54% or \$11.6 million to \$9.7 million from 21.3% in the fourth quarter of 2018 due to the decline in gross profit noted above.

The company signed \$8.5 million in new orders during the fourth quarter...

Heinz C. Schimmelbusch, AMG Advanced Metallurgical Group N.V. - Chairman of the Management Board & CEO [5]

\$80.5 million.

Jackson M. Dunckel, AMG Advanced Metallurgical Group N.V. - CFO & Member of Management Board [6]

Excuse me. The company signed \$80.5 million in new orders during the fourth quarter of 2019 representing a strong 1.2x book-to-bill ratio. The high order intake was largely driven by strong orders of remelting, turbine blade coating and induction furnaces. On a full year basis, the company signed \$249.4 million in new orders, representing a balanced onetime book-to-bill ratio. This strong order intake continued in January due to strong turbine blade coating furnace orders, resulting in a 10-year high order backlog as of the end of the month.

Turning now to Page 6 of the presentation. On the top left, you can see that AMG's fourth quarter 2019 SG&A expenses were \$37.2 million compared to \$35.1 million in the fourth quarter of 2018. This increase was primarily due to the increase in legal fees I noted above. AMG's fourth quarter 2019 net finance costs were \$6.1 million compared to \$6.9 million in the fourth quarter of 2018, largely driven by interest expense associated with the outstanding gross debt on AMG's long-term credit facility.

AMG recorded an income tax benefit of \$5.1 million in 2019, compared to a tax expense of \$45 million in 2018. The tax benefit is primarily due to losses in the United States related to the decline in vanadium profitability and vanadium inventory cost adjustments in 2019. AMG paid taxes of \$24.6 million in 2019, compared to tax payments of \$21.3 million in 2018. As a result of the year-over-year volatility in income and the timing of cash tax payments, the present cash tax rate is not indicative of the current year performance, as payments in the current year are reflective of income earned in 2018 and in previous years. 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 generated from operating activities was \$56 million in Q4 2019, compared to cash from operating activities of \$51 million in Q4 2018. For 2019 overall, however, total cash from operating activities was \$47 million or 52% lower than the prior year. This decrease in operating cash flow was mainly due to the effect of falling prices throughout the year, in which AMG acquired higher-priced inventory that was then sold at lower market prices for limited profitability. AMG's annualized return on capital employed was 13.7% for 2019. AMG finished the fourth quarter of 2019 with \$163 million of total net debt. The increase versus the prior year was mainly because AMG returned \$90 million of cash to shareholders through the share buyback program and made dividend payments of \$16.7 million during the year. It was also due to capital expenditures related to our expansion projects at AMG's vanadium and lithium facilities.

In terms of liquidity, AMG's balance sheet is strong, and we are in full compliance with all debt covenants as of December 31, 2019. AMG had \$396 million of total liquidity as of the end of the fourth quarter of 2019. As investors look at AMG's balance sheet, it is important to point out that the Zanesville vanadium project is separately funded via municipal bond. As such, we carry restricted cash on our balance sheet, which is earmarked to fund this project, and we don't need any corporate cash or cash flow to pay for it. The net debt, excluding municipal bond line in our liquidity disclosure, represents our corporate debt, e.g., our nonproject debt, which is net of the \$226 million of corporate cash we hold on our balance sheet. Our liquidity, which is our yearly operating cash flow plus the revolving credit facility and plus our unrestricted cash is more than sufficient to fund our maintenance and growth capital expenditures as well as our dividend.

That concludes my remarks. I would like now to pass the floor to Eric Jackson, AMG's Chief Operating Officer.

Eric E. Jackson, AMG Advanced Metallurgical Group N.V. - COO & Member of Management Board [7]

Thank you, Jackson. The fourth quarter was a very challenging period with prices for all of our products being weak, far below the fourth quarter of 2018 and the prior quarter. Nothing illustrates this more clearly than the fact that ferrovanadium index prices were \$52.64 in Q4 2018 and \$11.50 at the end of Q4 2019, a decline of 78% year-over-year. In many cases, prices reached what we consider to be unsustainably low levels.

