Annual Press Conference for 2017

Speech by Dr. Rudolf Staudigl President & CEO of Wacker Chemie AG, Munich

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

Today is both a premiere and a turning point. For the first time, we are presenting WACKER’s figures to you without Siltronic. WACKER reached a key strategic goal by giving up its majority stake in Siltronic. The move has made WACKER less capital intensive. We are focusing investments on strengthening our steadily growing chemical activities, which now account for three-quarters of Group sales.

In operative terms, 2017 was also a very successful year for WACKER. Compared with 2016’s adjusted figures, which is excluding Siltronic, we lifted both Group sales and EBITDA by 6 percent. And we grew our income from continuing operations by as much as 40 percent. Overall, we met or surpassed all the targets we set.

I am optimistic that 2018 will also be a good year for WACKER. Group sales and EBITDA are expected to make further gains this year. More about that later. First, I would like to take a detailed look at last year’s facts and figures.

The world economy grew robustly last year. In many advanced economies, activity was spurred by high domestic demand and by stronger investments and exports. Among the developing and emerging economies, commodity exporters such as Brazil and Russia benefited from higher exports. In China, on the other hand, it was rising domestic consumption that powered growth. On the bottom line, GDP grew significantly in every region. Once again, Asia posted the strongest increase.

WACKER benefited from the economic trend through strong volume gains. Demand for our silicones was especially robust. And we also sold more polymer products and polysilicon than the year before. In total, WACKER generated sales of 4.9 billion euros in 2017. That was 6 percent more than in the previous year. Thanks to our higher volumes, we more than compensated for negative price and currency effects.

EBITDA – earnings before interest, taxes, depreciation and amortization – amounted to 1.01 billion euros in 2017. That also was 6 percent more than the year before and yielded an EBITDA margin of around 21 percent. Given the strong
rise in raw-material prices, that was a very good result. Beside the strong business trend, EBITDA was lifted by income from our stake in Siltronic.

EBIT saw even stronger growth. One positive effect here was the continued decline in depreciation, which amounted to 590 million euros. That was 5 percent less than the year before.

On the bottom line, WACKER ended 2017 with Group net income of 885 million euros. Importantly, net income for the year included the proceeds from deconsolidating Siltronic as a WACKER segment and also Siltronic’s net income for the first quarter of 2017. In total, that was 635 million euros. Income from continuing operations also grew strongly – by 40 percent to 250 million euros.

Ladies and Gentlemen,

Once again, our chemical business posted a strong gain. Sales at our three chemical divisions totaled almost 3.7 billion euros. That was 7 percent more than the year before.

Growth was especially strong at Silicones, our largest division, which generates 45 percent of Group sales. At 2.2 billion euros, its sales grew by 10 percent versus the year before. The gain was prompted by both higher volumes and better prices. We increased our market share last year, strengthening our position as the world’s second-largest silicones supplier. Trends were particularly good for silicones used in the automotive industry, in industrial applications and in the construction sector, for example. At Silicones, EBITDA grew much faster than sales. At 445 million euros, EBITDA rose by 23 percent versus 2016. High plant utilization and good cost efficiency positively influenced earnings.

Sales also climbed at the Polymers division – to more than 1.2 billion euros. This was due to higher volumes for dispersions and dispersible polymer powders. Lower prices and exchange-rate effects, though, slowed the sales trend. EBITDA of 206 million euros was 21 percent down year over year. A key factor here was the strong increase in raw-material prices.

Check against delivery!
The Biosolutions division posted sales of 206 million euros. That was on par with the year before. Volumes were higher. On the other hand, prices were slightly lower and there were negative currency effects. At 38 million euros, EBITDA edged up versus the prior-year figure. Positive influences here included the fact that our biologics plants were producing at full capacity.

Our Polysilicon division again increased its sales – to more than 1.1 billion euros. In total, we sold more than 71,000 metric tons of polysilicon last year – setting a new volume record. On the other hand, average prices were lower than in 2016. That slowed the sales trend. On top of this, there was the loss of production at our US site in Charleston. As you know, a technical malfunction caused a hydrogen explosion on September 7, which damaged a plant section there. Production had to be shut down. Last year, this resulted in a shortfall of around 6,000 metric tons of polysilicon that otherwise would have been available for sale.

