

wtv.

K+S

2019 Results Presentation

12th March 2020

K+S

Dr. Burkhard Lohr, Chief Executive Officer

Thorsten Boeckers, Chief Financial Officer

Dirk Neumann, Head of Investor Relations

Questions From

Oliver Schwarz, Warburg Research

Michael Schäfer, Commerzbank

Thomas Swoboda, Société Générale

Christian Faitz, Kepler Cheuvreux

Markus Schmitt, ODDO BHF

Ralf Kugelstadt, RK Research & Consulting

Joel Jackson, BMO

Stephanie Vincent, JP Morgan

Lisa De Neve, Morgan Stanley

Alexander Jones, Bank of America

Introduction

Telephone Operator

Hello, ladies and gentlemen, welcome to the conference call of K+S, regarding the publication of the Annual Report 2019, hosted by CEO, Dr. Burkhard Lohr, Thorsten Boeckers, CFO and Dirk Neumann, Head of Investor Relations.

During this call you will be on listen only, but you have the opportunity to submit questions on the webcast system at any time, which will be answered at the end of the presentation. If at any time you need assistance please press *0 on your telephone keypad and you will be connected to an operator.

Please note on page 24 of the presentation you will find the disclaimer.

I am now handing over to Dr. Burkhard Lohr to begin. Please go ahead.

.....

Key Highlights

Dr. Burkhard Lohr, Chief Executive Officer

Thank you very much, ladies and gentlemen I would like to welcome you to our Annual Analyst Conference here in Frankfurt and on the phone. And I remember pretty well back in 2008, 2009 and I had press conferences and analyst conferences at the same place during the financial crisis and we have survived that period and I'm sure we all will survive the Corona issue as well.

But of course it keeps us busy and we see that the attendance rate is low due to that, but hopefully everybody is now on the phone.

Together with my colleague Thorsten Boeckers I'm pleased to explain our ad hoc announcement of yesterday. We will also explain the key developments and results of 2019, share our view on the market and of course on our outlook.

And let's begin on slide 2, at the beginning of December we decided on our package of measures to reduce debt. Under the prevailing market conditions it become increasingly clear that we would not be able to reduce our debt significantly from operations only.

However, we need a solid financial basis to secure the future of our company, waiting and hoping for better conditions was never an option for us.

The package of measures includes both operating units and of course our holding, further increases in efficiency and productivity are just as much the focus as the implementation of future oriented solutions in the environmental area.

Immediately after the decision on the package we began examining the measures and the options available to us.

As you can see from yesterday's ad hoc announcement we aim to completely sell our operating unit Americas. The sale will be accompanied by a comprehensive realignment of K+S.

There is a major restructuring on the organisation as well as a new dimensioning of the SG&A functions with an aim of a strong reduction of costs.

We will further advance our efforts to increase efficiency and productivity in our plants to reduce costs even further.

Also we are working intensively on intelligent future oriented solutions to fulfil our environmental obligations with lower costs. In this way we will ensure that all sites achieve a sustainable positive free cash flow.

And what will the new K+S look like? A lean and performance oriented supplier of fertilisers and high earning specialities with a solid financial base.

Now let's turn to slide 3 and take a look at our operating unit Americas. Strong cash flows characterise this unit with sites close to our customers in North America and low cost production in South America.

It has strong brands with high emotional consumer loyalty. The Umbrella Girl of Morton Salt in particular has been a trademark in millions of American households for more than a century. The brands Windsor in Canada, as well as Sal Lobos and Biosal in South America also possess a strong brand value in the corresponding regions.

Ladies and gentlemen this platform is unique worldwide.

All options have been assessed and a full divestment of the operating unit Americas has been identified as the most value generating option. We have already started the sale process and have mandated investment banks to assist.

The range of interested parties is already extensive, following initial discussions with potential buyers we are confident that we will be able to reach a signing before the end of this calendar year.

Now we come to our operating unit Europe+ on page 4. Ladies and gentlemen, our new Bethune plant in Canada is one of the most modern potash production facilities in the world. It is a very valuable asset and an integral part of the future of K+S.

According to our review a sales of shares is not planned. We intend to focus even more strongly on our core business in the operating unit Europe+, reduce the complexity of our Group, and sell non-core activities. As announced we have implemented the first measures directly. Two examples of this are the sale of Baltic Train in the logistics sector and the waste management subsidiary in Switzerland at the end of 2019.

The aim is to generate sustained positive free cash flows at all sites. For the Werra site we will realise the environmental goals agreed with the FTT more cost efficiently by means of more intelligent solutions. For example, we want to achieve an optimised product mix to improve the way we operate, resulting in less liquid residues.

Another example, we are working together with external partners on various concepts for covering our tailings piles. The aim is to achieve a faster reduction in wastewater for the tailings piles at significantly lower costs.

Over the last eight years, we have had to shoulder a total amount of around €1bn in investments in environmental measures at our German sites. We will need a significant reduction in this area.

Now please turn to slide 5, based on the numerous measures just described we intend to reduce our debt by well of €2bn by the end of 2021. In terms of rating, we want to use this step to create the conditions for achieving a stable crossover rating. Crossover refers to the area marginally below investment grade, a solid financial position.

With this new lean and performance-oriented company we will become a premium provider in the fertiliser business, which will mainly also focus on the range of high earning specialities and will continue to grow in this area.

As a result of the reorganisation, or reorientation we have a solid financial base and will become less depending on the de-icing and in future with increasing share of specialities also on the MOP business.

