

# BEFESA



**Befesa Presentation**

**14<sup>th</sup> HSBC ESG Conference, Frankfurt, 5-6 February 2019**

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Q3/9M 2018 figures contained in this presentation have not been audited or reviewed by external auditors.

This presentation includes Alternative Performance Measures (APMs), including EBITDA, Adjusted EBITDA, Adjusted EBITDA margin, EBIT, Adjusted EBIT, Adjusted EBIT margin, net debt and capital expenditures which are not measures of liquidity or financial performance under International Financial Reporting Standards (IFRS). These non-IFRS measures should not be considered in isolation or as an alternative to results from operating activities, cash flow from operating, investing or financing activities, or other financial measures of our results of operations or liquidity derived in accordance with IFRS. We include APMs in this presentation because we believe that they are useful measures of our performance and liquidity. Other companies, including those in our industry, may calculate similarly titled financial measures differently than we do. Because all companies do not calculate these financial measures in the same manner, our presentation of such financial measures may not be comparable to other similarly titled measures of other companies. These APMs are not audited. All amounts are stated in million euros (€ million) unless otherwise indicated.



**CEO since 2000**

**Javier Molina**

**CEO**

- **Leading the company since 1994**



**CFO since 2014**

**Wolf Lehmann**

**CFO; including responsibilities for Operational Excellence and IT**

- **20+ years in finance and operational leadership roles**
- **50/50 General Electric / Private Equity**



**Since 2008**

**Rafael Pérez**

**Director of Investor Relations & Strategy**

- **Director of Investor Relations and Strategy of Befesa since 2008**

1

**Recent Developments**

2

**Q3 2018 Update**

3

**Befesa Overview**  
(Investment Highlights)

➤ **Achieved good results 9M 2018 with +2% earnings growth YoY; S-DAX entry**

➤ **Zinc hedges in place until July 2021; Providing ~3 years of improved visibility**

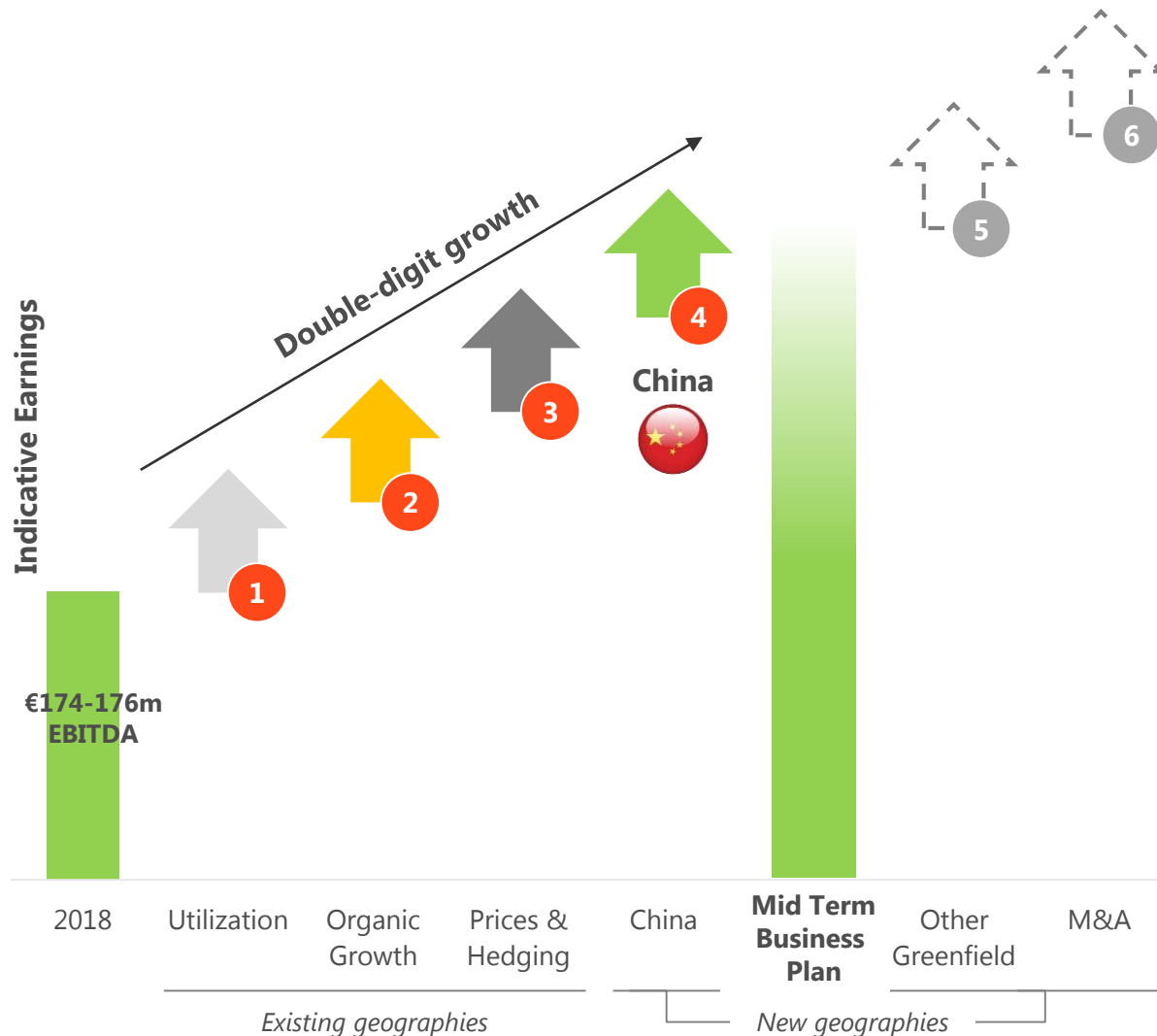
➤ **Reduced leverage of x2.4 triggers decrease in interest rate by (25 bps) to E +250 bps; Befesa's rating upgraded by Moody's (from Ba3 to Ba2, outlook stable) and S&P (from BB- to BB, outlook stable)**

➤ **Guidance 2018 confirmed & concretized: EBITDA at €174-176m (2017: €172m); net profit significantly higher at €83-85m (2017: €49m) which would result in higher dividend payment**

➤ **2019 & mid-term: strong growth with execution of organic projects on track & favorable hedges in place**

➤ **China expansion: developing 1<sup>st</sup> steel dust recycling plant at Jiangsu province; purchasing land use right; expecting ramp up of operations in H2 2020**

Business plan based on organic growth in existing geographies as well as greenfields in new geographies (e.g. China)



- 1 Utilization**
  - Increase plant utilization of prior years growth investments mainly Steel Dust Korea
- 2 Organic Growth**

2019 Focus – Top 5 Projects:

  - Steel Dust:
    - Expand Turkey +45kt
    - Korea washing plant
  - Aluminium Salt Slags:
    - Phase II tilting furnaces
    - Expand Hannover +40kt
- 3 Prices & Hedging**
  - 2019: 92.4kt at €2,306
  - 2020: 92.4kt at €2,245
  - H1 '21: 46.2kt at €2,230
- 4 China**
  - Developing 1<sup>st</sup> steel dust recycling plant in the country; Start construction ~Q2'19; Ramp-up ~H2'20
- 5 Greenfield**
  - Monitoring growth opportunities and regulatory framework in new geographies, e.g. South East Asia, India, Russia
- 6 M&A Opportunities**

