



1 December 2021

K+S Aktiengesellschaft

# Citi's 2021 Basic Materials Virtual Conference

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# Rapid Debt Reduction and Value Generation



## Sale of the Americas operating unit

- Closing completed on April 30
- Net proceeds ~ €2.6 billion
- Book gain ~ €742 million

## Financial debt reduced significantly by ~ €1.7 billion

- > €1 billion credit facilities, promissory notes, commercial papers
- Successful buy-back of bonds ~ €560 million
- KfW facility terminated (has never been drawn)

## Balance Sheet streamlined

- Net Financial Debt / EBITDA 2.0x
- Equity Ratio ~ 48%

# REKS antitrust clearance procedure ongoing



- We continue to expect an approval can be granted.
- Transaction in 2021 still possible.
- But the review might also take longer.
- Therefore, 2021 outlook now only based on operating business:

## EBITDA 2021

- We increase our expectation to €630 million (previous guidance: €500 to 600 million excluding REKS transaction).

## FCF 2021

- We increase our expectation to a neutral free cash flow (previous guidance: €-180 million excluding REKS transaction).

# Final FREP findings: No adjustments to valuations necessary

Valuation of the Potash and Magnesium Products CGU subject to the examination of the 2019 and H1/2020 financial statements by the Financial Reporting Enforcement Panel (FREP – DPR)



## Q3 2021

- **Full reversal of last year's impairment loss**
- Write-up results from significantly more optimistic expectations for the potash business and the price development related to this

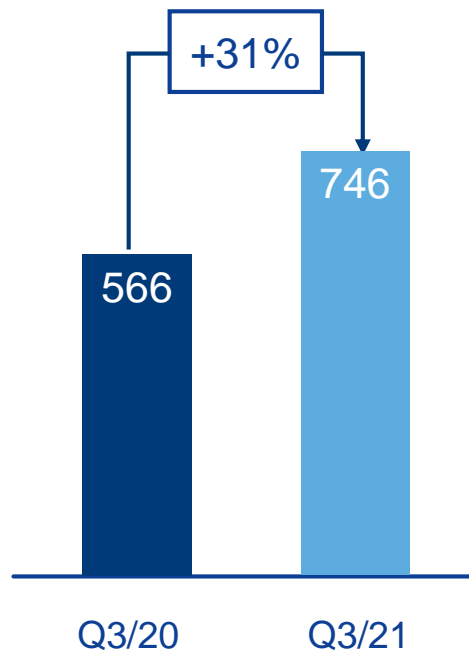
## November 25, 2021

- ✓ **Final examination findings received from FREP do not result in adjustments to valuations**
  - Preliminary findings that the value in use of the CGU had not been reliably determined is no longer included. What remains of the findings:
    - Information (e.g. changes in assumptions and uncertainties in estimates) in connection with the impairment test was not reported appropriately
    - No impairment test was carried out for the interim financial statements of K+S AG as of 30 June 2020 for the net book value of the Potash and Magnesium Products CGU, although there were indications that the net assets could be impaired.
    - It was not published with sufficient clarity that the H1/2020 FCF mainly resulted from non-operating/ working capital measures (e.g. factoring)
  - K+S has been requested by the FREP to agree/disagree with the findings by December 9, 2021.
  - By agreeing, the FREP-proceedings would be terminated.

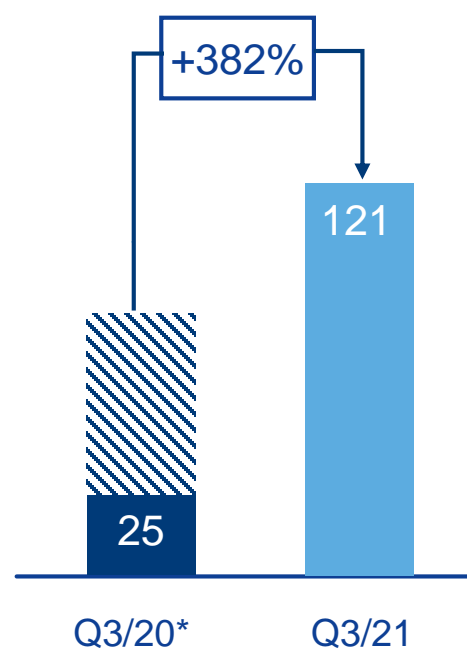
# EBITDA more than quadrupled in Q3

Continuing operations

Revenues Q3  
- in € million -



EBITDA Q3  
- in € million -



## Agriculture

- ASP: 300 €/tonne (Q3/20: 238 €/tonne)
- Sales volume: 1.76 mt (Q3/20: 1.66 mt)

## Industry+

- Normalized demand
- Good early fills season with de-icing salt
- Sales volume: 1.73 mt (Q3/20: 1.35 mt)

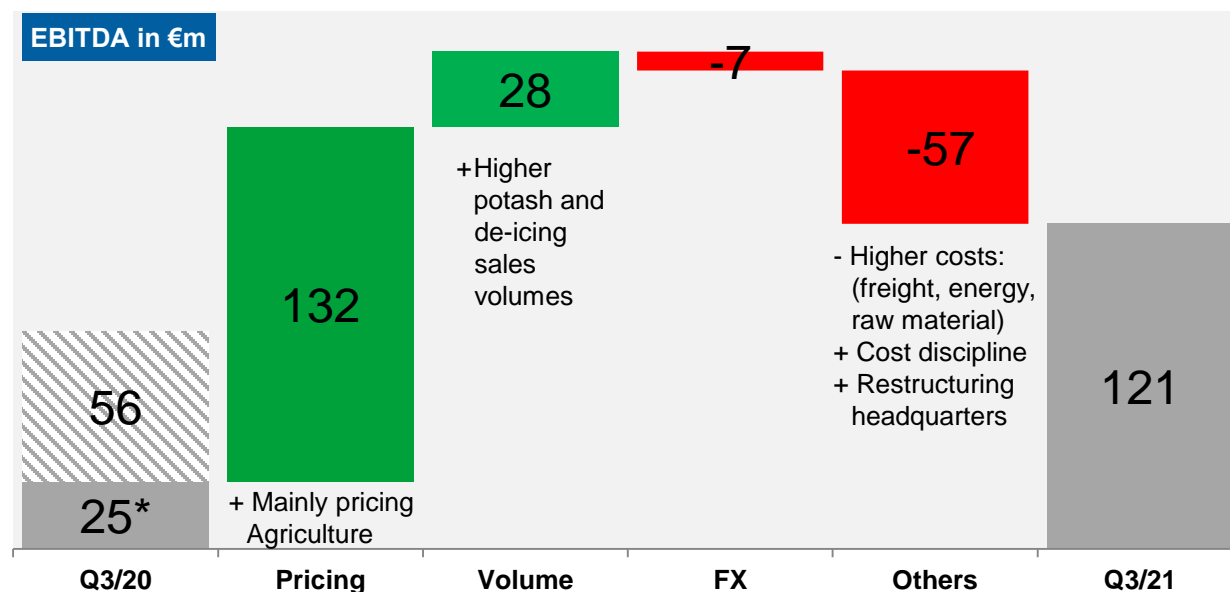
## Free cash flow

- € -69 million (Q3/20: € -42 million)