In the first quarter of 2020, prices have started to recover, in some cases significantly. Ferrovanadium prices, for instance, have increased by more than 30% quarter-to-date as high-cost producers exit or reduce production and demand continues to be strong. Silicon metal prices have increased similarly. That being said, the operational focus in all of our business units is to better manage price risk, improve operational efficiencies and be the low-cost producer. Despite weak prices in the fourth quarter, all of our operating units were EBITDA positive and in total, we continue to deliver strong operating cash flow. This compares very favorably when we look at publicly available information on our competitors and peers. Our largest price and liquidity exposure historically has been ferrovanadium. The multiyear marketing contract agreement that we signed with Glencore substantially reduces this exposure and repositions the business to deliver much more consistent operating results. This will be even more evident and important as we expand our spent catalyst processing capacity in Ohio.

In regard to Cambridge II or Zanesville, it is proceeding as planned and is the major plank in AMG's growth strategy. We have 4 main operations in Brazil. Tantalum and niobium chemicals, aluminum master alloys, tantalum concentrates and spodumene. Our chemical and aluminum operations performed well in the fourth quarter, however, weak tantalum and spodumene prices negatively impacted our overall results. We responded by reducing overhead costs and renegotiating a number of key service agreements.

Given the weakness in the lithium market, we reduced production and granted short-term relief to our major spodumene customer. We will return to full capacity by the end of the first quarter. We have also sold 100% of our planned tantalum concentrate production for 2020. We believe we are a low-cost producer of tantalum and spodumene and are well positioned for the eventual market turnaround.

AMG Technologies' fourth quarter financial results were also negatively impacted by lower metals prices in titanium alloys and coatings. The company signed \$250 million in new engineering orders during the year and maintained a very solid order backlog. This was achieved by strong orders in turbine blade coating equipment, engineering services and induction furnaces for the aerospace market.

As a comment on the coronavirus. Driven by our robust risk management process over the past decade, we have developed and implemented a diverse global supply chain that is not overly reliant on any 1 country as a critical supplier. These efforts have included investing in raw material supplies outside of China such as our graphite mines in Mozambique and Sri Lanka as well as cultivating geographically diverse supply chains for our silicon, antimony, chrome, vanadium and aluminum operations. We, therefore, do not presently anticipate major disruptions to the supply chains of our core operations. This diversification is a major strength of AMG's businesses and in many cases, we offer a secure alternative to Chinese-origin products.

I would now like to pass the floor to Dr. Heinz Schimmelbusch, AMG's Chief Executive Officer.

Heinz C. Schimmelbusch, AMG Advanced Metallurgical Group N.V. - Chairman of the Management Board & CEO [8]

Thank you, Eric. 2019 was a year of advancement on several key themes, which are cornerstones of our strategy for long-term value creation. The dominating theme in 2019 has been AMG's success in advancing the circular economy. With this, I'm referring to the project to double the capacity of the world's largest vanadium recycling facility extracting vanadium from refinery waste in Ohio. Other important themes in 2019 have been the pursuit of an innovative value chain by AMG Mineração, Brazil and AMG Lithium, Germany, the integration of AMG Engineering and AMG Titanium Alloys & Coatings businesses into AMG Technologies as a first step prior to seeking a separate listing and the successes in AMG's comprehensive approach to enable CO2 savings by our customers. An approach which has now taken on the status of a core activity throughout all of AMG. All of this works well within AMG's

strategic framework and its overriding objective to create long-term value as well as AMG's approach towards its stakeholders.

AMG's strategic objectives as first formulated and adopted in 2017 are unchanged and are continuously monitored by taking into account the changing economic environment and AMG's priorities and opportunities. It is extremely difficult to provide firm guidance for 2020. Temporary disruptions in the aerospace supply chain resulting from the Boeing issues and the uncertain impact of the coronavirus continue to infuse unpredictable variables into the current market. On the bright side, we note AMG Technologies' backlog at the end of January 2020 is at its highest level in over a decade. In addition, Critical Materials prices appear to have reached the bottom. As early as 2020, market pricing is showing signs of improvement from the depressed pricing experienced throughout 2019. Specifically, vanadium pricing is already up 30% in the early part of 2020. As a result of all these factors, our target for 2020 is unchanged. We expect to improve profitability relative to 2019.