The recent past confirms that this is the right path to take.

I will now hand over to my colleague on the Board of Executive Directors, Thorsten Boeckers who will present further details on the financials of 2019.

.....

Financial Review

Thorsten Boeckers, Chief Financial Officer

Thank you Burkhard. Let us continue on slide 6. We did our homework on important items that kept us busy in 2019.

At our Bethune plant we made significant process by implementing cooling, screening and grinding equipment. Product quality has now reached the high level expected by our customers and ourselves. Burkhard and I were able to see the progress we made there with our own eyes a few weeks ago.

We have also managed to get the wastewater related issues in Germany under control; despite another dry summer we were able to avoid weather related production downtimes. For the first time, we have set up an underground storage facility for saline wastewater our Wintershall site.

In addition to our ability to transport brine to offsite locations this has increased our storage capacity to a total of 1 million cubic metres now. It enables us to successful bridge dry phases and gives us stability in production. Against this background, we do not expect wastewater related downtimes at our Werra plant going forward.

In my opinion, the biggest success of 2019 was our cash generation. For the first time since 2013, we generated a positive free cash flow. At €140m, the value was clearly above expectations, with this we have fulfilled our promise.

We also made good progress in lifting synergies. We have already realised more than €100m in administration, procurement, logistics, production, sales and marketing. We are therefore well on track to exceed our synergy goal of more than €150m run rate by the end of 2020. And this will also help the new K+S.

Looking back at market developments in 2019 starting on slide 7. We were happy with the first half of the year and because of the second half, however, the general conditions for large parts of our business turned south. And let's look here at slide 8 in more detail.

In H1 some events caused minor disruptions on the potash markets, for example floodings in the United States. However, these events would not have led to a severe instability. The main reason for market weakness from the second half of the year onwards was the import ban on MOP imposed by China. This has resulted in falling prices and lower demand in other important overseas markets too.

Almost all producers worldwide have responded to this by cutting back production. In the Potash industry as a whole, production was reduced by about 4 million tonnes.

We also contributed with production cuts in Canada and Germany of about 600,000 tonnes.

Slide 9 please, at 12.7 million tonnes sales of de-icing salt for the year as a whole were in the range of the so called normal winter, while demand was above average in the first quarter of 2019, we lacked a good winter in Europe in the fourth quarter. This is the reason why we fell €10m short of our guidance of around €650m announced in November.

Slide 11 please. Q4 results are mainly driven by the reduced potash production and the lower sales volumes in de-icing compared to Q4 2018.

We also suffered from lower prices for MOP.

On a full year basis we achieved slight growth in revenues and earnings. At €640m our EBITDA was 6% higher than in the previous year and therefore improved for the third year in a row.

We will propose a dividend of 15 cents per share to the AGM. This compares with 25 cents a year ago. The payout ratio of 37% will be slightly below our target corridor of 40 to 50%. This reflects our cautious outlook for 2020 and will also contribute to our package of measures.

Let me come back to the cash flow again on slide 12. We are proud of our Bethune plant; however investments there, together with the high environmental capex in Germany led to negative free cash flows for K+S in the years 2014 to 2018. In 2019, this number improved by almost €350m compared to 2018. The main reasons for this very good development are our strong focus on cash across the Group and an optimised working capital management.

The good cash flow development also had a slightly positive effect on the leverage. We finished the year at 4.9 times net debt to EBITDA compared to 5.3 times year over year. The progress was even stronger during the year, however also stalled by the development on the potash markets in particular.

That concludes my look at the financial development, back to you Burkhard.

.....

Current Market Assessment & Outlook

Dr. Burkhard Lohr, Chief Executive Officer

Ladies and gentlemen we now come to our current market assessment and outlook. Please turn to slide 14.

Some industry observers have assumed that there could be a significant increase in potash capacity over the coming years, creating an excess supply in the market. However, a closer look at the facts makes it clear that there is a large gap between plan and reality. What do we mean with that?

Over the past 15 years, some 160 potash projects have been announced worldwide, currently we see a high probability of just six of these projects being implemented by 2025. And only two projects are currently being ramped up, one of them is our Bethune plant in Canada.

Slide 15 please, on the demand side - and this is confirmed by all market observers, the long-term trends remain intact and assume an annual increase in global potash demand. The drivers for this continue to be global population growth and the need for an optimal supply of nutrients to soils in order to increase agriculture yields, while the amount of arable land is declining and the same time.

We therefore see a rather balanced relationship between supply and demand in the medium term and do not expect an oversupply on the world market. Rather we assume that global capacity will level off at the long-term average over the next few years, especially as capacity is repeatedly leaving the market due to premature plant closures and uncontrollable water inflows, both we have seen in the past.

Now please turn to page 16. The general conditions for the current year 2020, underline a long-term assessment of demand. In the case of cereals for example demand is increasing and prices remain at an attractive level. This is likely to lead to an increase in acreage under cultivation in North America and Brazil.

In addition, the agriculture sector is currently in good financial shape. All these are positive factors that should also favour demand for fertilisers in the short term.

Now please slide 17, the market weakness for potassium chloride that has been observed since the second half of 2019 is currently being felt, primarily on the overseas market, but less so on our home European market. Here, the price level is proving to be significantly more stable; the same applies to fertiliser specialities such as potassium sulphate which is more expensive.

There, we see a significantly more stable price trend compared with MOP overseas. Both, our broad regional base and our strong market position in the case of fertiliser specialities are our plus points in the current market situation and should help us to manage this difficult phase.