# Q3/21 EBITDA more than quadrupled YoY

## Highlights

- Q3/21 **EBITDA** increased to €121m (Q3/20: €25m, excluding positive non-cash, one-off effect of € 56 million)
- COVID-19**: Minor efficiency losses on the previous year's Q3 level
- Adj. net profit** positive at €1.285m (Q3/20: €-1,757m); thereof €1,420m (Q3/20: €-1,792m) related to value fluctuations in PPE



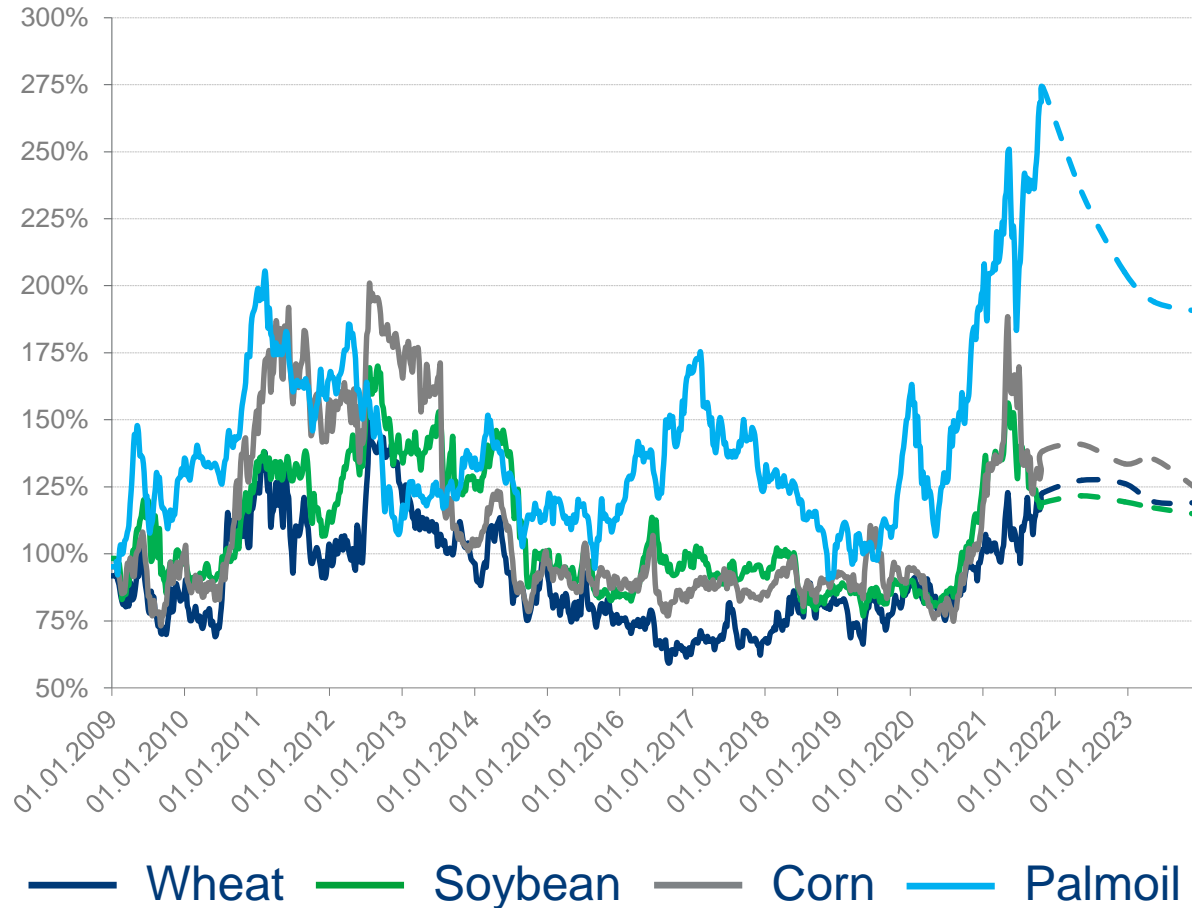
## Financials (continuing operations)

€ million	Q3/2020	Q3/2021	%
Revenues	566	746	+32
<i>t/o Agriculture</i>	373	529	+42
<i>t/o Industry+</i>	193	217	+12
D&A	87	74	-15
EBITDA	25*	121	+384
Adj. net profit	-1,757	1,285	-
<i>t/o reversal of impairment losses on assets</i>	-1,792	1,420	-
Adj. EPS (€)	-9.18	6.71	-
<i>t/o reversal of impairment losses on assets</i>	-9.35	7.42	-
Operating cash flow	58	14	-24
Adj. FCF	-42	-69	-64
Capex	114	88	-23
NFD/EBITDA (LTM)*	5.7x	2.0x	-

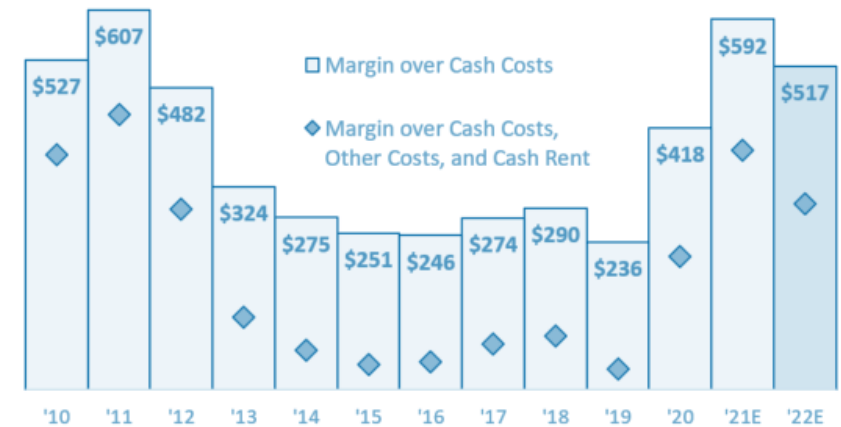
\* excluding positive non-cash, one-off gain of €56 million