**Signed agreement with Jiangsu Changzhou Economic Development Zone and purchasing land use right; Developing 1<sup>st</sup> steel dust recycling plant ...**



- ✓ Chinese government continues to strengthen environmental regulations
- ✓ Steel dust has been classified as hazardous waste
- Steel production from Electric Arc Furnaces growing and estimated to reach ~200 million tons by 2030

**... Befesa investing in proven state-of-the-art 110,000 tons facility;  
Expecting to complete ramp up of operations in H2 2020**



### Hedging program in place covering up to July 2021: improving visibility of earnings and cash flows for the next 3 years

#### Market Zinc Price vs. Zinc Hedge (€/ton)



- Hedges in place **up to and including July 2021**
- **Increased volume coverage;**  
Higher volume of 7.7 kt/month or 92.4 kt/year (vs previous 6.1 kt/month or 73.2 kt/year)  
**approx. 70%** of zinc equivalent payable output
- **Strong hedge price levels** of €2,306/t in 2019, €2,245/t in 2020, and €2,230/t in H1 2021

Period	Average hedged price €/t	Zinc content hedged (tons)
2017	€1,876	73,200
2018	€2,051	92,400
2019	€2,306	92,400
2020	€2,245	92,400
H1 2021	€2,230	46,200

- Using recent October ~**€2,300 LME market price** also for the **remaining months in 2018** for the un-hedged expected volumes (~30%), **blended** average zinc price **would translate in 2018 to ~€2,190**; vs. €2,160 in 2017
- Hedging **without** Befesa providing any **collateral**; **no margin calls**

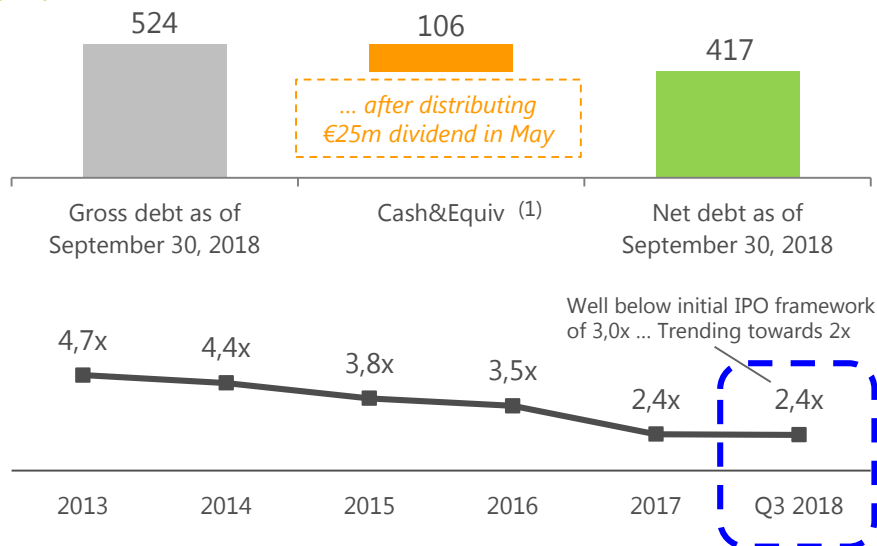


**Leverage of 2.4x at Q3 2018 close**

**→ Interest cost reducing by 25bps to Euribor+250bps by end of November**

### Net Debt and Leverage Rate Evolution

(€m)

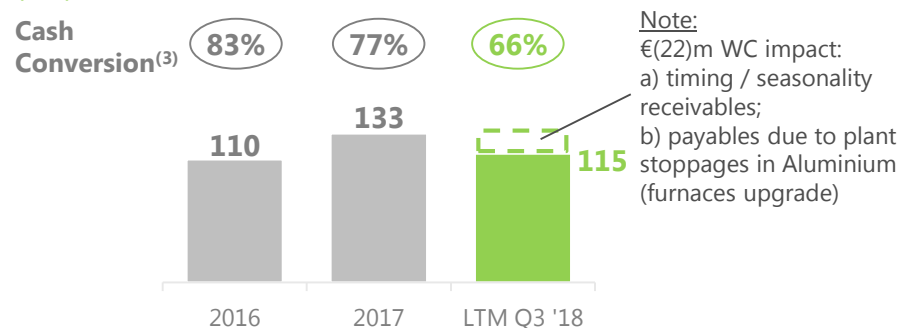


### Credit Ratings for Befesa S.A.

	Oct 2017 (Pre-IPO)	Dec 2017	Dec 2018
Moody's	B2	Ba3 (Outlook positive)	Ba2 (Outlook stable)
S&P	B	BB- (Outlook stable)	BB (Outlook stable)

### Free Cash Flow<sup>(2)</sup>

(€m)



- **9M 2018: Operating Cash Flow** impacted by WC trend; Receivables due to seasonality; Payables due to Q3 scheduled Aluminium plant stoppages (furnace upgrades)
- **Cash stable at €106m at Q3 2018 close**  
after paying in 9M 2018: interests of €12.6m, taxes of €16.2m, cash CapEx of €27.2m, and €25m dividend distribution in May
- **Interest rate further reducing by 25 bps**  
from **Euribor +275 bps** to **+250 bps** from 27th of November;  
**annual interest expenses further reducing by €1.3m**
- **Solid free cash flow** generation run rate due to low maintenance requirements **providing funds for growth & reduction of leverage**

(1) Cash&Equiv. of €106.0m includes €0.4m of Other current financial assets

(2) Free Cash Flow is based on management accounts and is calculated as EBIT + Depreciation & Amortization (D&A) +/- WC change – maintenance capex – taxes

(3) Cash conversion = FCF / (Reported Adjusted EBIT + Adjusted D&A)

1

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2

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3

**Befesa Overview**  
(Investment Highlights)

**> 9M 2018: EBITDA €128.9m (+2%); Adj. EBIT: €107.9m (+2%)**

**> 9M 2018 with strong net profit of €62.9m (+81%)**

**> Guidance 2018 confirmed & concretized: EBITDA at €174-176m (2017: €172m); net profit significantly higher at €83-85m (2017: €49m) which would result in higher dividend payment**

**> Reduced Leverage of x2.4 triggers decrease in interest rate by (25 bps) to E +250 bps**

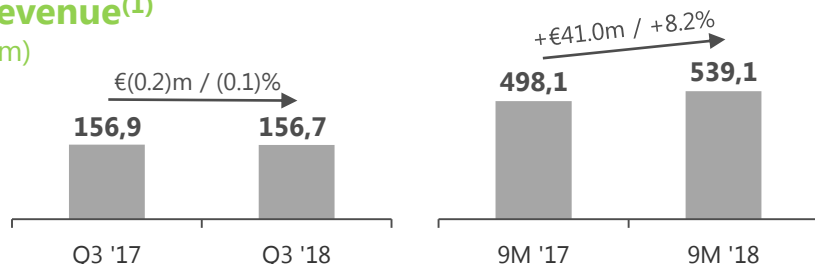
**> Execution of organic growth projects on track**