This brings us to our forecast for 2020 on slide 18. The forecast is complicated because of numerous uncertainties. There is still a lack of orientation on overseas potash markets, especially because important contract in China is still pending.

In addition, the effect of the Coronavirus cannot be predicted. However, from today's perspective, we assume that MOP prices will bottom out with the start of the fertiliser season in the northern hemisphere in spring.

This would translate into an average price slightly below the Q4 2019 level, reflected in the midpoint. In the second half of 2020, we expect prices to stabilise on a significantly higher level. In the upper case, we expect average prices for the customer segment agriculture on the level of Q4 2019.

In view of the green winter, we expect the below average de-icing salt business in the first quarter of the year, both here in Europe and in North America. This will then also be reflected in below average early fills business in the second and third quarter.

Against this backdrop we expect our operating earnings, EBITDA for 2020 to be in the range of €500m to €620m.

Ladies and gentlemen, let me finish and summarise the most important points on slide 19. The package of measures will reduce our debt by well over €2bn by the end of 2021. This will create a solid financial basis that will secure the future viability of our company.

The new K+S will then be lean, performance-oriented and a supplier of fertilisers and high earning specialities. This realignment will create the basis for global growth, for example in Africa and China and for the future expansion of our high earning specialities business. I am thinking here of the topic of fertigation or solutions for pharma products and industrial applications.

The final slide shows the DAX 50 ESG Index and we are a proud member of this and that shows and underpins that our ambitions in sustainability with our ambitious sustainability targets are paying off.

Thank you very much for your attention, especially because it was a bit more extensive today than usual. We're now looking forward to your questions.

.....

Questions and Answers

Christian Faitz, Kepler Cheuvreux

Two question as a start please.

.....

Dr. Burkhard Lohr, Chief Executive Officer

One by one please. Thank you very much.

.....

Christian Faitz, Kepler Cheuvreux

Okay, let me think which one. So can you kind of bring home to us what led you to the decision not to partially sell, or IPO the Americas unit, rather now doing a full sale and keep Bethune under 100% control, what has led to that change in thinking? Thank you.

.....

Dr. Burkhard Lohr, Chief Executive Officer

That's a very good one. So, we, first of all we have a history of huge investments, we have - you know that the Americas more or less has been the result of acquisitions in 2006 and 2009. We have heavily invested in Bethune.

We were also were forced to invest €1bn in environmental in Germany with a focus at the Werra. And with the environment that we have seen in the last couple of years we are seeing that the returns will not be able to cover these investments in terms of coming back to a solid financial basis from pure operations.

And we have created first ideas late last year and we have further worked on that and of course have tested the markets for such an asset and we have realised that a clear cut would help having positives. First of all, the highest proceeds; secondly, it increases significantly the probability of such a transaction; thirdly, it gives us the opportunity to completely start from scratch and design the company that I've just described, leaner with less assets, but assets which all come back into the free cash flow positive area which of course requires the reorganisation. And it gives us the opportunity to stick to Bethune which will become one of the best assets in this industry. And then we have taken the decision and yesterday the Supervisory Board has covered this decision.

.....

Christian Faitz, Kepler Cheuvreux

As a follow up, you talked about cash flow, can you talk about the cash flow situation for Americas for that business unit, how can we think about cash flow?

.....

Thorsten Boeckers, Chief Financial Officer

We have an annual capex there of about €100m, a bit more, a bit less sometimes, right. And so you can say that a good €100m of free cash flow is generated in the unit.

.....

Oliver Schwarz, Warburg Research

Thank you for taking my questions, going one at a time. Can you fill me in about the reduction in long term mining provisions of about 10% in 2019 versus 2018 please?

.....

Dr. Burkhard Lohr, Chief Executive Officer

What I have indicated in my speech is that we have created a lot of ideas to, of course fulfil our obligations but do it a little bit more intelligently, what was the reason for this already? Because we have changed our concept which is also agreed from the authorities and that has a big lever because we are talking about a huge coverage measure and we are taking about many years. So, this is the new technical concept behind how to cover our heaps in Germany. But there is more potential to come.

.....

Oliver Schwarz, Warburg Research

Okay thank you. And secondly can you fill me in about your thinking about firstly how to reach more than a €2bn reduction in net debt given the current market situation and your closest peers, Compass now trading well below 10 times EBITDA?

And connected to that, how you come up with the assumption of a stable cross over rating as a consequence of this net debt reduction, the math behind that would be helpful? Thank you.

.....

Dr. Burkhard Lohr, Chief Executive Officer

First of all, we are taking about the whole package of measure. Of course the biggest measure is selling the OU Americas and this whole package has the potential to deliver significantly more than €2bn by the end of next year. And we also believe that the current situation will not hinder us in doing that transaction because we are talking to strategic investors, to PEs, they shouldn't have, even in the current situation, no problems in securing the financing for such a transaction. So, we are very, very optimistic that this is going to happen.

And again, it's not only OU Americas; it's a whole list of measure that in total will deliver these proceeds. And if you take our net financial debt and deduct this you will see that you end up in a crossover rating, crossover situation.

.....

Oliver Schwarz, Warburg Research

If I deduct let's say the €3.1bn by the let's say €2bn plus, I ended up in the range of give or take €1bn. If I take a crossover rating, net debt to EBITDA of perhaps 3.5 times, I'll end up with a prospective EBITDA of in the ballpark of €300m, a bit lower than I would have expected for 2021. Can you confirm that that is your thinking or am I missing something here?