# Affordability concerns? Farm economics still attractive!

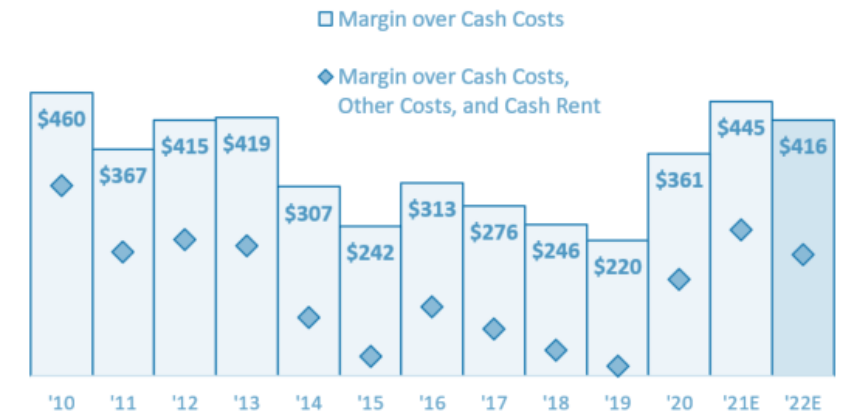
Futures, indexed, Bloomberg, as of 4 November 2021



## U.S. Corn Farmer Profitability Outlook per acre\*



## U.S. Soybean Farmer Profitability Outlook per acre\*

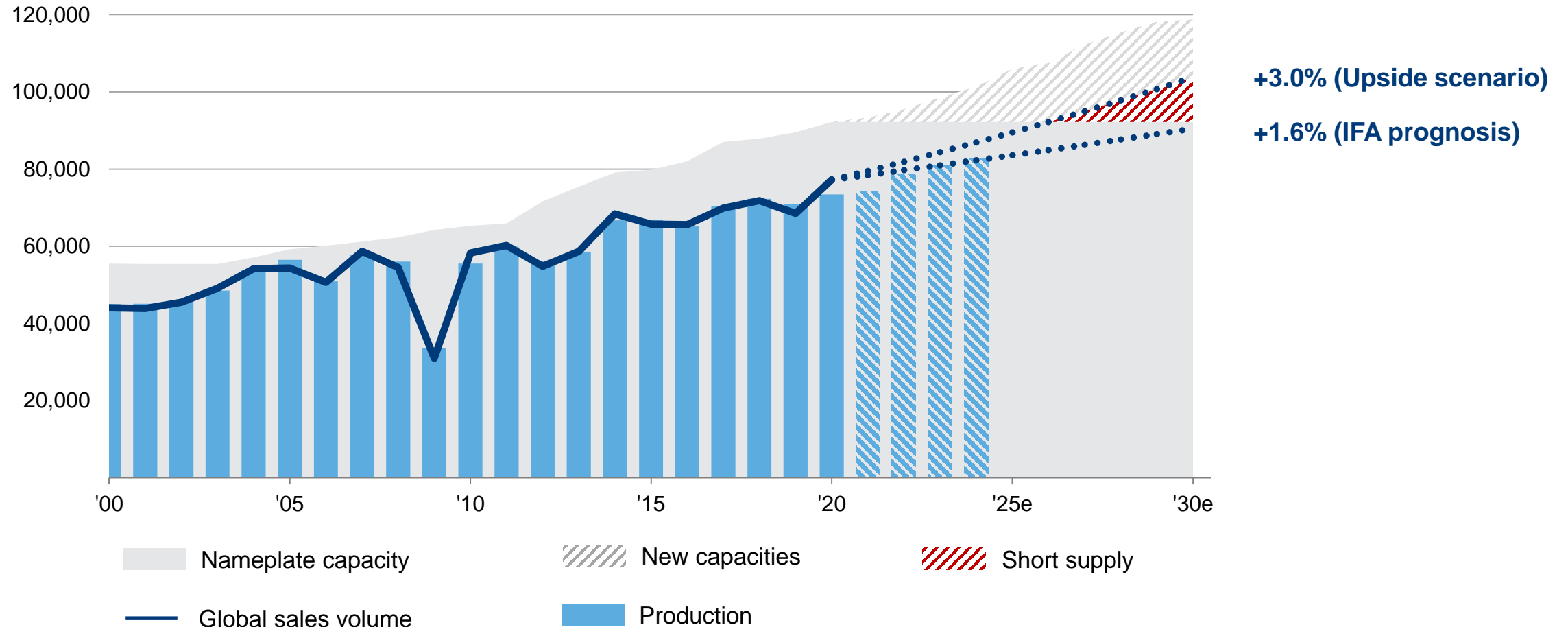


→ While farmer profitability is expected to decline in 2022 after the post-record level of 2021, mainly due to higher input costs, it should still be at an attractive level compared to recent years.