Operator, we would now like to open the line for questions.

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Questions and Answers

Operator [1]

(Operator Instructions) And we'll hear first from Henk Veerman.

Henk Veerman, Kempen & Co. N.V., Research Division - Research Analyst [2]

My first question is on the working capital reversal in Q4. It was a bit higher than I expected. And could you maybe clarify why it was so high, also given that, I mean, material price in the end are lower on average and was already a partial reversal in Q1? That's my first question.

Eric E. Jackson, AMG Advanced Metallurgical Group N.V. - COO & Member of Management Board [3]

So we -- there's a typical fourth quarter -- yes, you said working capital reversal, right, Henk?

Henk Veerman, Kempen & Co. N.V., Research Division - Research Analyst [4]

Yes, that's right.

Eric E. Jackson, AMG Advanced Metallurgical Group N.V. - COO & Member of Management Board [5]

Making operating cash flow. Correct?

Henk Veerman, Kempen & Co. N.V., Research Division - Research Analyst [6]

That \$55 million cash inflow in Q4.

Jackson M. Dunckel, AMG Advanced Metallurgical Group N.V. - CFO & Member of Management Board [7]

Exactly. Part of that is seasonal. So in the fourth quarter, you do see working capital inflows, just like you see working capital outflows in the first quarter. So part of it is seasonal, part of it is the result of the contract that we signed with Glencore, which enabled us to sell more finished goods.

Henk Veerman, Kempen & Co. N.V., Research Division - Research Analyst [8]

Okay. That's clear. Second question on the gross profit margins in technologies. If you exclude the \$7.5 million one-off in 2018, the margin is still -- you look at the full year at 23% versus almost 27% in 2018. Just to clarify, is it only because of the lower titanium prices or has the market for aerospace components also become more competitive, is there any pricing pressure apart from the titanium prices?

Jackson M. Dunckel, AMG Advanced Metallurgical Group N.V. - CFO & Member of Management Board [9]

No, there's -- it's all due to the lower metal prices with regard to titanium alloys and coatings. There's been no price pressure on engineering or any of our products, except for pass-through pricing associated with the metals.

Henk Veerman, Kempen & Co. N.V., Research Division - Research Analyst [10]

Okay. That's clear. Third question is on the restructuring in Brazil was -- came as a bit of a surprise to me, because it sounds like it's quite a permanent measure that you're taking there with the headcount reductions. And I think if I heard it correctly, there's also the lithium customer you have now, they provided you relief of -- so basically, the shipments, they stopped. Could you maybe clarify that?

Eric E. Jackson, AMG Advanced Metallurgical Group N.V. - COO & Member of Management Board [11]

This is Eric Jackson. No, we had -- we reduced our production in the fourth quarter and the early part of the first quarter, Henk, because there was a bit of a backup in inventory in China in lithium. We have a strategically important customer, and we will deliver the expected quantity to him over the balance of 2020. And the reductions -- when prices are low, clearly, we put extra focus on our cost of production and SG&A and it was an opportunity for us to do some restructuring.

Henk Veerman, Kempen & Co. N.V., Research Division - Research Analyst [12]

Okay. Last question is on the guidance. When you talk about profitability, I mean, in the past, you've always guided on EBITDA. So should I assume that statement on profitability, does that refer to EBITDA? Or does that refer to the bottom line?

Heinz C. Schimmelbusch, AMG Advanced Metallurgical Group N.V. - Chairman of the Management Board & CEO [13]

You can replace profitability with EBITDA.

Henk Veerman, Kempen & Co. N.V., Research Division - Research Analyst [14]

Okay. And could you maybe give a little bit of a breakdown in terms of moving parts because, I mean, obviously, the -- could you maybe explain how there's growth in EBITDA, how does that work because is there any pricing expectation in there year-on-year? Is this also partially based on the vanadium prices that have moved up significantly year-to-date?