.....

Dr. Burkhard Lohr, Chief Executive Officer

We didn't say that we would end up at the lowest range of a crossover situation, so €300m is for sure too low.

.....

Oliver Schwarz, Warburg Research

Yeah, but taking investment grade rating three times, I would end up at around about €340m which is not that far off from the €300m?

.....

Dr. Burkhard Lohr, Chief Executive Officer

I'm afraid we are now mixing net financial debt and net debt.

.....

Oliver Schwarz, Warburg Research
Okay.

.....

Dr. Burkhard Lohr, Chief Executive Officer

So if you're looking at - and we have a difference between the two numbers of roughly €900m, our long term provisions, so if you only look at net financial debt the number of course is another one.

.....

Oliver Schwarz, Warburg Research

So just to clarify the basis of your calculation is net financial debt plus pension provisions plus the long term provision for the mining obligations, is that correct?

.....

Dr. Burkhard Lohr, Chief Executive Officer

That is the definition of net debt, correct.

.....

Oliver Schwarz, Warburg Research

Okay, I just wanted to check. Thank you very much for the clarification.

.....

Dr. Burkhard Lohr, Chief Executive Officer

You're welcome.

.....

Michael Schäfer, Commerzbank

Thanks for taking my questions. The first one would be on the cost cutting side, you elaborated on, maybe give us an idea on let's say the order of magnitude you are targeting, the timing, associated costs, and what makes you confident to, at least according to my calculation, to bridge to €100m negative free cash flow which you would end up with based on the current situation with the let's say OU Europe less Bethune, so how can you bridge this gap over the time in order to make it free cash flow breakeven or even positive? This would be my first question.

.....

Dr. Burkhard Lohr, Chief Executive Officer

First of all, we save a significant amount of interest payments, on deleverage. Secondly, I'm not in the position now to give you a precise number about our reorganisation which will more or less take place in the SG&A area, but to give you a flavour K+S without OU Americas we are talking about SG&A costs of roughly €180m. And we are talking about a significant change, so there is potential.

.....

Michael Schäfer, Commerzbank

And maybe on the back of that, you're looking into the capex side of things, you posted something like €500m last year capex and guiding for the whole Group a significant recovery in 2020, since we are ahead of the splitting we take the base of OU Europe which was something like €400m capex last year.

So maybe can you paint a picture on how we should think about capex evolution on the back of all of the environmental measures you still have in front of you over the next two or three years. So what's the kind of capex base we should expect for OU Europe in the years to come would be my second question? And I have a third one later on if I can.

.....

Thorsten Boeckers, Chief Financial Officer

So let me start with this year, we expect for this year a significant increase in the capex year over year, which has to do with the culmination of the tailing pile expansions. If you then cut out for the next year about €100m of capex more or less for the OU Americas and Burkhard described that we are also working on bringing down the capex for environmental investments significantly, we would see a significant drop from these levels in capex.

And I mean we always said in the past that we need a sustainable capex of about €400m to €450m, this included the OU Americas, so this gives you a ballpark feeling of where the capex could go.

.....

Michael Shafer, Commerzbank

Okay, my third and last one would be: In your guidance, you assume basically that the ag ASP is recovering in the second half, starting already in Q2, bottoming in Q1, so what makes you confidence in the lack of Chinese contracts, which is a bellwether contract as we know that we see the price recovery which you have baked into your guidance basically indeed in the second half?

.....

Dr. Burkhard Lohr, Chief Executive Officer

Yeah, it's not only us, first of all, that's expecting that. That's a common understanding in the market and that was the case in fact back in 2016 as well. In a way we have faced a very similar situation and we all know that we then went into a rally for 18 months which brought us to \$350 in Brazil.

We have not assumed such a scenario in our models, in our forecast, but it's very, very probably that once we have the new contract we will see a turnaround situation.

And one thing makes us confident - that the parties at least talked, we heard about discussions between the Canadians and the Chinese, and before that there were obviously some video conferences with Belarus and the Canadian, so at least there's some movement.

That does not mean that there will be in a couple of days a new contract, but the process is starting.

And we shouldn't forget India, India is in a much more solid situation and they have a need to sign soon.

.....

Thomas Swoboda, Société Générale

Thank you, one question on the remaining salt activities, what has led you to, you know, keep the European salt within the Group, wouldn't - in what you have explained wouldn't it have been more logical to build a big package - to carve out the whole salt operation and sell it as a premium price, so what has led you to keeping the European salt unit please?

.....

Dr. Burkhard Lohr, Chief Executive Officer

The salt business is a local business and the European entities almost have no direct business to the Americas and vice versa. That would have been a second transaction. That's the first reason.

The second reason, we are making money there. Yes, we are looking into the de-icing salt in Europe, for sure we have to look into it critically because that is not the first warm winter here in Europe and you could assume that this is more or less the new normal and we might take actions on that. But we have a whole range of products, high earnings, high return products into the chemical industry, into the pharmaceutical industry.

We are about to establish nice brands, Saldoro, I hope you all have some of that product at home, with very promising successes in terms of being a strong competitor Bad Reichenhaller. So, as this would not have been part of the Americas transaction anyway, the look into the European salt business is part of the rest of the measures and here the focus is de-icing.

.....

Thomas Swoboda, Société Générale

If I can risk a follow up question and I think that's probably for the CFO. In terms of free cash flow generation in 2019 the receivables and others line saw a spectacular improvement. The question is - are there any one offs included, is this fully sustainable, could you just give us some background?