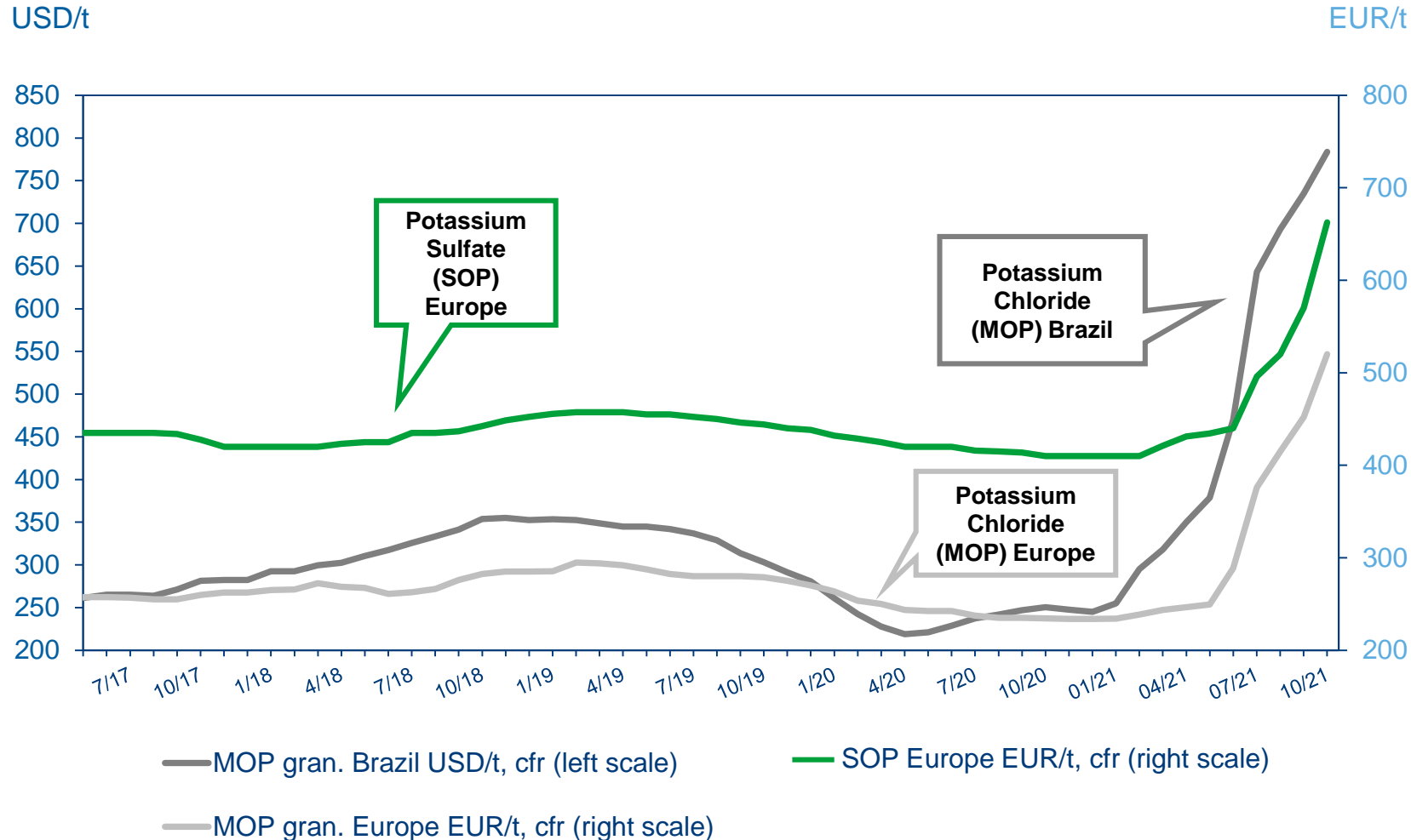


# New potash capacities necessary to meet rising demand

thousand tonnes



# Agriculture customer segment in Q3/21



## Q3/2021

- Price hike in Brazil continued on the back of very strong demand
- Concerns about supply due to US sanctions against Belarus
- Positively influenced European and specialty market

## Outlook 2021

- World potash sales incl. 5 mt specialties meanwhile expected slightly above last year's record level (2020: about 76 mt), further growth limited by supply
- FY ASP expected tangibly higher than 9M/21

Source: FMB Argus Potash

# Q3 trading update: Industry+



## De-icing salt business

- Strong performance in Q3
- Good early-fills business



## Pharmaceutical industry

- Increase after COVID-19-related declines in previous year



## Food service

- Still burdened by COVID-19-effects



## Chemical industry

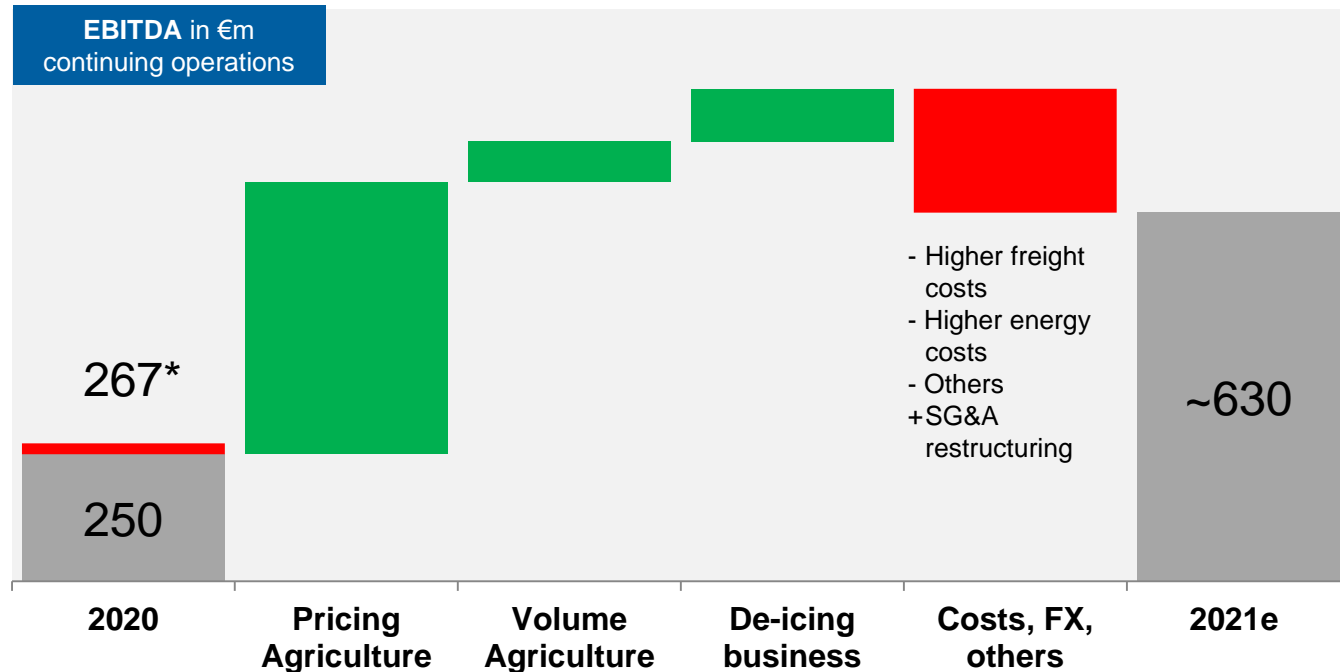
- Increase after COVID-19-related declines in previous year, higher prices for industrial potash



## Consumer products

- Normalization after strong prior quarter benefitting from increased home consumption

# 2021 EBITDA outlook raised to €630 million



- Significantly higher average price in Agriculture product portfolio
- Sales volume in the Agriculture customer segment expected to be >7.5 million tonnes (2020: 7.3 million tonnes)
- Sales volumes in de-icing salt business: >2.6 million tonnes expected (2020: 0.9 million tonnes; normal year: 2-2.5 million tonnes)

FCF including cash-in from sale of the OU Americas expected significantly above €2 billion; excluding this, FCF now expected neutral in 2021 (2020: €-109.9 million)

# Sneak preview 2022

- **EBITDA of €1 billion\* in reach**
- **Significantly positive FCF**

## **Cost inflation included:**

- freight rates, especially containers
- gas prices/energy costs
- price of raw materials, e.g. for pallets, packaging or maintenance material, also influencing capex
- personnel costs