**> Developing 1<sup>st</sup> steel dust recycling plant in China;  
Start of operations expected for H2 2020**

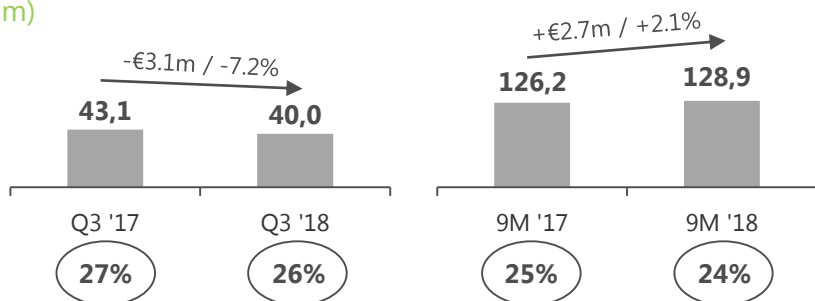
**> Befesa enters SDAX on 24 Sept 2018; ten months after listing at Frankfurt**

### 9M Earnings +2%, in line with guidance & on track for €174-176m EBITDA 2018

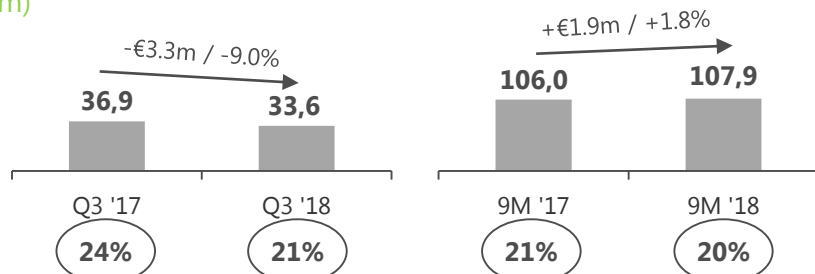
#### Revenue<sup>(1)</sup> (€m)



#### EBITDA and % margin (€m)



#### EBIT and % margin (€m)



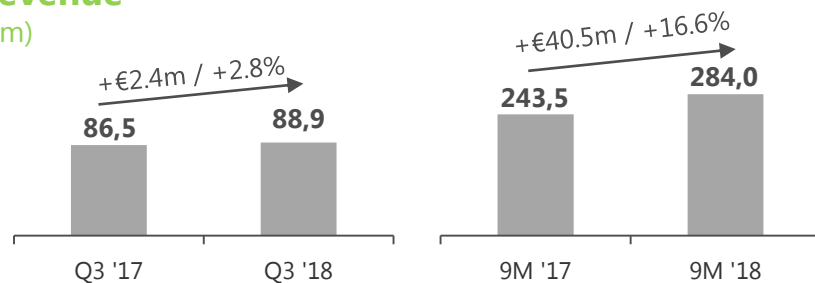
#### Highlights

- **9M 2018: EBITDA at €129m (+2.1%); Adj. EBIT at €108m (+1.8%)**
- **Q3 2018 revenue flat at €157m on a comparable basis;** primarily due to:
  - Lower volumes in 2<sup>nd</sup> Aluminium segment (-20% YoY); stoppages to implement new furnaces (Bilbao & Barcelona), which will improve earnings going forward
  - **Lower prices: blended zinc** from €2,187 to €2,006 (-8.3%) YoY; **alu alloys** from €1,762 to €1,689, (-4.1%)
  - Partially offset by **higher volumes** in **Steel Dust Services**; +1.9% steel dust throughput; +5.3% WOX sold volumes
- **Despite challenging price trend, Q3 2018 EBITDA at €40.0m (-7.2%) / 26% EBITDA margin; Adj. EBIT at €33.6m (-9.0%) / 21% EBIT margin**
- **Strong 9M net profit of €62.9m (+€28.2m or +81%) on track for significantly improved net profit for 2018 of €83-85m and corresponding improved EPS and dividend distribution**

**9M 2018: +4% EBITDA / +6% EBIT, growth driven by higher EAFD throughput;  
Q3 earnings (-€4m) driven by zinc price decrease partially offset by volume**

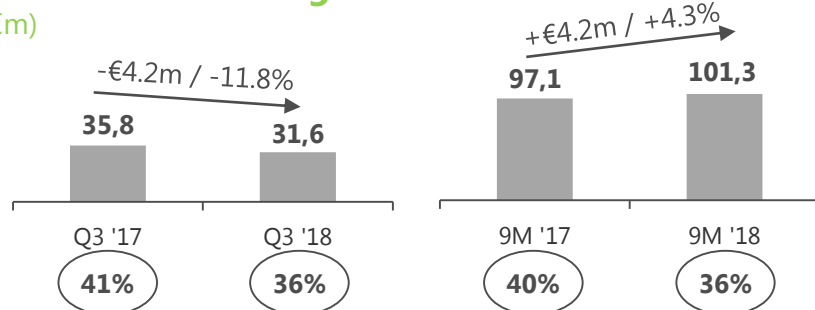
### Revenue

(€m)



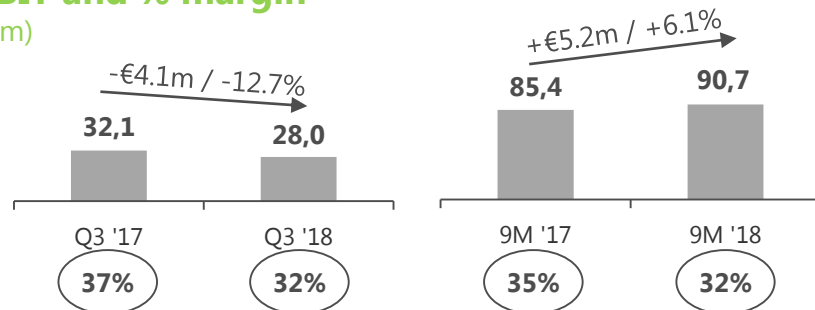
### EBITDA and % margin

(€m)



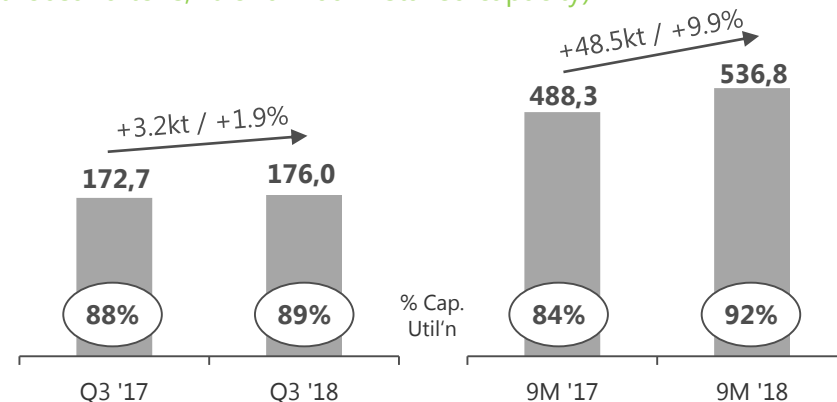
### EBIT and % margin

(€m)



### EAFD Throughput & Capacity Utilization

(thousand tons, % of annual installed capacity)



### Prices

(€ per ton)

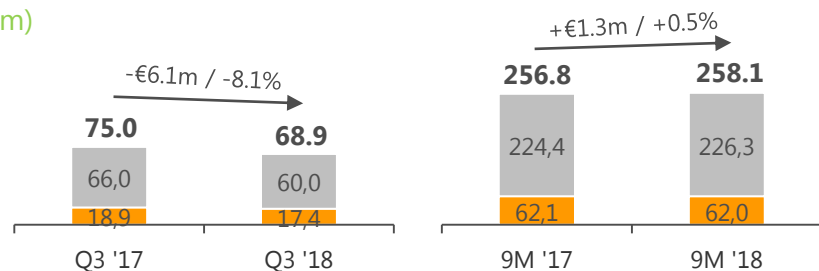
	Q3 2017	Q3 2018	% Var.	9M 2017	9M 2018	% Var.
Befesa blended(*) zinc price (€/t)	2,187	2,006	-8%	2,125	2,168	+2%
LME avg. price (€/t)	2,522	2,182	-13%	2,499	2,523	+1%

(\*) Blended rate between hedged prices and average spot prices, weighted by the respective hedged and non-hedged volumes, reflecting the effective price to Befesa.

