Q2 2019 Conference Call

Introduction – Daniel Rosen

Thank you, Casey. Good morning everyone and welcome to Livent’s second quarter earnings call. Joining me today are Paul Graves, President and Chief Executive Officer and Gilberto Antoniazzi, Chief Financial Officer.

The slide presentation that accompanies our results, along with our earnings release, which includes our 2019 outlook, are available on our website. The prepared remarks from today’s discussion will be made available after the call.

Following our prepared remarks, Paul and Gilberto will be available to address your questions. We would ask that
any questions be limited to two per caller. We would be happy to address any additional questions directly after the call.

Before we begin, let me remind you that today’s discussion will include forward-looking statements that are subject to various risks and uncertainties concerning specific factors, including but not limited to those factors identified in our release and in our filings with the Securities and Exchange Commission. Information presented represents our best judgment based on today’s information. Actual results may vary based upon these risks and uncertainties.

Today’s discussion will focus on adjusted earnings for all income statement and EPS references. Reconciliations of these terms, as well as other non-GAAP financial terms to which we may refer during today's conference call, are provided on our website.

With that, I’ll turn the call over to Paul.
**Business Review – Paul Graves**

Thank you, Dan and good morning everyone.

I will begin by providing a brief overview of Livent’s business today. Gilberto will then discuss 2019 second quarter results, our third quarter and full year guidance, followed by select financial data and our latest capital spending plans. I will then conclude by reviewing our perspectives on current market dynamics, and their implications for both the near-term and longer-term trajectory of the industry.

**Reported Financial Results**

**Slide 3: Paul Graves**

Turning to slide 3, our business performed as expected during the second quarter, with revenue, Adjusted EBITDA and adjusted EPS all in-line with our guidance.
Revenue for the quarter was $114 million dollars, or 6% higher than last year. This performance was driven by a 21% year over year increase in volumes, led by lithium hydroxide, and partially offset by lower lithium carbonate sales and a decrease in the average price realized on both products. Pricing for butyllithium and high purity metals were higher on average on a constant currency basis. And overall, price and mix had a negative 13% year over year impact on revenue, while foreign exchange added a headwind of 2%, most notably from the RMB and the Euro.

**Livent Year to Date**  
**Slide 4: Paul Graves**

So now that we are over half-way through 2019, we felt it was important to review the performance of our business in the year to date on slide 4.

Livent increased its total LCEs sold by approximately 20% in the first half of the year compared to the same period in
2018. We made a number of operational improvements in Argentina that have allowed us to increase our run-rate production levels of lithium material and significantly improve our ability to operate under a wider range of conditions. As we will discuss later in more detail, we expect volumes to improve even further in the seasonally stronger second half of this year, with total LCEs available up over 30% compared to the first half of 2019, and over 20% higher than the second half of 2018.

Another big driver of this increase in LCEs is Livent's expanded lithium hydroxide network, with hydroxide volumes up roughly 50 percent through the second quarter year over year. We brought the third hydroxide line in China into production during the first quarter, taking total annual capacity in China to over 13,000 tons. We are currently operating our hydroxide network at record levels of production. Just as important, we are supplying some of our larger customers from multiple locations, demonstrating our ability to produce a consistent product across manufacturing units.
In Argentina, we continue to meet critical milestones for the 40,000 ton expansion project and we remain on track to bring the first 9,500 ton phase online by the end of 2020. We have built onsite worker housing facilities, we successfully executed labor agreements and we obtained critical permits from the Catamarcan government. The construction of the modular carbonate production units is on track and we expect the first units to be shipped to Argentina later this year.

Most importantly, we recognize that we have a commitment to the local communities in which we operate, and we take this responsibility very seriously. We will continue to take a partnership-based approach to our expansion in Argentina.

Separate from our capacity expansion undertakings, we have recently concluded debottlenecking activities on our existing production assets in Argentina. We expect that this will generate as much as 1,000 incremental tons of
LCEs on an annual basis. We are proud of the improvements we continue to make in a region where others have struggled to meet both targeted production capacity and quality levels, and our success has been a testament to the strength and operational expertise of our team.

There have been a few factors that have come together in 2019 to drive Livent’s costs higher as compared to last year. Some factors have been out of our control, such as weather-related disruptions and foreign exchange rate fluctuations. However, demand from our customers continues to outpace our ability to produce sufficient product, in particular the lithium carbonate needed to feed our hydroxide units. This has required us to purchase third party carbonate, and we expect to continue to do so until our first phase of carbonate expansion comes online.

And with that, I will now turn it over to Gilberto.
Thank you, Paul and good morning everyone.

Turning to slide 5, Adjusted EBITDA for the quarter of $28 million dollars was in line with our guidance and the primary drivers of the year over year decline were consistent with our expectations.

Volume growth continues to be driven by increased delivery of lithium hydroxide to our customers, but partially offset by lower carbonate sales.

While unfavorable price/mix was largely driven by customer mix, we also realized lower pricing on certain hydroxide and carbonate volumes sold during the quarter, particularly into China.
The higher costs incurred in the quarter were largely driven by higher purchases of third-party carbonate, as we highlighted in our previous earnings calls.