# Our new dividend policy

## Current situation:

- Still high environmental expenditures
- K+S still in restructuring phase

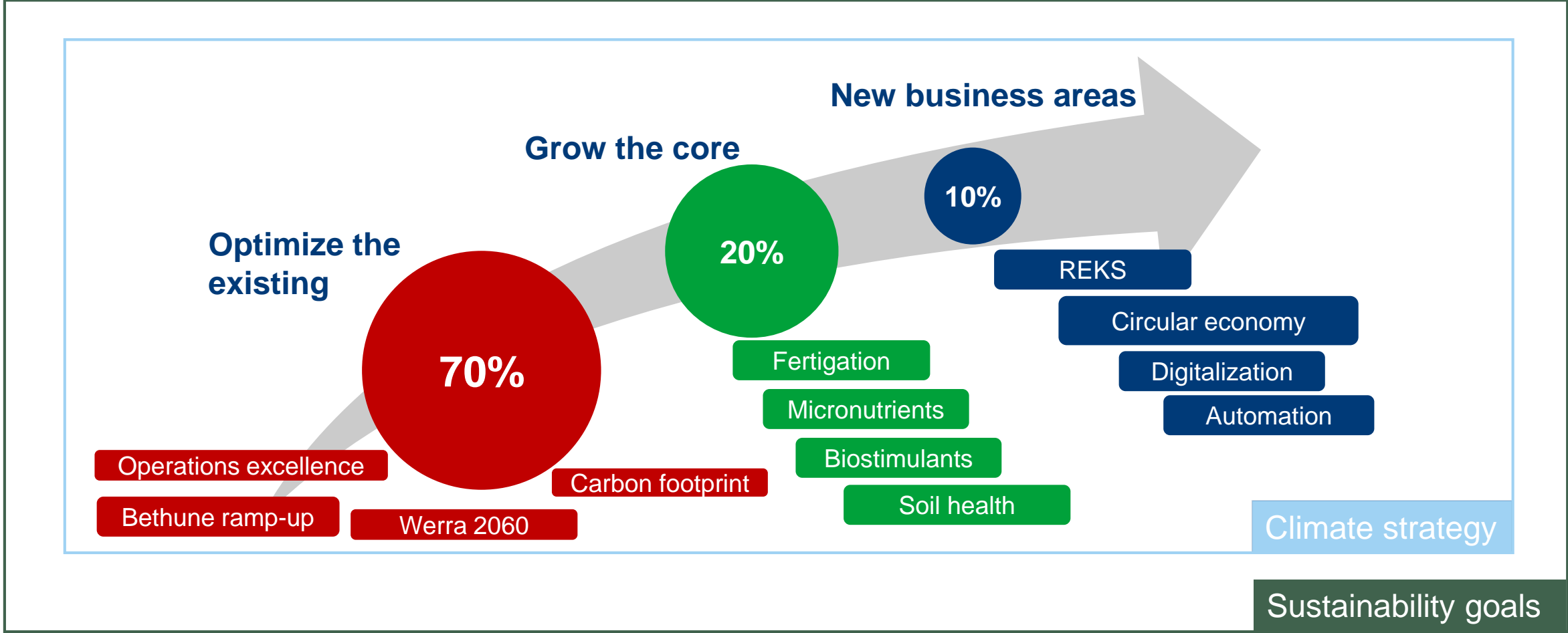
## Considerations:

- Shareholders should participate in K+S's success through attractive dividend
- Strategic measures aimed at increasing total shareholder return
- The dividend policy is intended to:
  - ... provide continuity for shareholders
  - ... be easy to understand and clearly communicable
  - ... adequately signal and take into account the future years of ongoing restructuring
  - ... demonstrate a disciplined capital deployment policy

**Discretionary  
premium**  
upon balance  
sheet structure,  
outlook etc.

**Base  
dividend:**  
0.15 € / share

# Guiding principles of strategy and management focus



Financial ambition

- ROCE > WACC over a cycle of 5 years
- At the same time, an EBITDA margin of more than 20% is targeted over this cycle
- Positive free cash flow from 2023 even in the event of low potash prices

# Strategic classification of salt business

## Global market position of the continuing K+S salt business

- After sale of OU Americas, reduced global relevance and reach
- Risk of new competitors entering the market (e.g., Ciech, Varnitsa)
- Continued high dependence on de-icing salt business with simultaneous global warming
- Financial and management capacities still scarce:
  - ➔ **Focus on business areas with a better opportunity/risk ratio and greater importance for the overall portfolio**
    - Focus on **operational and tactical improvements**, e.g., portfolio, costs, efficiency
    - **Major strategic considerations** (market consolidation, opening up new markets, e.g., Asia) **are no longer in focus**



# Bethune: Commodity site with cost leadership

70%

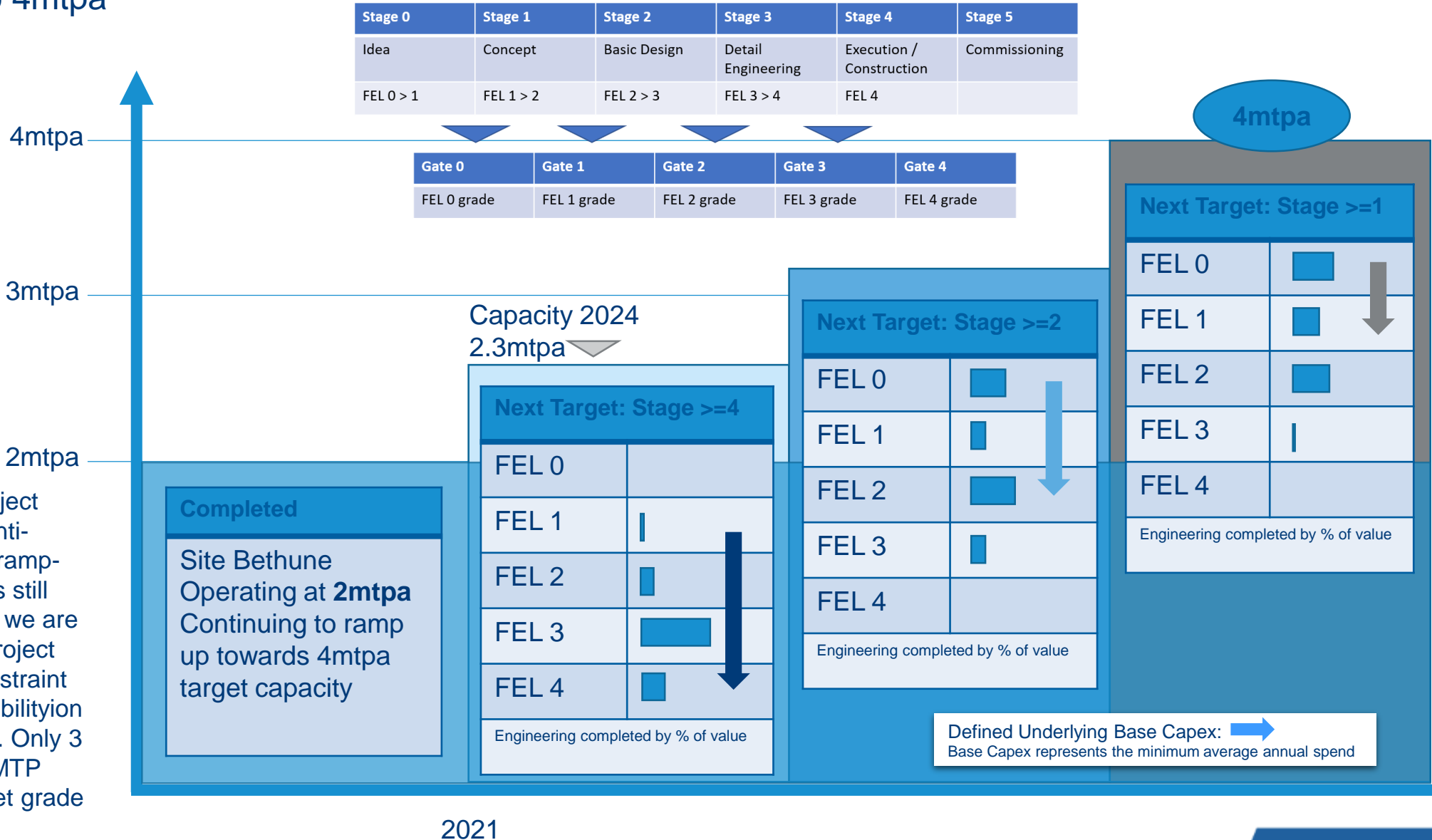


- **Growth on the way to 4mt pa** is achieved through secondary mining & cooling pond technology
- **Improvements in efficiency** through automation, start of secondary mining and reduction of energy input per tonne of end product
  - **Reduction of energy and water consumption** (introduction of technologies with low greenhouse gas emissions).
  - **Increased brine concentration**
  - **Improvement of plant components** in factory and loading operations
  - **Improve plant performance, availability, and capacity utilization (OEE)**
  - **Reduction of costs per cavern**