The Polysilicon division’s EBITDA reached 290 million euros. That was 2 percent more than in the previous year. The rise was mainly prompted by both higher volumes and lower production costs. The division continuously focuses on enhancing its production processes and on reducing its consumption of energy and raw materials, while increasing its output at the same time. As a result, our production costs are continuing to fall.

Ladies and gentlemen, I have completed my review of our divisions. Now, I would like to return to the consolidated financial statements and look at key data from the statement of cash flows. Last year, WACKER invested 327 million euros. That was somewhat less than the year before and, as planned, well below depreciation of 590 million euros.

Our net cash flow reflected that fact. At around 360 million euros, it was again clearly positive, which shows that we financed our investments with cash flow from operating activities. At the same time, we posted income of about 280 million euros resulting from the sale of our shares in Siltronic. In consequence, our total net financial debt dropped by half. On December 31, it was 454 million euros.
The focus of our investing activities in 2017 remained on expanding our capacities at our three chemical divisions:

- At our South Korean site in Jincheon, we spent about 15 million euros on constructing new facilities for manufacturing silicone sealants and specialty silicones. The products are for the construction, electronics and automotive industries. The opening ceremony is in late April.

- In Burghausen, we expanded polymer production by adding a new dispersion reactor. It went on stream in Q4 and has an annual capacity of 60,000 metric tons. The investment amounted to 25 million euros.

In addition, we launched a number of other important investment projects last year:

- In Ulsan, South Korea, construction started on new production facilities for dispersions and dispersible polymer powders. Around 60 million euros is budgeted for this expansion.

- At Charleston in the USA, we started building a new plant for pyrogenic silica. This investment project will total 150 million US dollars.

- At our Norwegian site in Holla, we are expanding our silicon-metal capacities for about 100 million euros. Producing this key starting material ourselves makes us more independent of price fluctuations on raw-material markets and enhances our supply security during times of peak demand.

- At Léon in Spain, we are modernizing the large-scale fermentation plant we acquired in late 2016. We will manufacture bioengineered cystine there and are investing a total of some 30 million euros to this end. Cystine is used in food and pharmaceutical products.

These projects enable us to meet growing demand in our chemical business. They strengthen our market position and support our strategy of increasing the proportion of high-margin specialties in our chemical portfolio.

Ladies and gentlemen, our markets are growing worldwide – and especially robustly in Asia. That is reflected in our figures.

In 2017, WACKER generated about 60 percent of its sales through customers outside of Europe. That was 3 billion euros. Asia accounts for 38 percent of Group sales, almost on par with Europe, our home market. Living standards across Asia
continue to rise, which is spurring demand for the high-quality products we supply. We generated about 1.9 billion euros in this region. Compared with the year before, that was a gain of 8 percent.

Almost two-thirds of our sales in Asia come from China, including Taiwan – 1.2 billion euros. Increasingly important for our growth in Asia is the role played by India, South Korea and the countries of Southeast Asia. In total, we generated more than half a billion euros there last year. That was 13 percent more than in 2016. Population growth and an expanding middle class are spurring our business.

We made substantial gains in Europe, too. Our 2017 sales there amounted to about 2 billion euros. Versus the year before, that was a gain of more than 6 percent. And in the Americas, our business also grew, rising slightly to 839 million euros.

Employee numbers increased by 360 last year. The rising demand at our chemical divisions was the main driver for increasing the Group’s workforce. In total, WACKER had around 13,800 employees worldwide on December 31, 2017. That was 2.7 percent more than in the previous year. The total comprised close to 10,000 in Germany and more than 3,800 at international sites.

Ladies and Gentlemen, that concludes my review of the Group’s performance last year. Cost-efficiency is an essential part of our strategy. That is why we established a permanent efficiency program throughout our Group. For the past 14 years, this program has been instrumental in improving costs at production plants and at production-related service units.