**Q3 2018: EBITDA €7.9m (+10%); EBIT €5.5m (+22%) driven by improved metal margin in 2nd Aluminium partially offset by reduced aluminium alloy prices**

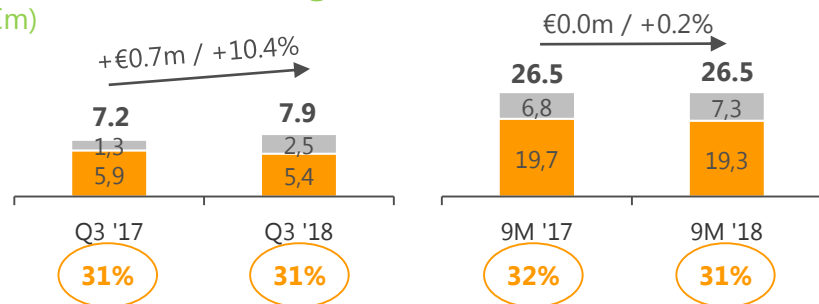
### Revenue<sup>(1)(2)</sup>

(€m)



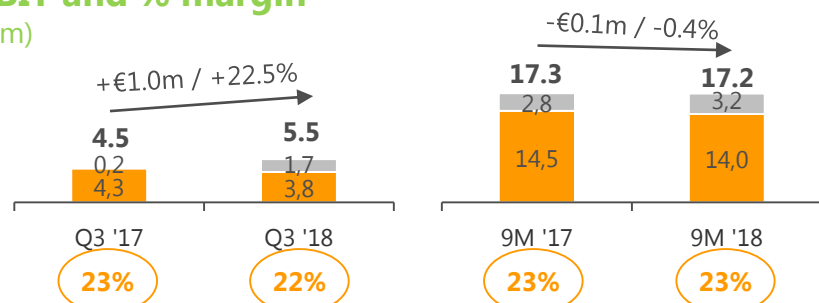
### EBITDA and % margin<sup>(3)</sup>

(€m)



### EBIT and % margin<sup>(3)</sup>

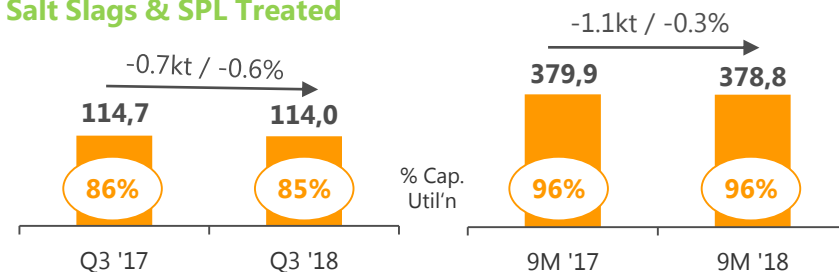
(€m)



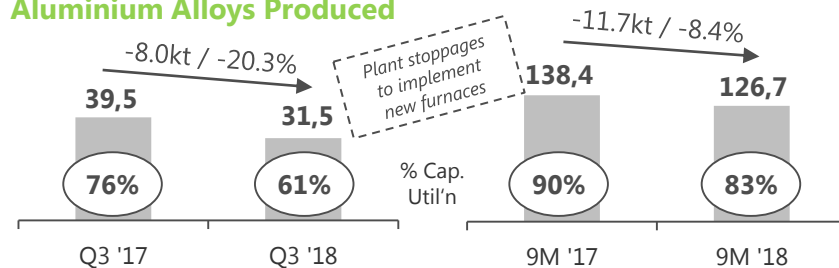
### Volumes & Capacity Utilization

(thousand tons, % of annual installed capacity)

#### Salt Slags & SPL Treated



#### Aluminium Alloys Produced



### Prices

(€ per ton)

	Q3 2017	Q3 2018	% Var.	9M 2017	9M 2018	% Var.
Aluminium alloy avg. price (*) (€/t)	1,762	1,689	-4.1%	1,770	1,783	+0.7%

(\*) Aluminium Scrap and Foundry Ingots Aluminium pressure diecasting ingot DIN226/A380 European Metal Bulletin Free Market Duty paid delivered works.

■ Salt Slags sub-segment  
■ Secondary Aluminium sub-segment

1

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2

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3

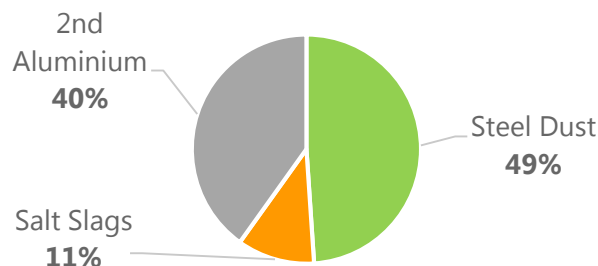
**Befesa Overview**  
(Investment Highlights)



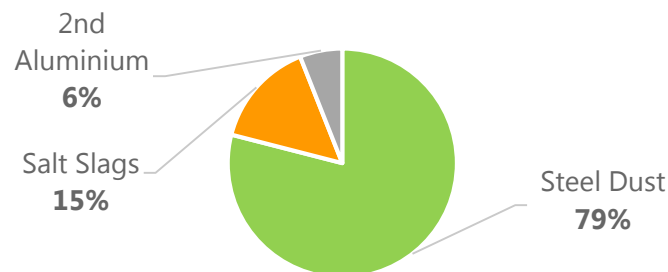
**Befesa – European market leader in providing mission critical hazardous waste recycling services to the steel and aluminium industry**

### BEFESA

**LTM<sup>(1)</sup> Q3 2018 Sales: €716m<sup>(2)</sup>**



**LTM<sup>(1)</sup> Q3 2018 Adj. EBITDA €175m**



**+90% EBITDA generated from 2 core >30% EBITDA margin operations with low capital intensity**

#### Steel Dust Recycling Services<sup>(3)</sup>



Position in Europe (c. 45–50% market share) and Asia<sup>(5)</sup>

**37%**

Adj. EBITDA Margin (LTM<sup>(1)</sup> Q3 2018)<sup>(3)</sup>

Relationships  
**>15yrs**



#### Aluminium Salt Slags Recycling Services



Position in Europe in Salt Slags (c. 45–50% market share)

**32%**

Adj. EBITDA Margin in Salt Slags (LTM<sup>(1)</sup> Q3 2018)<sup>(4)</sup>

Relationships  
**>15yrs**



Source: Company information, International Consulting Firm based on i.a. World Steel Association's Steel Statistical Yearbooks, WBMS, industry research, expert Interviews.

(1) LTM stands for Last Twelve Months. (2) Excluding internal sales; sales split is calculated on revenues including internal revenues. (3) Including stainless steel.

(4) Including recycling of Spent Pot Linings (SPLs) which is a hazardous waste generated in primary aluminium production. (5) Excluding China.