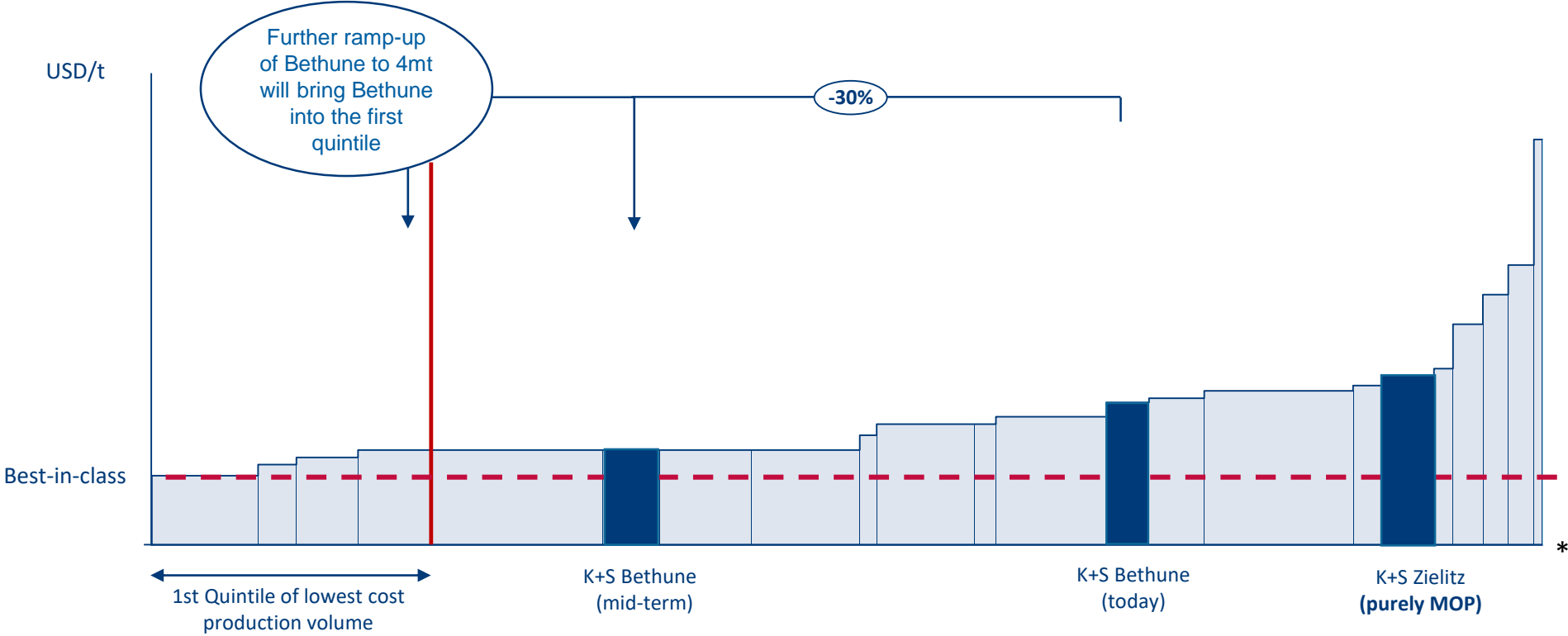
# Bethune

## Ramp-up to 4mtpa

Timing: This project represents a continuous capacity ramp-up. Since K+S is still cash constrained, we are managing the project from a cash constraint budget with flexibility on completion time. Only 3 years forward (MTP cycle) are budget grade



# Site costs (FOB) in comparison



Source: CRU Report 2019, K+S

\* column width = production capability in million tonnes

**Continuous ramp-up of Bethune increasingly improves our cash costs and thus our competitive position**

# Zielitz:

## Clear focus on potash products

70%



- **Focus on innovative strategic future projects and concepts:**
  - **Operations Excellence (cash cost reduction)**
  - **Autonomous mining** and process control systems
  - **Renewable energy**, H<sub>2</sub> and CO<sub>2</sub> infrastructure
- **Expansion of KCl 99** to become the industry leader in this specialty
- **Feasibility studies for expansion into other specialties**, such as pharma KCl, SOP, NOP

# Werra:

## World's largest potash, magnesium and sulphur specialties plant



### 1. Optimize portfolio

- Maximize **CMS** (Epsom Salt)
- Increase **granulated products**
- Increase of **SOP** production
- **New specialties**, incl. green fertilizers

### 2. Future proof

- Increase **extraction rate**
- Reduce **process water**
- Reduce **solid by-products**
- Reduce **energy consumption**
- Reduce **CO<sub>2</sub> emissions**

### 3. Licence to operate

- Improvement of the **permit situation**
- **Tailings pile coverage**

# Neuhof:

## Specialties plant for the European market



Increase plant lifetime

### 1. Efficiency

- Increase **extraction rate**
- Reduction in **chemical consumption**
- Increase **own power generation**
- Reduce **energy usage**