.....

Thorsten Boeckers, Chief Financial Officer

So, I would like to stress not only the receivables line, but the entire cash focus of the Group, that's what I covered in my speech as well. So, we are also talking about timing of cash outflows when it comes to tax payments. So, there's really - what we have achieved over the last two years in the Group is people think of cash flow whatever they do and no longer just of revenues and earnings. And this is one effect for example.

There are no one offs to answer this, but we had a strong focus also again in the fourth quarter to get the money in from the customers. So our people, our controllers, our sales people work together in really reminding people we want to pay you now.

And we think there is more potential. We haven't touched the potential fully yet. So from that point of view I wouldn't say that this will revert in 2020, we see further potential in order to optimise the working capital. Not only receivables that's just one thing, we could also process-wise become better there, but we are also now looking at better inventory management and also on the DPO side. So, our procurement is very much focused on getting the right balance between getting discounts and the right payment terms. So, I think we are not yet at the end.

.....

Oliver Schwarz, Warburg Research

I'm sorry I have so many questions, so I'll try for a number round. Mr Boeckers can you please elaborate about the impact of the temporary production shut down at your potash facilities on the working capital progression, how much that was affected by the not so favourable situation? That would be my first one.

.....

Thorsten Boeckers, Chief Financial Officer

Then let me answer this.

.....

Oliver Schwarz, Warburg Research

Yeah, sure, go ahead.

.....

Thorsten Boeckers, Chief Financial Officer

I mean with a look into the balance sheet I think I can answer this. Because when you see we made progress on the receivables side, right, where we saw an increase in the line was in the inventories. And this was because we couldn't produce, we couldn't see and so inventories increased from 700 to about 790. And this was mainly because of the distortion in the market.

.....

Oliver Schwarz, Warburg Research

Thank you. I'm sorry for that but I'm still trying to wrap my head around your guidance in regard of achieving a stable crossover rating. Using pension provisions of around about €200m, mining provisions around about €900m and prospective net debt of around about €1bn, I come up with a number of give or take €2.1bn. Let's say a BBB rating would require you to achieve €700m in EBITDA based on that number, so a bit less for crossover rating.

But that is still substantially more than is to be expected from the operations come this year as you are guiding below last year's level. So that would imply a steep increase in earnings of the Europe+ operations come 2021, especially as cash flow might be burdened by cash costs for the upcoming restructuring measures which might or might not burden already 2020 or 2021 cash flow. Could you falsify my thinking, or whether that is correct? Thank you.

.....

Thorsten Boeckers, Chief Financial Officer

I'll try to verify it and there's no need to excuse for question.

.....
Oliver Schwarz, Warburg Research

Even better.

.....
Thorsten Boeckers, Chief Financial Officer

Let me start with what we said, you're so focused on the €2bn, right, we said significantly more. The entire package of measures covers more than 30 single initiatives where we expect to generate cash from. And some of them are also focused, like Burkhard said, especially the coverage of the tailings piles are focused on reducing the debt obligation. So, we should keep this into consideration as well.

And we have an addressable spend in administrative costs along of €180, so just to give you a flavour of what is addressable.

And when we talk about a solid crossover rating, I mean it depends on the definition right. When we look at our - just the net financial debt number, leaving aside all provisioning we need to achieve a number of about three times, in order to achieve what we call a solid crossover. And when you take the S&P definition, this starts already with 4.5 times. And with the measures we're pretty sure that we'll achieve this number.

.....
Oliver Schwarz, Warburg Research

Thank you.

.....
Thorsten Boeckers, Chief Financial Officer

No going into too much detail on that one.

.....
Oliver Schwarz, Warburg Research

I'm getting back in line.

.....
Thorsten Boeckers, Chief Financial Officer

You're welcome.

.....
Christian Faitz, Kepler Cheuvreux

Just one question please on Bethune, you said the quality is up to speed now, is that - my view is always the proof is in the pudding in the summer, in the hot and humid summer

in Saskatchewan. So would you believe that during the summer period you will also not have any caking issues?

.....

Dr. Burkhard Lohr, Chief Executive Officer

Yes and we saw the product in Brazil where we have summer now and not only when it came into Brazil, but when it was sitting for six weeks in the warehouses and it was still perfect. And I saw the faces of our customer there and they are now happy. So, that is granular.

And the standard product is more or less the main product which is supported by our PQ&T initiative, so cooling and sieving and this is finished and it's ramped up and it's on a very good path. So, there is good reason to believe that this is history.

And it's not only wishful thinking, it's proven, our customers have given us respective feedback and this will not change over the summer in Bethune.

.....

Michael Schäfer, Commerzbank

Thanks for taking my two follow ups basically. The first one, coming back to the salt business, you've indicated rather weak 8 to 9 million de-icing salt volumes in 2020 on the back of the warm, or green winter how you called it. So, last season on the back of strong demand you enjoyed in some regions high single digit, lot double digit type of price increases.

So, going through the season and primarily looking into the next season on the huge inventory levels probably sitting around there, is there a major risk basically from your perspective that we see a revision of those prices back to the year last year or even beforehand? And how does this basically from your point of view impact the disposal process? This would be my first question and I'll ask a second one later on.

.....

Dr. Burkhard Lohr, Chief Executive Officer

Yeah of course, after such a season, we will have far more pressure in the bids and that will lead to lower prices. We have incorporated parts of that - or incorporated that in our guidance. And also we expect a lower pre-bid - or early fill activities. But that is the business we have been running through for years.