### Befesa has grown successfully through organic initiatives and acquisitions

#### Founded in Germany

**1987**  
**Metallgesellschaft**, German industrial conglomerate, creates Berzelius Umwelt Service (B.U.S)

**1993**  
**B.U.S** AB, together with two other companies, group their environmental assets in Spain creating Berzelius Felguera (Befesa)

**1998**  
Befesa IPO at the Madrid and Bilbao Stock Exchanges

**2000**  
**Abengoa** acquires a 51% stake in Befesa from B.U.S to develop its environmental services business (stake increased over time)

**2011**  
Delisting from the Madrid and Bilbao Stock Exchanges

#### Acquisitions & Turnarounds

**2006**  
Befesa acquires a 100% stake in B.U.S, becoming the **European leader in steel dust recycling**



**2009**  
Befesa becomes the **European leader in salt slags recycling** after acquiring 3 plants in Germany from Agor



**2013**  
**Triton** acquires Befesa



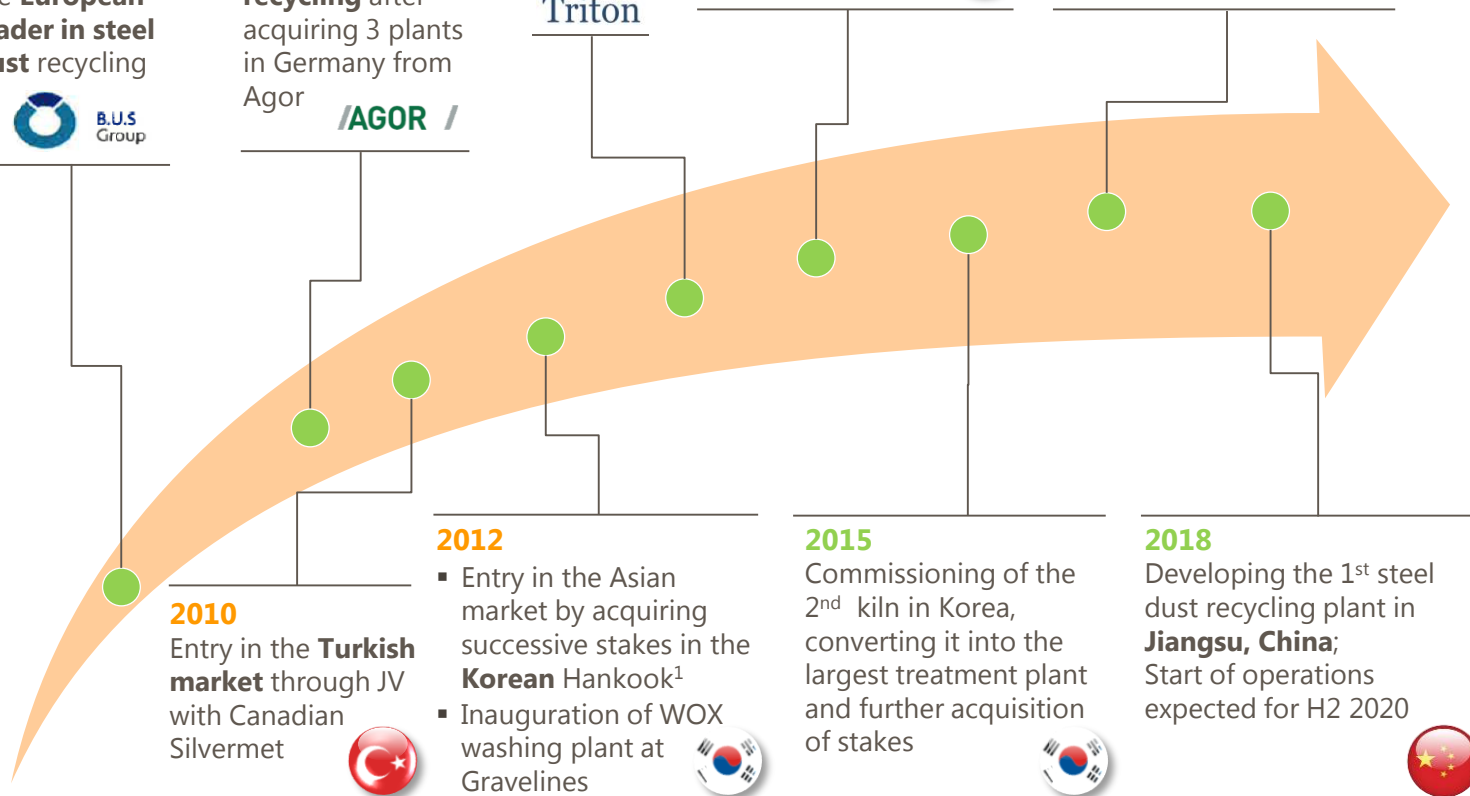
#### Successful Greenfield (State of the Art Technology)

**2014**  
Inauguration of the 2<sup>nd</sup> aluminium plant in **Bernburg**



#### Frankfurt Stock Exchange & S-DAX

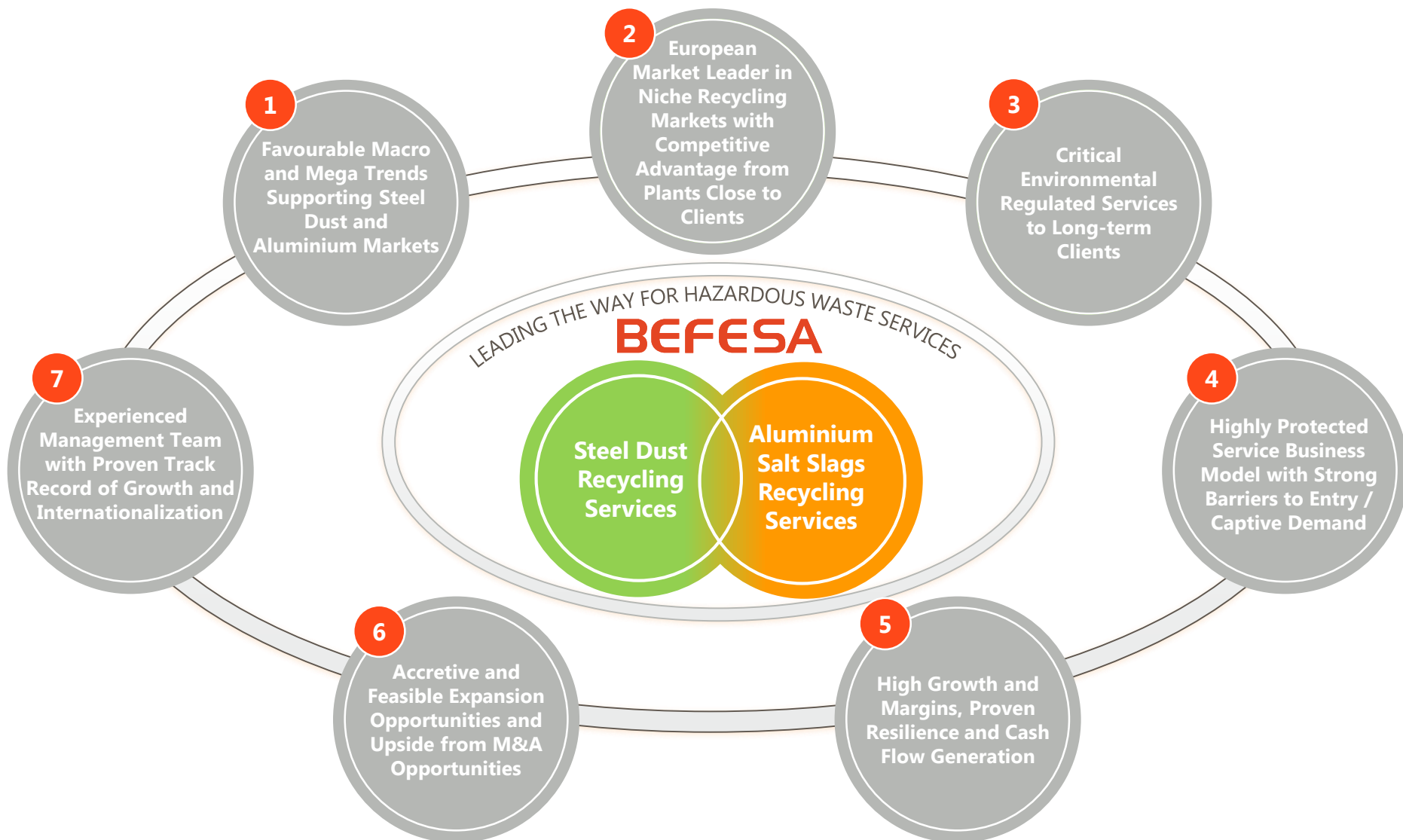
**2017 / 2018**  
Successful **IPO on Frankfurt Stock Exchange**; Entry to **SDAX** 24 Sept 2018