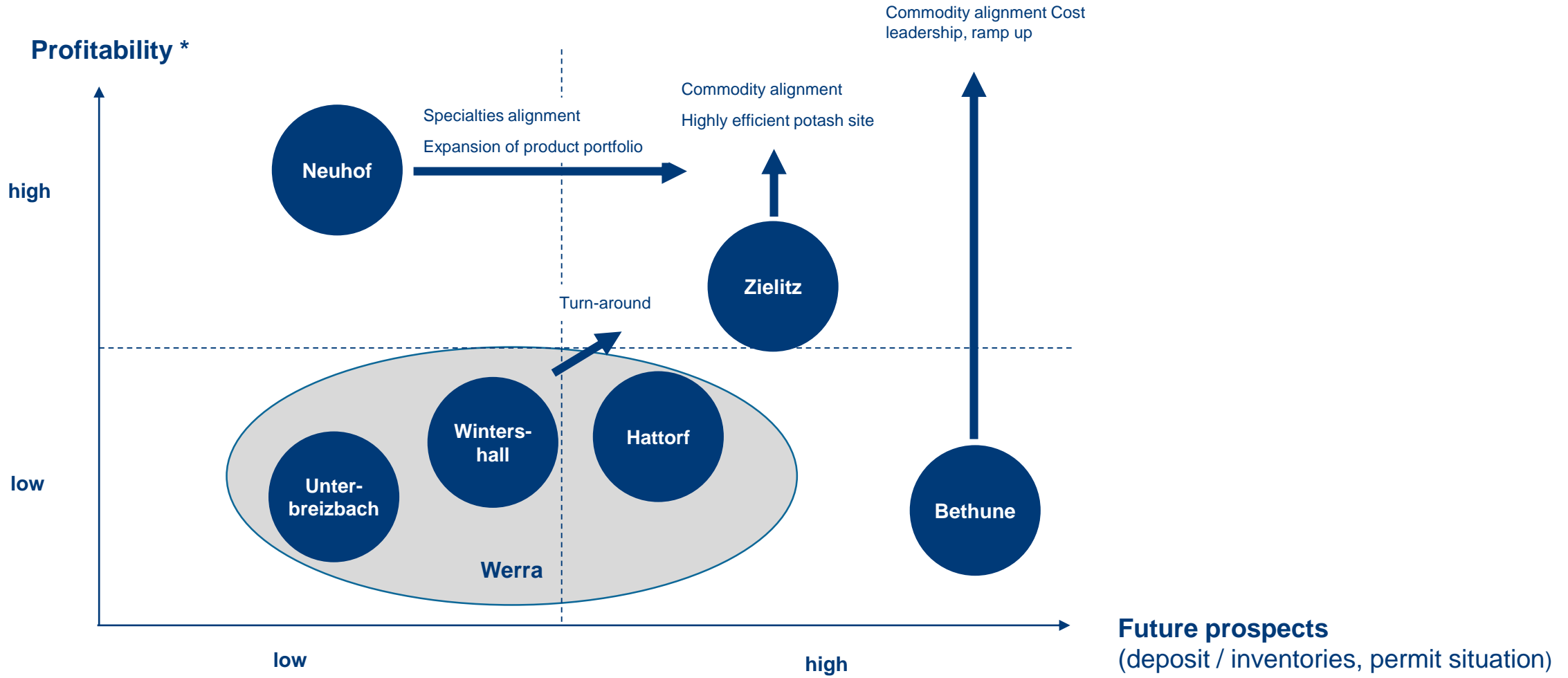
### 2. Optimize portfolio

- Increase **kieserite production**
- Increase **granulated products**

### 3. Future proof

- Improvement **CO<sub>2</sub> footprint**
- **Tailings pile coverage**

# Strategic direction of the potash primary sites



\* based on 2020 results

# Centers of excellence for focus topics

	Bethune	Zielitz	Neuhof	Werra
Increase extraction rates			X	
Autonomous mining		X		
Process automation	X			
Energy efficiency and CO <sub>2</sub> footprint reduction	X			
New business models e.g., CO <sub>2</sub> , H <sub>2</sub> , energy		X		



# Optimization of K+S salt sites

## Generally

- Focus on cost optimization; manage capex at base level; maintenance and operational improvement measures with ROI  $\leq$  3 years

## Shaping concepts for commodity vs. specialty sites

- Concentration of de-icing salt volumes at low-cost sites
- Optimization logistic concept including reduction of warehouses/network
- Focus on industrial salt at Frisia Zout

## Ashburton:

- K+S Salt Australia is currently working on the final feasibility study for the project. The report should be available shortly.
- We also expect the environmental and mining permits for the project by the end of this year.
- Consensus estimates that the potential annual salt production of the Ashburton project would be around 4.5mt p.a. with USD 400mn project costs to complete.
- After having the permits and results of the feasibility study, management will decide according to the strategic classification of the salt business: invest or sell the project at a premium.

# Operations Excellence at K+S: Sales, Marketing and Supply Chain

## Digitalization throughout the value chain

Application and use of cloud data and AI-based algorithms

- Improve net backs (e.g. pricing, product allocation)
- Production planning (margin optimized production portfolio )
- Sales and service Platforms for agriculture (e.g. roll out MY K+S)

## Product Offering and Portfolio

Portfolio expansion with higher value specialities for both Agriculture and Industry

- Grow industrial potash, e.g. KCl 99, Epsom salt, Pharma KCl
- Value-adding product variations based on the existing portfolio, e.g. green potash, improved applicability, water-soluble fertilizers, value-adding blends

## Regional Expansion

Establish local sales offices in selected regions, increased grass root activities, agronomical services

- Getting closer to the customer in selected markets

## Supply Chain Excellence

Efficiency gains in supply chain and logistics

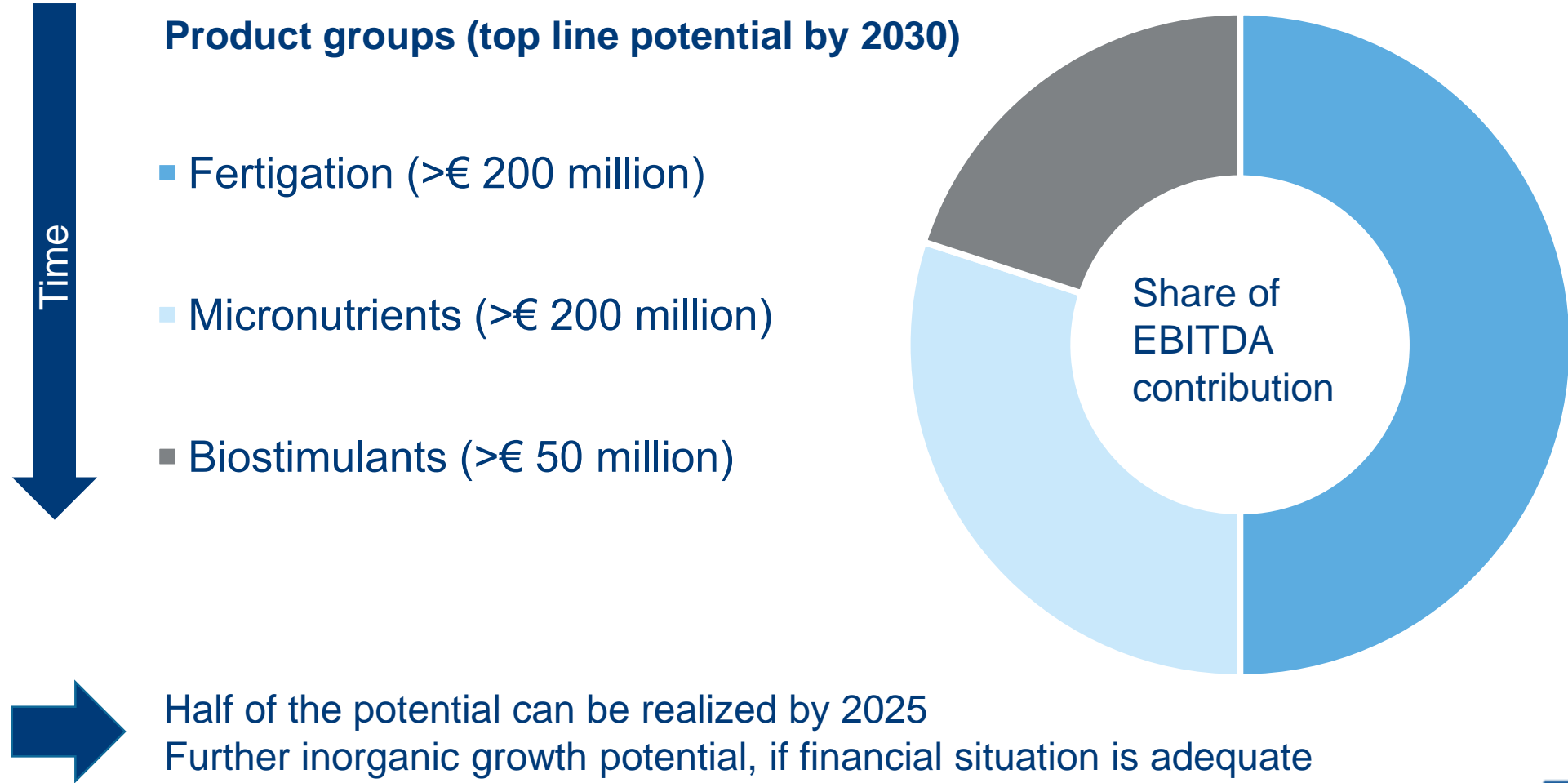
- Optimization of our logistics and supply chain network, e.g. warehouse optimization
- Working capital improvements through planning and supply chain optimization