Foreign exchange also had a negative effect on earnings, with the Euro and RMB primarily impacting revenues and the Argentine peso impacting cost.

**Q3 and Full Year 2019 Outlook**

**Slide 6: Gilberto Antoniazzi**

Turning now to slide 6.

For the third quarter, we expect revenue to be in the range of $105 to $115 million, essentially flat at the midpoint compared with the last year, as the trend of higher volumes and lower average prices seen in the first half of the year continues. Adjusted EBITDA is expected to be in the $26 to $30 million range and Adjusted EPS is expected to be in the range of 11 to 14 cents.
For the full year, we are reaffirming our guidance. 2019 Revenue is expected to be in the range of $435 to $475 million, slightly above 2018 at the midpoint, with projected Adjusted EBITDA between $125 and $145 million and Adjusted EPS in the range of 56 to 66 cents.

**H2 2019 Compared to H1 2019**

**Slide 7: Gilberto Antoniazzi**

Turning now to slide 7 and a comparison between the first and second half of 2019. Put simply, Livent’s improved second half performance will come from a meaningful increase in volumes sold. And to be clear, we are not forecasting price improvements in the second half of the year.

We expect to have over 30% more LCEs available for sale as compared to the first half of this year. These volume increases will be across our lithium products, but most notably in lithium hydroxide and carbonate.
More importantly, we expect to have about 3,000 tons of additional material from our own operations. This increase is driven by three factors. First, we do not expect the January rain event in Argentina to repeat in the second half of the year. Second, historically we have seen seasonally higher volumes of production in the second half of the year. These two factors account for the majority of the increased volumes expected in the second half. We will also benefit from the debottlenecking actions that were recently completed, and from inventory we built in the second quarter. Given our low-cost position in Argentina, this incremental volume will give us the opportunity to realize higher margins than we achieved on average in the first half of the year.

We are assuming lower average pricing in the second half of this year, which we expect to be partially offset by a more favorable product and customer mix. From a cost perspective, we do not expect a significant difference between the first half and the second half.
We recognize that our guidance implies a stronger fourth quarter than we have seen in the first three quarters of 2019. The last quarter of the year has historically been the highest volume quarter for Livent, and we expect that pattern to repeat this year. We are already seeing rising monthly demand in certain key markets, which Paul will discuss in further detail shortly.

This rising demand is also supported by specific conversations we are having with our customers. Livent material is being qualified into new platforms, and current indications are that customers will start taking delivery of product for these applications before the end of the year.

**Cash Flow and Capital Spending**

**Slide 8: Gilberto Antoniazzi**

On slide 8, I wanted to provide a few comments on select items of the income statement, as well as give an update on our capital spending plans.
For taxes, we have increased our guidance range on adjusted tax rate for the full year by 100 basis points to 19 to 23 percent, reflecting our latest view on the impact of earnings mix across the various geographies.

Livent generated adjusted cash from operations of $67 million dollars through the first half of 2019. We spent $74 million dollars on capital spending in the same period and ended the quarter with debt, net of cash, of $39 million dollars.

We are increasing our guidance for adjusted cash from operations for the full year by $15 million dollars to a range of $90 million to $120 million dollars. Our full year guidance for capital spending has been lowered by $25 million dollars to a range of $210 to $245 million dollars, which reflects an updated view on timing of cash outlays and should not be understood as a change in our expansion plans.
In Argentina, we continue to make significant progress and are meeting critical milestones for our carbonate expansion project, with cash outlays of nearly $50 million dollars through the end of June. Other capital spending of $26 million in the first half of the year includes maintenance capex and initial investment in our 5,000 ton hydroxide expansion in Bessemer City. We expect capital spending to accelerate in the second half of this year as projects continue to progress and construction milestones are met.

On our last earnings call we emphasized our commitment to the four phases of lithium carbonate expansion in Argentina, tripling our capacity to 60 thousand tons by 2025. Our expansion remains a highly attractive investment that compares favorably with every other lithium project globally, given both our industry leading experience and our cost position.
We remain committed to investing in the lithium hydroxide capacity necessary to meet the demand of our customers, as shown by our Bessemer City expansion plans.

We constantly re-evaluate and reassess our specific lithium hydroxide expansion plans, based on the needs of our customers. As part of this process, we are looking to increase our operational flexibility by creating a broader global network, which involves an assessment of the most suitable geographic locations for additional hydroxide units. However, we will only make final investment decisions when we have sufficient commitments from our customers. We have already started conversations with some of our largest customers with respect to future hydroxide capacity investments.

With that, I will turn the call back over to Paul.
Thank you, Gilberto.

I want to conclude on slide 9 by giving a high-level update as to what the key lithium markets are looking like today from Livent’s perspective. There are a lot of positive indicators in the market, with demand fundamentals better than we had expected six months ago. There is though, a supply overhang that is likely to prevent prices from increasing before 2020. However, demand is growing faster than we had previously forecast and supply additions are slowing, giving us confidence that today’s pricing environment does not reflect the longer-term outlook.