Will it be double digit, I don't know, you know that some areas are more stable and Canada was again not as weak as other areas. It remains to be seen.

.....

Michael Schäfer, Commerzbank

My second question is on the historical purchase prices of the assets you're just about to sell. If my memory is correct the Latin and North American business in total purchase price has been around €1.6bn over the past years basically. So maybe you can remind us of what the kind of book value you're sitting on with all your Americas just to help us understand what the tax implications might be from a disposal? Thank you.

.....

Dr. Burkhard Lohr, Chief Executive Officer

So, a good €1.2bn only covers one part that is Morton and Windsor, there was another €385m or something million for SPL at that time, today K+S Chile.

.....

Michael Schäfer, Commerzbank

That's what I hoped for but I fully understand.

.....

Dr. Burkhard Lohr, Chief Executive Officer

By the way, that is an important hint, when we talk about significantly more than €2bn proceeds that is already net after tax.

.....

Oliver Schwarz, Warburg Research

Unfortunately, more than one, but will the America Plus business, sorry the Americas business will that be recognised as discontinued business following your statement of the planned sale of the business. Hence will we see a restatement of the just published Annual Report in the not too distant future?

.....

Thorsten Boeckers, Chief Financial Officer

I see our Head of Treasury giving me signals here, do you want to answer the question directly?

.....

Head of Treasury, Jörg Bettenhausen

Most probably we will not show it as discontinued operation as of Q1; it will be in the course of the year, depending on the decisions which have to be taken. Okay.

.....

Oliver Schwarz, Warburg Research

Secondly, could you confirm that the restructuring measure won't start in full force until the divestment has been completed because you're likely to need the administrative staff that currently cover the needs of the Americas business?

.....

Dr. Burkhard Lohr, Chief Executive Officer

Another good question, we will start with the design immediately. What do mean by the design? The approach will be the following; we'll look into our remaining sites, we take a cautious assumption about the market environment, for example potash price, and then

we define how high could SG&A be and what is the load that they can cover and carry. And that now - it will be the new budget for the new SG&A dimensioning.

It will be very lean and with execution you know, first of all, we have to talk about it with our social partners, etc, so that will be in parallel in a way with the execution of the sale of OU Americas.

.....

Oliver Schwarz, Warburg Research

Thank you very much. And completely unrelated to this topic can you quickly elaborate on profitability, or let's say price movements in what was until last year the Europe salt business or ExCo, because of the very warm winter we just had I could assume that prices, especially for de-icing salt might be under severe pressure and inventory levels at customers, especially municipalities in Europe might be more or less at a record level? Thank you.

.....

Dr. Burkhard Lohr, Chief Executive Officer

Like in our potash business, the prices for de-icing in Europe are significantly more stable than in the Americas. So, after good winters we are not gaining double digit amounts and we're not losing double digits in bad winters. Obviously, the municipalities are giving that product a value and that is not that dependant on whether the volumes - or the inventories are high or low, so we have a quite stable situation here.

So, the factor that drives our earnings is more or less the volume.

.....

Oliver Schwarz, Warburg Research

Thank you very much.

.....

Facilitator

Okay, there are questions now from the webcast system, please note that we will not read out similar questions again.

One question is from Markus Schmitt, ODDO BHF.

.....

Markus Schmitt, ODDO BHF

In terms of your planned sale of the salt activities, could you please comment on the feasibility to complete the sale by year end 2020 in light of the difficult markets and potentially constrained funding for the acquirer of the salt activities?

This belongs to it - how many potential acquirers are on your short list and does the list include strategic and financial investors?

Dr. Burkhard Lohr, Chief Executive Officer

Hopefully, you understand that I cannot be too precise here, that's a running transaction and it would be to our disadvantage if I would be too precise here. But I can say so much that after the press release in December we have seen significant interest in a number of interested parties and some are very impressive. And we have not even started with marketing.

And if we look into the list, there is no question that they are able to finance such a transaction. So that makes us so confident that even in times like that we will be able to sign before the end of this year.

.....

Markus Schmitt, ODDO BHF

Has S&P indicated to K+S that without the sale of the salt of activities you would be downgraded to B+ amid the assumed decline of EBITDA in 2020 and is this eventually the reason for the change of your divestment plan, which saw a sale of a minority sale so far?

.....

Thorsten Boeckers, Chief Financial Officer

Basically no, we are of course in continuous exchange with S&P and they appreciate this step we're doing because this underpins our commitment to de-leveraging, but this was not the trigger for our decision no.

.....

Markus Schmitt, ODDO BHF

In terms of valuation I look at Compass Minerals which trades currently at a forward EV EBITDA multiple of 7.5. The company has a materially higher profitability than the Americas unit, so when a 7.5 times multiple would be applied to your salt activities I derive the cash in of about €1.7bn, where do you take the comfort from to collect?

.....

Dr. Burkhard Lohr, Chief Executive Officer

I'm not commenting on price discussion of the asset for the reasons I just gave you.

.....

Facilitator

This question comes from Ralf Kugelstadt, RK Research & Consulting.

.....

Ralf Kugelstadt, RK Research & Consulting

Could K+S be considered a takeover target given its distribution strength and market share in Europe on the one hand and the medium-term options to replace German production with Canadian, Russian or Belarusian?

.....