**Entered 2 New Markets Through a JV & Acquisition with a Subsequent Turnaround**

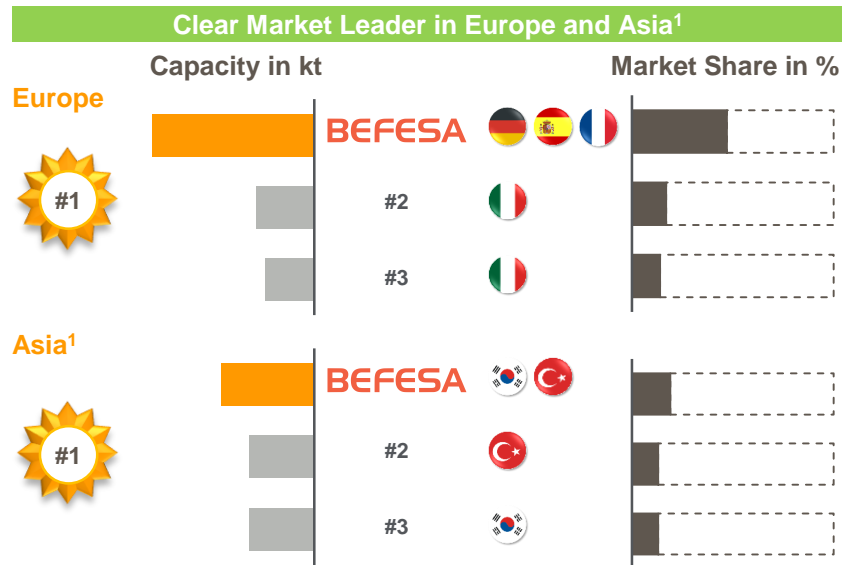
**Successful Expansion in Korea**

**Expanding into China**



**Befesa is the market leader in steel dust and salt slags recycling services with a competitive advantage due to its close proximity to key clients**

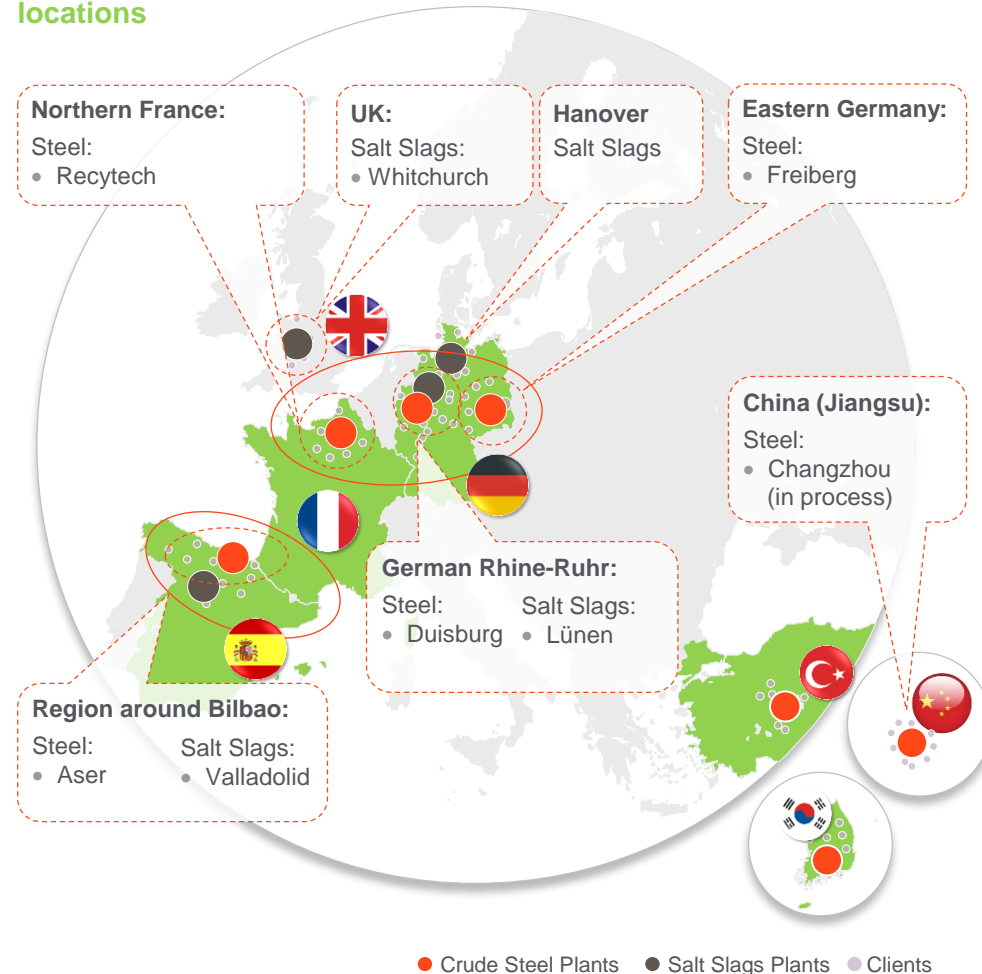
### Established Market Leader Steel Dust Recycling Services