The market for electric vehicles continues to be very strong. Passenger EV sales globally were up roughly 45% through the first half of the year compared to the same period last year, and sales in China were up over
60% in this period. More importantly, when we combine EV sales with average battery size, we can see that the total reported megawatt hours of battery capacity sold in passenger EVs was roughly 150% higher in China for the same period. And ultimately, it is this metric that drives lithium consumption.

For the most recent quarter, reported sales of higher nickel chemistries, such as NMC 622, NMC 811 and NCA, were up 40% in China compared to Q1 2019. Not surprisingly, given this trend, hydroxide sales are significantly ahead of last year, with global sales approaching 50,000 metric product tons through the first six months, roughly double the same period in 2018. Independent data suggests that sales of hydroxide was over 10,000 metric product tons in June alone.

Based on this data, we are increasing our 2019 hydroxide market demand forecast to 100 to 110 thousand metric product tons, an implied 55% to 71%
year over year increase compared to last year. We will revisit our 2020 demand forecast numbers once we have Q3 market data and have had more discussions with our own customers about their needs for 2020 and beyond.

We believe that one of the key drivers of this faster growth is the increased involvement and direction from global auto OEMs, which is providing greater clarity throughout the entire electric vehicle supply chain. As OEMs prepare for new vehicle launches in 2020 and beyond, they are taking a number of important steps to prepare. Many are now announcing firmer commitments with multiple battery suppliers, typically on a vehicle-platform basis, and are being more precise with specifications as to battery type, cathode technology and battery pack size. Just as important, they are more directly engaging in the qualification processes, not just of the batteries themselves but also of the battery raw materials. The greater involvement of
OEMs has, in turn, helped the battery producers more clearly plan their own production roadmaps. And as a result, we're seeing more qualification activity taking place by battery and cathode producers as they look to establish hydroxide purchasing agreements for 2020 onwards.

As the OEMs get more directly engaged, we are seeing this translate into more stringent specifications for lithium, and slower qualification processes as a result. A greater variety of specifications are also being requested, whether it relates to impurity levels, particle size, moisture levels, or even whether the hydroxide is produced directly from spodumene or brine-based carbonate. This is resulting in a rapid proliferation of the forms of hydroxide that are needed, making it more challenging to meet customer requirements. Equally important, because of the cost and time required to qualify producers, battery companies are looking to limit the number of lithium suppliers they qualify on each
platform or vehicle.

I’d like to comment on the inventory and supply situation in the market, which is having a negative impact on the pricing environment for 2019, but which also points to the likelihood that when pricing for hydroxide does recover, it is likely to do so quickly.

There is continued oversupply and excess inventory of spodumene in Australia and China, as Australian miners have brought on more capacity in the first half of this year. Much of this inventory is in China, but there are also meaningful inventory levels in Australia. Consumers of lithium products are expecting lower prices until this inventory has been consumed.

Hydroxide inventory at Chinese producers has been built ahead of demand, reflecting the economic incentive to run plants continuously to keep costs per ton down. However, hydroxide has a shorter shelf life and
therefore is being pushed into the market, creating further pressure on prices.

Carbonate inventory is elevated at some customers, particularly outside of China. This is due to a number of factors, most notably the temporary suspension of production of ESS batteries in Korea and the more rapid than expected move away from carbonate-based chemistries towards hydroxide-based chemistries for the EV market.

However, we believe the destocking of hydroxide inventory at cathode producers is largely complete, with customers now operating with much lower inventory levels. This is not a surprise, given broadly held views as to pricing trends in the coming months. But it is an important factor in our view that when prices do start to increase, they will do so very quickly.
That last point is connected to my final observation about the supply situation in the hydroxide market. At current prices in China, third-party reports indicate that many spodumene converters are operating at the marginal cost of production, even allowing for lower spodumene input costs, which clearly isn’t economically sustainable for them in the long run.

Perhaps more important, supply additions outside China are increasingly being delayed, reduced in scale or put on hold altogether. Spodumene expansions in Australia are being delayed, as we believe that current spodumene pricing is insufficient to cover both operating costs and reinvestment costs for many producers. And crucially, previously announced projects to build at-mine hydroxide plants are also being reassessed, as both capital costs of construction and the forecasted operating costs are simply too high for them to be viable with prices where they are today.
Not surprisingly given the environment we are in, traditional financing for new projects is largely unavailable, while non-traditional financing sources are prohibitively expensive. While this will not impact 2019 or 2020 supply, much of the announced additions due to commence production in 2021 are unlikely to start up until later, if at all.

So to conclude, while we remain cautious on the 2019 pricing environment, we are increasingly positive on the long-run pricing environment. We remain committed to adding the capacity and the capabilities needed to meet the requirements of our customers, not just today, but over the next decade and beyond.

I will now turn the call back to Dan for questions.
Q&A Intro – Daniel Rosen

Thank you, Paul. Casey, you may now begin the Q&A session.

Closing – Daniel Rosen

That is all the time that we have for the call today. We will be available following the call to address any additional questions you may have. Thank you and have a good day.