Dr. Burkhard Lohr, Chief Executive Officer

You can never rule out a takeover situation, especially not in times like that and especially not with a share price like that. And that gives me the opportunity to comment on not every takeover situation is a takeover situation where the Board will say no. Back in 2015, that was a clear breakup situation. They are not dancing around that any more the former PCS guys and here we had to say no. But there could be some situation where it is logic.

But one part of the question I have to refer there is no possibility to compensate our German production with Canadian production, because the Canadian production is purely MOP, the Belarus production is purely MOP, they have started now with very small amounts to enter into the speciality business, but that is no compensation you would take hundreds of thousands of speciality products out of the market. And if this is clever I don't know.

.....

Michael Schäfer, Commerzbank

Yeah, maybe a follow up and you maybe a follow up and you may comment on this or we'll see.

On the disposal process, there were some quotes today, on the wires, on Bloomberg, Reuters from press conference this morning where you elaborated there also, let's say industrialised salt companies potentially among the interested parties.

So, I wonder whether you could shed some light on how you would see the authority's view on things - whether industrial players may acquire. Because the way I understood the North America market basically is there is already a highly consolidated market so any kind of interest from there I would be surprised, so maybe you can shed some light on this one, how you see this?

.....

Dr. Burkhard Lohr, Chief Executive Officer

The only thing we said this morning is that same that we said earlier here. We are seeing a group of strategic investors and a group of PE investors and others and that's all I can say unfortunately, sorry.

.....

Oliver Schwarz, Warburg Research

Sorry for that. It's just so interesting, the fate of the Chinese salt operations and the planned project for Australia; can you quickly fill us in on that? It's my understanding that China is part of the Americas, so that should leave the Group if I'm not mistaken, but what about the planned project in Australia? Thank you.

.....

Dr. Burkhard Lohr, Chief Executive Officer

Members of our OU Americas team have driven the project so far, but it was still open when it becomes operational, who would lead this project. So, it's not part of the transaction. We continue to develop that project and we still have the capacities to do so. And we are on a very good path.

.....

Oliver Schwarz, Warburg Research

And just a quick one, can you elaborate on the tax rate for the Americas business?

.....

Dr. Burkhard Lohr, Chief Executive Officer

Now I look at our Head of Accounting again? I hear 21, 22%.

.....

Oliver Schwarz, Warburg Research

So, basically the tax rate for the remaining Group once the Americas are deconsolidated or let's say shown as a business to be discontinued by, let's say the middle of the year, would go up beyond the 30% that you currently gave in the guidance for the Group including Americas, would that be a fair assessment?

.....

Dr. Burkhard Lohr, Chief Executive Officer

At least it sound logic yes.

.....

Oliver Schwarz, Warburg Research

Thank you.

.....

Facilitator

We have a question from Joel Jackson, BMO.

.....

Joel Jackson, BMO

You assume 700,000 tonnes of potash as the demand grows for K+S grows in a year in which demand is expected to grow 2 to 2.5 million tonnes, yet EuroChem has more volume Uralkali built one million tonne of inventory and your global peers also had lower volume in 2019 they want to regain. Why should K+S receive 30% of incremental 2020 demand?

.....

Dr. Burkhard Lohr, Chief Executive Officer

We compare two years where one year is really extraordinary and we for the first time have taken a share in capacity reduction which was taking our size into account, a quite high one. And we believe that market conditions now in this year unfortunately do not

deliver a good price, but will deliver a higher demand and we have a clear idea where to place the volumes. That's why we are not seeing any reasons to reduce that target.

.....

Joel Jackson, BMO

When will you start to sell product from Bethune into the US and how will the product be distributed? How does selling the Americas unit impact your use to sell potash in North America?

.....

Dr. Burkhard Lohr, Chief Executive Officer

I'll start with the second part of the transaction. This transaction has no impact at all on how to distribute our volumes into the Americas. Now as we are fine with our product quality in Bethune the time to ship into the Americas might not be so distant and how to do that remains to be seen.

.....

Joel Jackson, BMO

What are the EBITDA dis-synergies from selling the OU Americas unit, so a higher cost base for the remaining assets?

.....

Thorsten Boeckers, Chief Financial Officer

In terms of administration the Americas unit is relatively independent. So, we have our accounting, controlling tax guys over there. So, I would say there are no dis-synergies we should expect from this transaction and if they are, negligible.

.....

Joel Jackson, BMO

What would agriculture segment costs look like versus 2019 if you hit your midpoint more than 7 million tonnes guidance in the agriculture segment and if your volumes were flat with 2019? So, two scenarios, one at more than 7 million tonnes cost per tonne and one at the same level as 2019?

.....

Thorsten Boeckers, Chief Financial Officer

So, 2019 costs per tonne were of course affected by the production cuts, right, the 600,000 tonnes of course with a high operating leverage. If we adjust for this the level was at about €210 and we are ramping up production. We are ramping our synergy programme, so bringing costs down. On the other hand, we face general cost inflation. And also with the investments into the tailings pile expansions we have associated costs with the capex.

I would say, at this point in time, we should see a cost per tonne, so revenues, minus EBITDA over volumes at the same level of the adjusted 2019 number, so about €210 per tonne.

.....

Facilitator

The next question comes from Stephanie Vincent, JP Morgan.

.....

Stephanie Vincent, JP Morgan

Can you please review your covenant headroom under your €800m facility and does that debt to EBITDA covenant step down at any point? Does the covenant apply if there are no drawings under the facility? And are there any drawings under the syndicated credit line at year end?

.....