# Share of additional EBITDA contribution by 2023



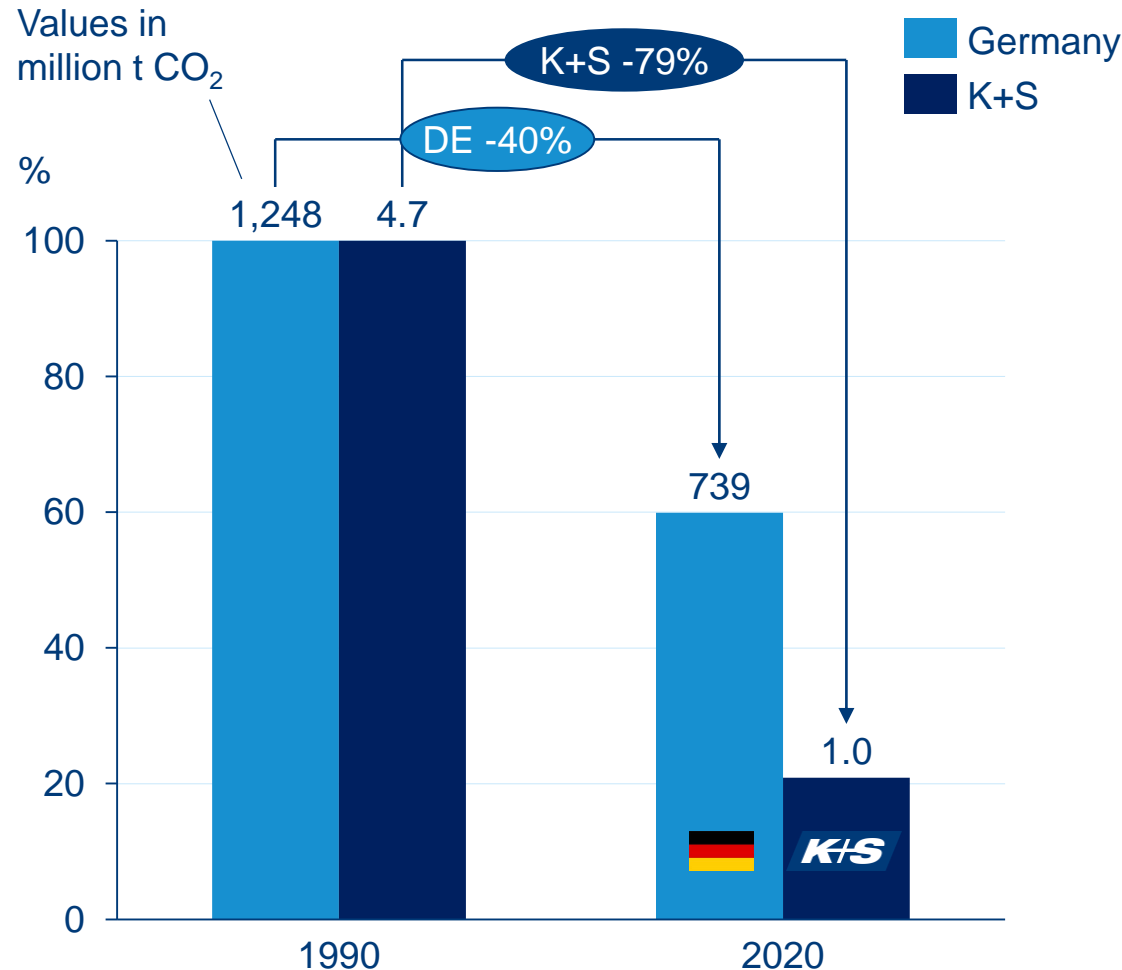
# Grow the core: Contribution of the product groups

20%



# K+S Climate Strategy

80% reduction of GHG emissions (1990 – 2020) already achieved by a change of fuels, increase of energy efficiency and closing of sites



Germany compared to K+S (German potash production, scope 1)

## Short-term goal:

Introduction of a “**K+S climate protection fund**” from 2022 to reduce our CO<sub>2</sub> emissions.

## Mid-term goal:

Reduction of our CO<sub>2</sub> emissions by 10% by 2030 compared to 2020.

## Long-term goal:

**K+S supports the goals of the "Paris Agreement": Climate neutrality in 2050 can be achieved** with a supportive regulatory framework. K+S therefore calls for a worldwide **level playing field** (until then carbon leakage protection is required), strong energy **infrastructure**, transitional **funding** and **affordable renewable energies**.

(Note: The Paris Agreement sets out a global framework to avoid dangerous climate change by limiting global warming to well below 2°C and pursuing efforts to limit it to 1.5°C.)

# Housekeeping items / Financial calendar

## Additional information on 2021 FY outlook – continuing operations

- Tax rate: 30%
- Financial result: on the level of last year (2020: €-106m)
- CapEx: < €400m (2020: €428m)
- D&A: ~€300m

## Financial calendar

Scotia Bank US Roadshow (virtual) – CEO

9 December 2021

Kepler Cheuvreux German Corporate Conference (virtual) – CFO

18 January 2022

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