Heinz C. Schimmelbusch, AMG Advanced Metallurgical Group N.V. - Chairman of the Management Board & CEO [15]

Well, obviously, when you do a forecast, you think about the various prices throughout the portfolio, and that's what we do. We normally don't comment on single price levels in forecasting the next year. In general, we expect a slight price correction from the present prices that has happened already, for example, silicon metal. We had a profound price increase given the situation in China. In vanadium, we are planning a slight price correction, which is partly happening. You be reminded that 60-plus percent of the whole vanadium work is happening in China. We believe that the blast furnaces and the large steel operations are operating in China. And therefore, the demand as regard to rebar steel is not massively changed, certain supply -- supply difficulties might occur, that are occurring. In the last quarter -- quarter-by-quarter, the exports of vanadium out of China have reduced and reached negative levels. So the inventory, there is no vanadium coming out of China at the moment. So that all -- the vanadium work and supply and demand, world relies on China exports, which -- so -- and that goes through the portfolio. So there's nothing dramatic happening as regard to correction in prices. Stabilization, slight corrections. We expect a good result, of course, in engineering, and that has reflected -- we reflected about the backlog here.

Operator [16]

And we'll move to our next question from Stijn Demeester.

Stijn Demeester, ING Groep N.V., Research Division - Research Analyst [17]

So my first question is on technologies. You mentioned 737 MAX issues. Could you comment at this point in time whether you see an actual impact in 2020? And then I'm also struggling to understand the quarterly weakness in technologies. I think in the third quarter call, you still guided for flat EBITDA versus 2018, excluding the \$7.5 million positive one-off in the fourth quarter of '18. So what explains then the sort of delta you see, which is explained to the weak performance in the fourth quarter? This is the first question.

Heinz C. Schimmelbusch, AMG Advanced Metallurgical Group N.V. - Chairman of the Management Board & CEO [18]

The first part of the first question, I will answer and then Jackson. I didn't say 737 MAX, I said Boeing. That's just for correction, precise language. Yes, we have -- we expect an impact in our titanium alloy section, titanium aluminide, which is a direct function of 1 very big customer who represents the main LEAP engine and so there is a -- there is a deduction, which has a certain impact in this year. But it's not a material impact.

Jackson M. Dunckel, AMG Advanced Metallurgical Group N.V. - CFO & Member of Management Board [19]

The net of the \$7.5 million fiscal year '18 was \$60 million, and we reported \$56 million. So you're asking about what the differential \$4 million is between those 2 and the answer is, it's 2 things. We had higher engineering results. And again, we had lower results at titanium aluminide -- titanium alloys and coatings due to lower metal prices.

Stijn Demeester, ING Groep N.V., Research Division - Research Analyst [20]

Okay. There is no timing effect to this because it can be volatile quarter-over-quarter. There is no timing effect in the fourth quarter that maybe it could be compensated in the first quarter of this year?

Jackson M. Dunckel, AMG Advanced Metallurgical Group N.V. - CFO & Member of Management Board [21]

That has been the case in prior quarters, it was pretty neutral this quarter.

Stijn Demeester, ING Groep N.V., Research Division - Research Analyst [22]

Okay, understood. Then on lithium, and the relief you granted. So to understand correctly, year-over-year, if you look at the volumes in 2020, you expect to compensate this in the remainder of the year. So there shouldn't be a real impact if you look at it on an annual level? And then secondly, maybe a little bit broader. The current market circumstances in lithium with oversupply, mainly in Australian spodumene, does this impact your plans for the [SP1 plus] expansion?

Heinz C. Schimmelbusch, AMG Advanced Metallurgical Group N.V. - Chairman of the Management Board & CEO [23]

Well, the lithium expansion, as we have explained repeatedly, is focused as a central element on the hydroxide plant in Germany. That hydroxide plant is quality consolidator of diversified lithium sources including Brazil. It is also an element in financing of the expansion of Brazil into chemicals. And that is a sophisticated project financing structure involving certain imports into Germany, which are provided by that plant, which we are building in Germany as one of the necessary conditions of this particular project financing structure. And that is -- so the whole thing starts with that German plant as the key necessary condition for this whole thing to work. We have engineering studies on various ways, how to -- on how to dimension the chemical plant in Brazil. And it's a broader question. It's just not spodumene. One of -- it's a broader question as regard to risk management in Brazil, we -- our project financing structure is a very sophisticated one, and we have disciplined as regard to that execution.