Last year alone, the program saved us more than 100 million euros again. The key factors were lower specific energy consumption and higher production output – without a corresponding rise in costs. This success was reflected in our good operational performance – shown by our EBITDA margin, which was about 21 percent.

Check against delivery!
The Group’s net assets and financial position developed very positively versus the previous year. Our liquidity reached almost 550 million euros. Additionally, we have unused credit lines of some 900 million euros. And our equity ratio is 46 percent.

WACKER stands on a strong financial foundation. Every key indicator was in line with our expectations or exceeded them. We achieved a substantial reduction in the Group’s debt-to-equity ratio. It is now only 45 percent of EBITDA – below our target corridor of 50 to 100 percent. Reducing our shares in Siltronic was a factor here.

Naturally, we want our shareholders to benefit from these good results. For these reasons, the Executive and Supervisory Boards will propose to the Annual Shareholders’ Meeting that a bonus of 2 euros per share should be distributed on top of a dividend of 2.50 euros per share – in total, 4.50 euros. That corresponds to a payout of around 224 million euros. The high payout also reflects our optimism for 2018 and beyond.

Ladies and Gentlemen,

What are our expectations for the current year? As I said at the start: I am optimistic that 2018 can be a good year for WACKER. Of course, the geopolitical risks to economic trends should not be underestimated. But we anticipate that the global economy will grow further this year.

Indeed, the consensus among economic experts is that the world economy will expand even more strongly in 2018 than last year. The strongest impulses are coming from Asia. But the USA and Europe will continue on a growth trajectory as well.

The key industries for our business will likewise show a broadly positive trend in 2018. There will be currency headwinds, though. The euro has appreciated markedly against the US dollar since early last year. Additionally, there have been amendments to accounting standards. Now, certain supply contracts with other companies can no longer be recognized as revenue. Combined, both factors will
reduce Group sales by an amount in the low-three-digit millions. Despite that, we expect our sales to climb further this year.

What the first two months of the year show us is: WACKER had a good start to the new fiscal year. Sales of chemicals for the two-month period were clearly above the prior-year figure. Here, we achieved not only higher volumes, but also better prices. In our polysilicon business, though, we were still feeling the shortfall in volumes for sale, due to the production shutdown at Charleston. As a result, the Polysilicon division’s sales in the first two months were noticeably lower than in the same period last year.

We expect to generate total first-quarter Group sales of about 1.2 billion euros. That matches the first-quarter figure of 2017 – despite the shortfall in polysilicon volumes. Turning to EBITDA, we expect a robust increase in the first quarter. Higher prices for some chemical products, coupled with high plant utilization and an improved investment result are lifting earnings.

From today's perspective, our operating activities should develop positively during the rest of the year. We anticipate higher volumes at our chemical divisions. At the polysilicon division, volumes are likely to be on par with last year.

The cause of the incident at Charleston has been clarified. Work on repairing the damaged plant section is almost finished, too. So, we can begin in a few weeks' time with ramping up the facilities successively. Which means: in the second quarter, we will again have polysilicon from Charleston available for sale.

Now, let's turn to the annual forecast for our business divisions. All three of our chemical divisions are projected to lift their sales in 2018.

At our Silicones division, we expect sales to grow by a low-single-digit percentage this year. EBITDA is projected to rise by a mid-single-digit percentage year over year, amid higher prices for some raw materials. Key priorities at Silicones are to keep plant utilization high and to increase the percentage of sales accounted for by high-margin specialties. They include silane-modified hybrid polymers, which...
are used in highly durable industrial adhesives, for example. We are the global leader in this field of hybrid products.

At our Polymers division, we expect to lift sales by a mid-single-digit percentage. Dispersions and dispersible polymer powders will both deliver growth. The focus at Polymers remains on binders for sophisticated construction and coating applications. Worldwide, demand is rising: for example, for functional paints and coatings. That is why we have developed specialty dispersions for stain-resistant floor and wall coatings. Stains made by oil or red wine can now be wiped away easily.