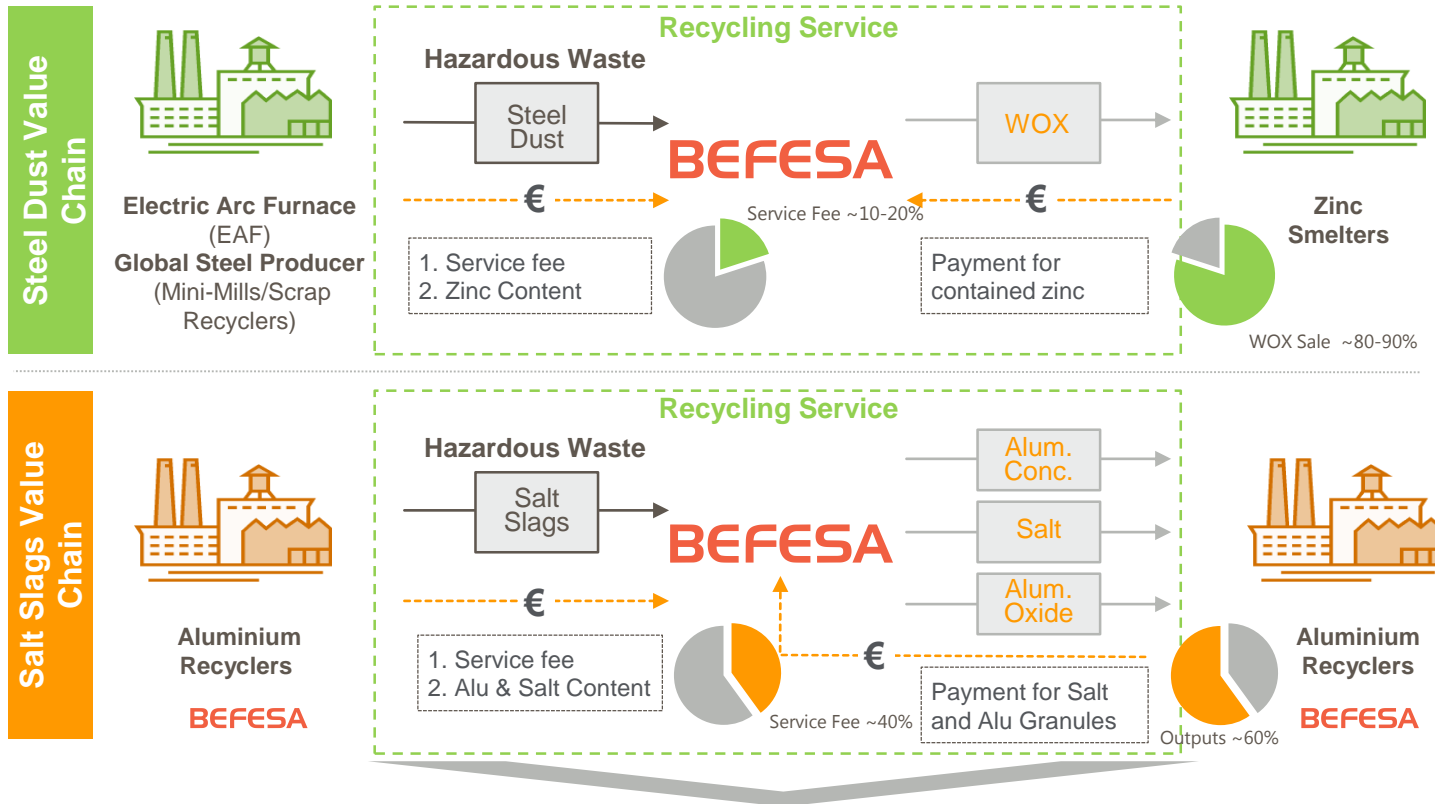
### Salt Slags Recycling Services



### Proximity to Clients Provides Strong Competitive Advantage Each Befesa plant usually collects waste from at least 10-15 client locations



Befesa offers a crucial service taking care of highly regulated hazardous waste in the value chain of secondary steel and aluminium producers



### Consequences of Non-Compliance

- Major European steel producer struggles with large plant (producing 8% of European steel) due to breaching environmental regulations (contamination of environment)
- Court ordered to partly shut down the plant
- Owner prompted to invest \$3.8bn to bring the plant back to required standards

- In 2002 the owners of a metal foundry in Italy faced prison time for illegal transport and landfilling of hazardous waste

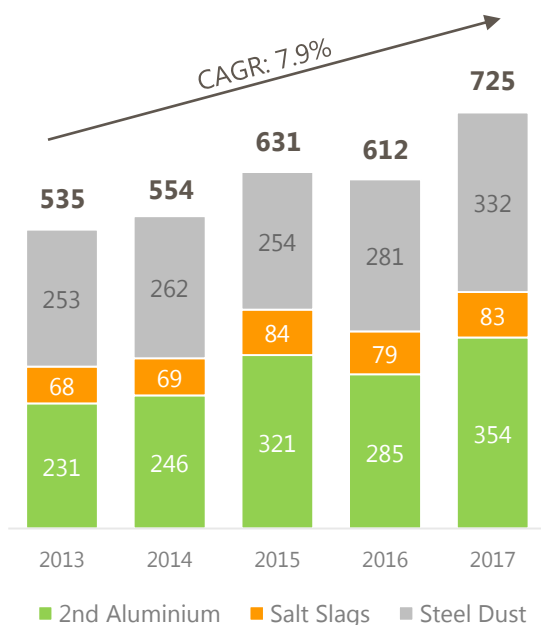
- In 2004 a big aluminium refinery in Italy abandoned 450kt of hazardous waste in the open air over half an hectare
- More than 10 years later the local administration is still collecting funds to proceed to the removal and cleaning of the area

- Befesa collects and recycles hazardous waste from steel producers and aluminium recyclers
- Recycling is mandatory for Befesa's clients due to environmental regulations
- Befesa takes off and effectively takes care of environmental liability for their clients
- Without timely and regulatory compliant offtake of hazardous waste clients face risk of complete shut-down of production as well as severe penalty payments
- Befesa therefore offers a critical element of its clients value chain

- In 2011 a big producer of aluminium alloys in Spain was involved in the transport without authorisation and illegal landfilling of 1.5kt of salt slags on a vacant lot
- Befesa was ultimately contracted to treat the waste properly

### Attractive growth track record with stable margins and strong cash generation

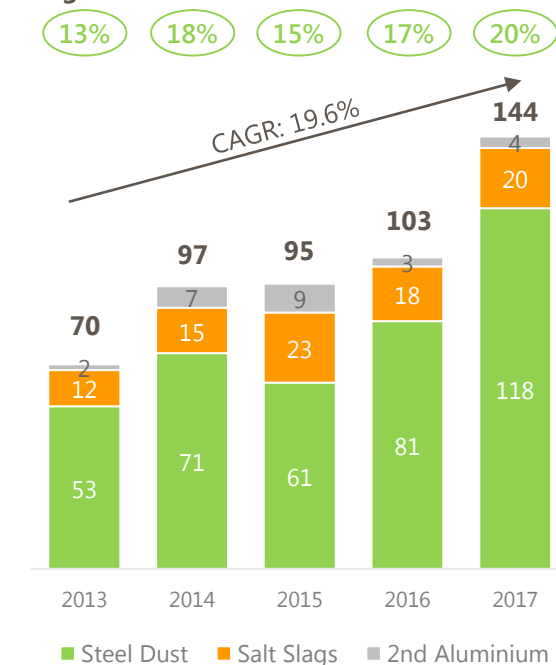
**Sales<sup>(1)</sup>**  
(€m)