Stijn Demeester, ING Groep N.V., Research Division - Research Analyst [24]

Okay. Final question then on ferrovanadium. In the last months, you've announced a number of actions in vanadium, such as the Glencore contract, but also the renewal of the catalyst agreement with the major oil refiner. Could you elaborate maybe on how these actions will de-risk the vanadium expansion? And as of when, we should start to see the benefit of a number of these actions or maybe also for the current recycler?

Heinz C. Schimmelbusch, AMG Advanced Metallurgical Group N.V. - Chairman of the Management Board & CEO [25]

Well, the main parameter for the termination of the profitability of our recycling activity is, first and foremost, the recycling fees. The recycling fees provides the base cash flow for that recycling activity. And then there are other cash flows that vanadium, molybdenum and nickel. So it's for -- the volatility thankfully of the steel is very low compared -- there's no volatility, it's a contractual fee. So therefore, back to the structure. Canadian prices flow through, when they rise, there is a certain time lag. And then they show up in our cash flow results. So we expect that to materialize. The de-risking is massive because we had, of course, experienced in this extreme volatility, '18, '19, a buildup of inventory of ferrovanadium as the customers watching positive spike or the radical upward spike delayed deliveries. And therefore, we had this inventory buildup. We have now acting agreement, which eliminates these risks. So whatever we produce is being sold once we have produced it under contractual index price circumstances. So this is a massive de-risking. I mentioned in my remarks that under staff expense of this clause is represented in \$70 million drop from 2018 to 2019, EBITDA drop. So in retrospect, had we had a contract in place, it wouldn't have occurred. So that's massive de-risking. As regard to de-risking on the supply side, we are constantly working on complementing our very large contract book on FEED contract, and that is a very (inaudible) because the expanding of refinery capacity and the expanding of the fresh catalyst deliveries and contracts lead to large additional incremental amounts of catalysts seeking a home -- spent catalyst seeking a home. That's the background of our expansion here. So supply and demand risk reduction is massive.

Operator [26]

And so we'll move to our next question from Martijn den Drijver.

Martijn P. den Drijver, ABN AMRO Bank N.V., Research Division - Analyst [27]

Regards to -- regarding the IPO of AMG Technologies, can you elaborate a little bit on the timing of the IPO, as you said, when there isn't a positive window, should we still think 2020? Or will it be in 2021? And with regards of the use of the proceeds, would -- will that be directed at the German lithium conversion plants? Or are you also looking at other projects. For example, in the vanadium -- excuse me, the VRFB battery segment? That would be question one. Then the second question is...

Heinz C. Schimmelbusch, AMG Advanced Metallurgical Group N.V. - Chairman of the Management Board & CEO [28]

Excuse me, I did not get the question. The timing of IPO and then what does this have to do with lithium?

Martijn P. den Drijver, ABN AMRO Bank N.V., Research Division - Analyst [29]

No, vanadium redox, vanadium redox.

Heinz C. Schimmelbusch, AMG Advanced Metallurgical Group N.V. - Chairman of the Management Board & CEO [30]

So I understand. I understand.

Martijn P. den Drijver, ABN AMRO Bank N.V., Research Division - Analyst [31]

Yes. What you're going to use the proceeds for? Will that be to German lithium conversion plants or are there also other new projects like the vanadium redox flow battery?

Heinz C. Schimmelbusch, AMG Advanced Metallurgical Group N.V. - Chairman of the Management Board & CEO [32]

Yes, understood. So here, we have timing. The timing -- the wording of the timing is a quote of ABN AMRO's advice. So since you, I guess, obviously, ABN AMRO, maybe you sub-circulate this to your friends over there. So it is right now -- all of a sudden for us here, give me a break. It is right now a bad time to make guidance statements on capital market events in the aerospace market. You will understand that. The Boeing situation is fluid, and whenever there is a positive announcement, that is following a collective announcement. And it's very difficult to analyze. We know the short-term effect as regard to -- that, of course, is a value effect because we have to have a corrective -- we need to have predictability in this area. And I don't want to go into the details of the uncertainty here and how it is materializing in the planes, on the ground, at the customer parking lot and at the Boeing parking lots. And how that will play out once it's corrected. That's a very complex issue. Into -- to hastily -- if you don't need it, to hastily try to rush into a market in a situation like that is, of course, a mistake. And we don't do that. So we are expecting -- when I say a window, we are expecting a stabilization and predictability, of course. But in the interim, we make this company very saleable and attractive and do -- we sort of make this company ready for the event, which is a beneficial exercise anyway because you improve your operations and your procedures and your risk management things and your and deepen your management and create new growth opportunities, and that is all positive and is happening.