This year, the Polymers division anticipates continued headwinds from rising raw-material prices. Additionally, a scheduled plant shutdown is planned for the second quarter. Both factors will hold back earnings. Consequently, the division expects EBITDA to be at last year’s level.

We expect 2018 sales at Biosolutions to climb by a mid-single-digit percentage. Growth will mainly come from products for the application fields of food and dietary supplements. The biologics market promises additional potential. Growth here averages 9 percent a year. Biosolutions wants to benefit from this growth – for example as a contract manufacturer for biologics, which are used as active ingredients in medication for treating cancer or heart attacks. Earnings will be impacted by integration costs for the new site in Spain. Consequently, EBITDA at Biosolutions will be substantially lower than last year.

The strong growth trend of photovoltaics continues. Competition is still fierce in the solar industry. And the possibility of new trade barriers is unsettling the market. But lower prices have made photovoltaics even more competitive versus other energy sources. Also, solar energy is playing an important part in meeting global climate-protection targets. Both factors are expanding the market.

In 2018, volumes at Polysilicon are likely to be at last year’s level. The reason is the temporary shortfall in volumes that are not yet available from Charleston. At the same time, we anticipate lower average prices. Consequently, we expect sales
at Polysilicon to decline by a high-single-digit percentage. On the other hand, EBITDA is likely to edge up versus last year. Here, we see the positive influence of further progress on the cost side – as well as the insurance compensation that we will receive from the incident at Charleston.

Also, we are benefiting from the trend toward monocrystalline solar cells. Such premium products are highly efficient and generate more electricity from the same amount of sunlight. WACKER, as a technology leader, is very well positioned here. With our hyperpure polysilicon, we are ideally placed to supply the fast-growing segment for monocrystalline cells.

In summary, our expectations are:

- Group sales are likely to climb by a low-single-digit percentage.
- EBITDA should increase by a mid-single-digit percentage. The effects of continued volume growth, generally higher selling prices, operating performance and an enhanced result from investments will positively influence the earnings trend.
- The EBITDA margin should be slightly above last year.
- Compared with last year, our capital expenditures will rise significantly. They will reach 470 million euros this year – but remain below depreciation.
- Net cash flow will be clearly positive. Due to our high investments, though, it will be substantially lower than a year ago.
- Net financial debt will be on par with last year.
- As for Group net income from continuing operations, we expect substantial growth.

Ladies and Gentlemen, WACKER’s prospects remain good. We created the basis for our company’s future success in 2016 with our five-point strategy:

- Our capital expenditures are to stay below depreciation – even though WACKER is investing more again this year than in 2017. Our investment focus is firmly on our silicones business. Here, demand for our products remains particularly strong. We want to use this trend to expand our position as the world’s second-largest supplier. That is why over half of our investments planned for 2018 will go into this business.
• We want to grow faster than the chemical-sector average. Product innovations and a higher proportion of specialties in our portfolio are expected to secure this growth.

• We are strengthening sustainability across all our business processes – from optimum raw-material use, right through to enhancing process efficiency and developing sustainable products that reduce CO₂ emissions.

• Our operating activities will focus on high profitability. At our chemical divisions, we are targeting an EBITDA margin of more than 16 percent. In our polysilicon business, our target margin is above 30 percent.

• Capital expenditures below depreciation, coupled with continued growth, cost improvements and highly profitable operations will deliver a continuously positive net cash flow. Which underscores the company’s financial strength.

Ladies and Gentlemen, WACKER has outstanding products, which customers around the globe want. In all of our business fields, we rank among the world’s top suppliers. In addition, we have a strong presence in key markets and outstanding innovative strengths, particularly in highly promising areas, such as electromobility and biotech.

Our focus on expanding our chemical activities is paying off. Their contribution to earnings has continuously risen over the last few years. And our EBITDA margin for chemicals is now well above our target margin of 16 percent.

We have clear targets and aspirations for developing WACKER and are firmly charting our course – always trying to seize opportunities that arise.

Ladies and gentlemen, I have arrived at the end of my review. We now look forward to taking your questions.

Thank you for your attention.