**Robust sales growth underpinned by sustainable increase in volumes and acceleration in growth in 2017**

**Adj. EBIT**  
(€m)

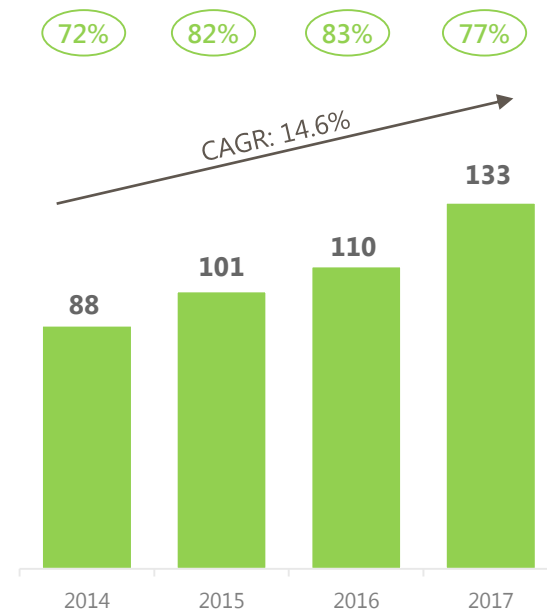
Margin



**Low capital intensity exemplified by low, stable D&A and high Adj. EBIT margin**

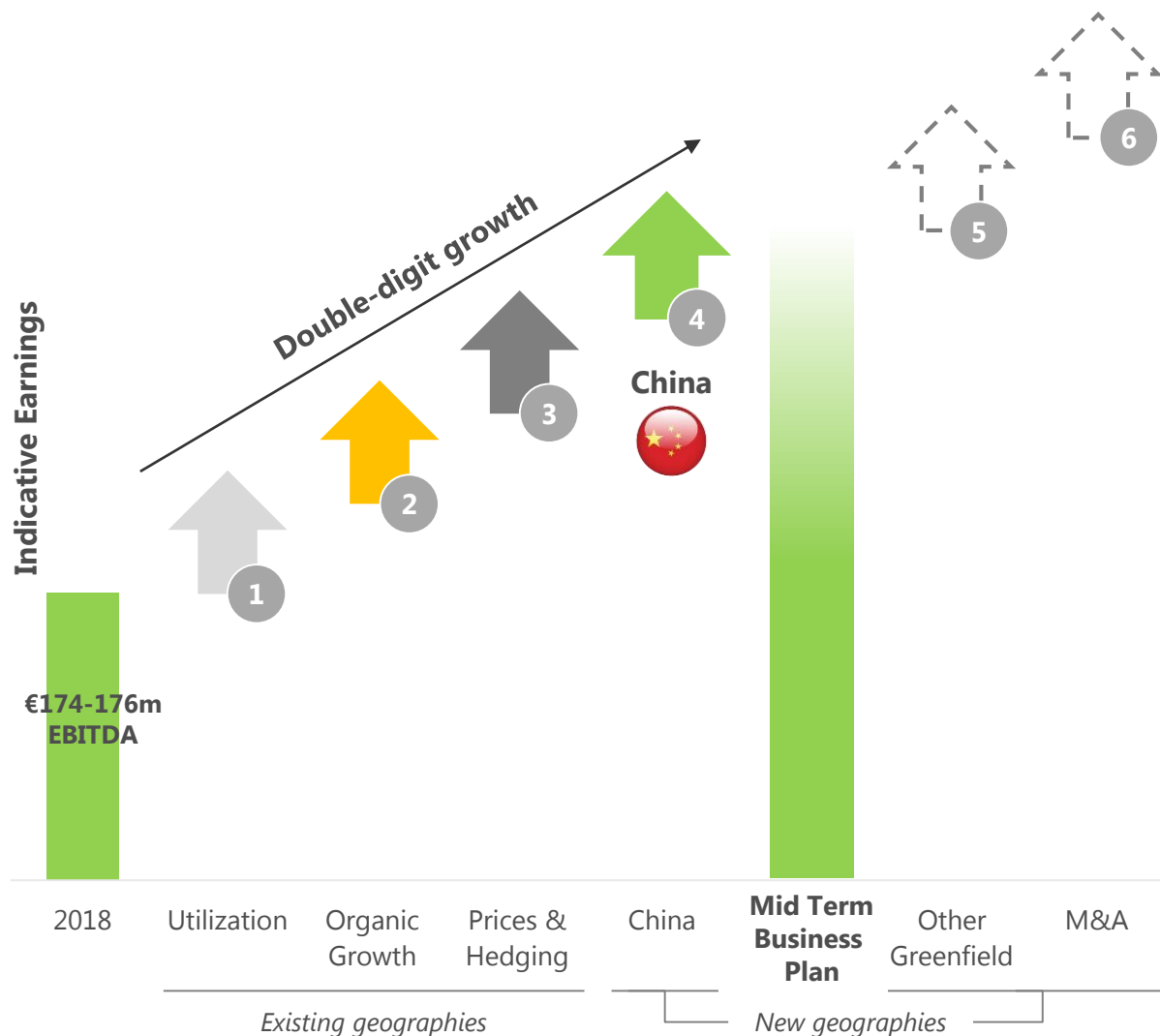
**Free Cash Flow<sup>(2)</sup>**  
(€m)

Cash Conversion<sup>(3)</sup>



**Strong and stable free cash flow generation due to low maintenance requirements providing funds for growth**

Business plan based on organic growth in existing geographies as well as greenfields in new geographies (e.g. China)



- 1 **Utilization**
  - Increase plant utilization of prior years growth investments mainly Steel Dust Korea
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2019 Focus – Top 5 Projects:

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  - Developing 1<sup>st</sup> steel dust recycling plant in the country; Start construction ~Q2'19; Ramp-up ~H2'20
- 5 **Greenfield**
  - Monitoring growth opportunities and regulatory framework in new geographies, e.g. South East Asia, India, Russia
- 6 **M&A Opportunities**



Senior management team delivering results through long standing industry expertise, entrepreneurial spirit and focus on operational excellence as well as governance and compliance processes



**Javier Molina**  
CEO

CEO since 2000

Has run Befesa for >15 Years  
Became President of Abengoa's  
Environmental Services Division  
in 1994



**Wolf Lehmann**  
CFO; including responsibilities for Operational Excellence and IT

CFO since 2014

20+ years in finance and  
operational leadership roles  
50/50 General Electric / Private Equity



**Asier Zarraonandia**  
Vice President  
Steel Dust  
Recycling Services

16 years with Befesa

Has run the Steel Dust Recycling  
Services Business for >10 Years



**Federico Barredo**  
Vice President  
Aluminium Salt Slags  
Recycling Services

25 years with Befesa

Has run the Aluminium Salt Slags  
Recycling Service Business  
for >15 Years

### Key Achievements/Track Record



Extensive experience in steel and  
aluminium recycling business



Strong performance results through  
focus on operational excellence



Building strong business  
foundation of ESG, compliance  
and health & safety processes



Successful international  
expansion



Track record of successful  
acquisitions and turnarounds  
(BUS, Agor, Alcasa, Hankook,  
Silvermet etc.)



Experience in developing greenfield  
projects (South Korea, Gravelines,  
Bernburg)

### Financial Calendar

**Tuesday, February 26, 2019:**  
Preliminary Earnings Release 2018 & Analyst Call

**Thursday, March 21, 2019:**  
Publication of Annual Report 2018 & Analyst Call

**Wednesday, May 8, 2019:**  
Publication of Statement Q1 2019 & Analyst Call

**Wednesday, June 19, 2019:**  
Annual General Meeting in Luxembourg

**Friday, July 26, 2019:**  
Publication of Interim Report H1 2019 & Analyst Call

**Thursday, October 31, 2019:**  
Publication of Statement Q3 2019 & Analyst Call

#### IR Contact

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### Meet Befesa ...

**February 5-6, 2019 - HSBC**  
Frankfurt, ESG Investor Conference

**February 6-7, 2019 - Santander**  
Madrid, Annual Investor Conference

**March 15, 2019 - Citi**  
London, 13<sup>th</sup> Annual Business Services Conference

**May 21-23, 2019 – Berenberg**  
New York, Berenberg US Conference 2019