Unidentified Company Representative, [33]

Vanadium redox.

Heinz C. Schimmelbusch, AMG Advanced Metallurgical Group N.V. - Chairman of the Management Board & CEO [34]

The vanadium redox battery -- we are very aware of the market opportunities in the vanadium area. And the vanadium redox battery is a distinct opportunity. I have said in recent speeches that vanadium redox battery is a prominent candidate for stationary batteries for grid stabilizations for economies such as Germany, where the renewable energy goal is marching ahead in a heavy way, especially in solar and offshore wind. And where the necessary growth in electricity storage to make that happen or to make it happen economically is to be expressed in multiples, not in growth rates, in market size multiples. And we are heavily involved in studying vanadium redox battery projects. And that is also related to our ability in future to be able to produce V2O5, which is vanadium oxide, alternative to ferrovandium, ourselves, which would be a very interesting strategic element. Because you need predictability in vanadium prices, and we are the low-cost producer, and we might be able to provide to battery projects

price predictability. That was the big hurdle of a takeoff of the vanadium redox battery market, as we all know, and as exemplified by the Dalian province project, which was the world's largest -- is the world's largest. Which, when they started by V2O5 in order to have the initial load arranged for the battery, they ran exactly into that spike of 2018, which stopped the project. So the big advantages of vanadium redox, when you listen to people -- listening, so when they enumerate those advantages, at the end of those advantages, they come then to the disadvantage of the vanadium volatility, and we -- our strategic objective is to remove that bottleneck. We talk about the -- we want to tell vanadium price options. We have a long position, which is growing, and this long position can be, of course, monetized into very interesting structures.

Martijn P. den Drijver, ABN AMRO Bank N.V., Research Division - Analyst [35]

You already gave some remarks about the vanadium markets mentioning that high-cost producers maybe exiting the market. Is that something that is your expectation? Or is that something that you're actually seeing beyond what the coronavirus is causing? Just maybe a bit more color on there?

Heinz C. Schimmelbusch, AMG Advanced Metallurgical Group N.V. - Chairman of the Management Board & CEO [36]

No, we -- there has been producers in China. That's the famous stone coal producers, which have environmental implications and they go in and they go out. And our expectation is that whatever -- that this will vanish. As a mixture of environmental policies and emission controls, these producers will leave the market 1 way or the other because it's unsustainable as regard to the true sense of this world.

Martijn P. den Drijver, ABN AMRO Bank N.V., Research Division - Analyst [37]

But it's more an expectation than something that you can actually see right now?

Heinz C. Schimmelbusch, AMG Advanced Metallurgical Group N.V. - Chairman of the Management Board & CEO [38]

Nobody sees anything in China right now.

Martijn P. den Drijver, ABN AMRO Bank N.V., Research Division - Analyst [39]

Okay. You already mentioned the fluid situation...

Heinz C. Schimmelbusch, AMG Advanced Metallurgical Group N.V. - Chairman of the Management Board & CEO [40]

If you go back, then let me know.

Eric E. Jackson, AMG Advanced Metallurgical Group N.V. - COO & Member of Management Board [41]

The net exports of vanadium from China have gone down dramatically quarter-by-quarter, and so we don't see it specifically, but that's a very important price determination in our opinion.

Heinz C. Schimmelbusch, AMG Advanced Metallurgical Group N.V. - Chairman of the Management Board & CEO [42]

It is absolutely logical -- not logical, it is plausible that the reduction of exports for vanadium from China are a combination of the reduction of production, and that is that high-cost sector and the increase in vanadium -- specific vanadium consumption because of the rebar legislation.

Martijn P. den Drijver, ABN AMRO Bank N.V., Research Division - Analyst [43]

Okay. And then moving on to the fluid Boeing situation. You've obviously baked that into your guidance. Is that guidance taking into account a production stop until June, July? Or how should we think about that if Boeing starts production earlier?