Thorsten Boeckers, Chief Financial Officer

So, the covenants refer, just to make that clear, to some parts of our financial instruments, the RCF in particular. And well we are using also the commercial paper markets, which means as long as we can use this as a good financing instrument we would not touch the credit line.

So, it depends a little bit on the market development, also thereby how much this credit line will be drawn by the end of the year. That's the question I can give to this. And we do everything to make sure that we will fulfil our contractual agreements we have with our banks.

.....

Dr. Burkhard Lohr, Chief Executive Officer

But currently it's totally undrawn.

.....

Facilitator

The next question comes from Lisa De Neve, Morgan Stanley.

.....

Lisa De Neve, Morgan Stanley

Could you please give us an update on what you are seeing in the potash environment, including spring demand in Europe and North America and what you believe will be the drivers that support the price recovery in the second half of 2020? How much of the recovery will be depending on the potential signing of the Chinese contract?

.....

Dr. Burkhard Lohr, Chief Executive Officer

In Europe we have a total normal development, a normal flow, normal volumes and as I stressed earlier more stable pricing and we are very happy for example about the SOP price, the premium is growing and growing because it's very stable.

And maybe the current situation even helps here because we know that China has started exporting SOP last year. It remains to be seen in the current situation how much they will be able to export. So, Europe is normal.

North America, we are still not really active in this area that's why I'm shy to give here and expert opinion on that.

.....

Lisa De Neve, Morgan Stanley

How much of restructuring costs do you expect for 2020 and 2021 for reorganising K+S?

.....

Dr. Burkhard Lohr, Chief Executive Officer

That's too early to give an answer on that.

.....

Michael Schäfer, Commerzbank

In fact, two questions, sticking to restructuring, do you also consider to close mines in Germany? I mean, we have seen Sigmundshall closing prematurely basically, so we can think of Neuhof being potentially the next one. So any kind of additional cost savings on top of HQ overhead function type of cost curbing, we should expect? This would be my first question.

.....

Dr. Burkhard Lohr, Chief Executive Officer

Thank you for that question because it gives me the opportunity to elaborate a little bit about the situation on our German mines. I think sometimes the view from outside in is a little bit too negative.

Yes we have higher costs in other areas, but we also - and you're sitting here and you all know that we have significantly higher earnings as well because a good portion, a very good portion of our production here is specialities. And we have no earnings problems with our mines.

We have a problem that we use big part of our earnings for environmental capex. And there is a peak in 2020 which will - numbers will reduce significantly after that because the heaps expansion will be done more or less and that is a big driver for that. And that is more or less focused on the Werra. So, the other German mines are already free cash flow positive even on a stressed potash price. And that's important to know.

.....

Michael Schäfer, Commerzbank

Thanks for this one. The second one would be on your intended sales mix, last year I think you shipped to China, also a decent volume to India, so maybe you can elaborate on what the planning is for 2020 on the regional mix potentially, also with the extra volumes

coming from Bethune, at least according to your volume uptick projection you presented for 2020, any hit here on the mix effect could be great?

.....

Dr. Burkhard Lohr, Chief Executive Officer

The mix should look pretty much like last year, of course you have to adjust the standstills that we had, or the production cuts that we have taken. But there is no reason that the mix will look differently. The additional volumes from Bethune will go into Brazil, maybe a small portion into Americas, in the US and also India, China and South East Asia.

.....

Facilitator

One question from Alexander Jones from Bank of America.

.....

Alexander Jones, Bank of America

What is the higher capex you guided for for 2020 for? And you spent €50m less capex than you guided for in 2019, is there a deferral into 2020?

.....

Dr. Burkhard Lohr, Chief Executive Officer

So, the lower number in 2019 is almost driven by cost discipline, only small portions will run into 2020. And the driver for the higher number in 2020 is clearly the three heap expansions at the same time in Zielitz, Wintershall and Hattorf.

.....

Oliver Schwarz, Warburg Research

Thank you for that. Really just one, I promise. As you said you want to go more into specialities and with the expansion of Bethune basically diluting your mix as it is only SOP, would you consider, or are you actively modelling the introduction of a mining process at Bethune to supply SOP also from the Canadian mine?

.....

Dr. Burkhard Lohr, Chief Executive Officer

Here, we are not ruling out anything that is possible, but what are the focus areas, one focus for sure is fertigation, but it is an incredibly growing market, especially in situations of higher - or more seasons with drought. And that gives the farmers multiple opportunities to save water, to save the input for fertilisers.

What we need are fully water-soluble products. We have already a product range, but that will be enlarged. But again, there are so many possibilities to add business in Bethune and one of them could be the example you just raised.

.....

Oliver Schwarz, Warburg Research

Thank you.

.....

Facilitator

Okay, so I will hand over to Burkhard Lohr to have the conclusion of this conference.

.....

Dr. Burkhard Lohr, Chief Executive Officer

Thank you very much for those who are here in the Commerzbank Tower and for those of course who are on the line. This is a very special situation for us, but we are - the whole Board is convinced and the Supervisory Board as well that this is the right path for the company and that when we meet next year here again we can also talk about a transaction which was successfully done.

But we will keep you informed and wish you all the best now as we finished, the sun starts shining, I hope this is a good sign, thank you very much, goodbye.

.....

END

DISCLAIMER

This transcription has been derived from a recording of the event. Every possible effort has been made to transcribe this event accurately; however, neither World Television nor the applicable company shall be liable for any inaccuracies, errors or omissions.