Heinz C. Schimmelbusch, AMG Advanced Metallurgical Group N.V. - Chairman of the Management Board & CEO [44]

It's not a production stop as regard to -- because we are not delivering titanium aluminides only to one particular plane or engine for a particular plane. We are delivering to engines for many planes and how this works? You get the letter and then the letter says you reduce your production because they ask -- the customer asks for relief. And then you reduce your production. And then you take that, as you say, into your next forecast, and you hope that there's not another letter coming. So that's how it works.

Martijn P. den Drijver, ABN AMRO Bank N.V., Research Division - Analyst [45]

Can you provide some guidance on what the impact of that relief is roughly speaking for...

Heinz C. Schimmelbusch, AMG Advanced Metallurgical Group N.V. - Chairman of the Management Board & CEO [46]

I'd say it's not material. I'd say it's not material. Now you can...

Martijn P. den Drijver, ABN AMRO Bank N.V., Research Division - Analyst [47]

Okay. And then a final question on the German lithium conversion plants. Can you maybe provide some additional update on your discussions with customers on possible offtake? I know it's early days. The subsidies that you may receive from local governments. A bit more color there, please?

Heinz C. Schimmelbusch, AMG Advanced Metallurgical Group N.V. - Chairman of the Management Board & CEO [48]

Yes, we are discussing this. The subsidy issue is a very complex issue, and we are deeply involved in that. And that looks progressive. We have customer discussions in a very broad way, using our new facility in Germany, our new laboratories, AMG laboratories. And in those AMG Laboratories, we are fully equipped, for example, to test lithium materials producing a cell. So these are very sophisticated circumstances and ideally suited for establishing and building customer relationships in a very professional way, in a way which the (foreign language) -- the company operations, our management and our people come from in Germany. All of that is -- that's in full swing.

Martijn P. den Drijver, ABN AMRO Bank N.V., Research Division - Analyst [49]

Okay. And then a final question for Jackson. Maybe some guidance on CapEx for 2020? That would be appreciated.

Jackson M. Dunckel, AMG Advanced Metallurgical Group N.V. - CFO & Member of Management Board [50]

Yes, Martijn. We're guiding to \$250 million, which is split \$200 million for Zanesville and \$50 million for the rest of the company.

Operator [51]

Moving on, we have a question from Krishan Agarwal.

Krishan M. Agarwal, Citigroup Inc, Research Division - Analyst [52]

Yes. Can you hear me?

Jackson M. Dunckel, AMG Advanced Metallurgical Group N.V. - CFO & Member of Management Board [53]

Yes, we can hear you.

Krishan M. Agarwal, Citigroup Inc, Research Division - Analyst [54]

Yes. I mean I had a question on the CapEx, and probably that is -- that Jackson has already answered. I had a question on technology EBITDA, and my apology if it's already answered that. So you mentioned that \$7.9 (sic) [\$7.5] million payment was recorded due to termination of the contract. So theoretically, if I were to add that back to your reported EBITDA of \$9 million, you retracted from there close to \$16 million. Is that a normalized EBITDA for the quarter? Or is that the right way to look at it?

Jackson M. Dunckel, AMG Advanced Metallurgical Group N.V. - CFO & Member of Management Board [55]

No, you would take it out of the fourth quarter of 2018 would be the normalization.

Krishan M. Agarwal, Citigroup Inc, Research Division - Analyst [56]

Okay, okay. Understood, understood, for quarter. Okay. And the second question is on the spodumene plant performance in the fourth quarter. What was the average capacity utilization you have run the plant, given that you mentioned you get some of the -- some of the production adjustment in the quarter? And then what is the expectation for the 2020 capacity utilization given that you mentioned that you're at present sole for this particular production for 2020.

Eric E. Jackson, AMG Advanced Metallurgical Group N.V. - COO & Member of Management Board [57]

I don't think we really give out capacity utilization, specifically on the businesses, but for 2020, we are planning to operate at approximately 90% with closer to full capacity for the last -- the final 3 quarters.

Krishan M. Agarwal, Citigroup Inc, Research Division - Analyst [58]

Okay. That's really helpful. And then, I mean, briefly on the cost, given that the plant has sort of ramped up to more or less the full capacity, have you operated closer to what you have guided around \$210 of cash cost guidance at the plant? Or has it been a little higher in fourth quarter?

Jackson M. Dunckel, AMG Advanced Metallurgical Group N.V. - CFO & Member of Management Board [59]

When we are operating at full capacity, we are very close to our projected cost of production. Of course, the Brazilian real moves around a lot. And actually, it's weakened. So that's in our favor. But so -- when we're operating at full capacity, that's only constrained by the customer. We're extremely close to the cost of production that we made public some time ago.

Heinz C. Schimmelbusch, AMG Advanced Metallurgical Group N.V. - Chairman of the Management Board & CEO [60]

The project met its yardsticks as regards to CapEx. We were a little late. We produced at designed quality and at full capacity at designed costs.

Krishan M. Agarwal, Citigroup Inc, Research Division - Analyst [61]

Yes, yes, understand. So I mean, I'm not expecting that you disclose the number. But the project on a stand-alone basis has been positive in terms of profitability, in terms of EBITDA in the fourth quarter. So is that a good assumption?

Jackson M. Dunckel, AMG Advanced Metallurgical Group N.V. - CFO & Member of Management Board [62]

I'm sorry, I missed the end of it, but the project has been profitable. And we mentioned earlier, we believe we are a very low-cost producer of spodumene and tantalum. Remember, it's really 2 co-products.

So other than the market being exceptionally weak, we're pleased with the investment.

Krishan M. Agarwal, Citigroup Inc, Research Division - Analyst [63]

Okay, I understand. So quickly, a follow-up on the guidance. You said EBITDA should be up versus 2019. So is that a fair way to assume that the spodumene plant will have 100% contribution for the entire period of 2020 and hence, yes, there is a possibility of significant bump up into the EBITDA from the spodumene plant alone.

Heinz C. Schimmelbusch, AMG Advanced Metallurgical Group N.V. - Chairman of the Management Board & CEO [64]

Yes, I could make my life easy and say subject prices. And look...

Jackson M. Dunckel, AMG Advanced Metallurgical Group N.V. - CFO & Member of Management Board [65]

Which would be true.

Heinz C. Schimmelbusch, AMG Advanced Metallurgical Group N.V. - Chairman of the Management Board & CEO [66]

Which would be true. We're ramping up in the first quarter. And then we will be -- the rest of the year will be more or less full capacity, as Eric has said, and then the rest is prices. And if you hear something from the market which sounds convincing, give me a call. Because today, we have really uncertainty as regard to -- we are selling into China right now, okay? So if somebody could give me -- we are on the -- we have a center in China, and we are on the phone with our center in China every day. And -- it's a very complex situation.

Krishan M. Agarwal, Citigroup Inc, Research Division - Analyst [67]

Okay. And the final question, given that you've announced this catalyst supply agreement with the North American refinery, so should it be good to assume that you are fully covered with your raw material supply for the new plant in Ohio?

Heinz C. Schimmelbusch, AMG Advanced Metallurgical Group N.V. - Chairman of the Management Board & CEO [68]

As I said, we have an absolute normal FEED situation as regard to our both plants. And we believe this FEED situation is extremely manageable.

Operator [69]

And at this time, do we have any time for any further questions.

Heinz C. Schimmelbusch, AMG Advanced Metallurgical Group N.V. - Chairman of the Management Board & CEO [70]

I think we have now our time, Michele, what is...

Michele Fischer, AMG Advanced Metallurgical Group N.V. - VP of IR [71]

Yes, that was -- we'll need to -- that's our final question already. We'll need to end the call.

Heinz C. Schimmelbusch, AMG Advanced Metallurgical Group N.V. - Chairman of the Management Board & CEO [72]

So that was the final question. Thank you very much. Okay. Operator?

Operator [73]

I'll turn the call back to you for any additional remarks.

Heinz C. Schimmelbusch, AMG Advanced Metallurgical Group N.V. - Chairman of the Management Board & CEO [74]

Yes, operator, that's now it. Okay. Thank you. Thank you for attending.

Operator [75]

And again, that does conclude the call. We'd like to thank everyone for your participation. You may now disconnect.

