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Full Year 2020 Johnson Matthey PLC Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the full year results call. (Operator Instructions) For your information, the conference is being recorded. Now I would like to hand the conference over to your speaker today, Martin Dunwoodie, Director of Investor Relations. Please go ahead, sir.

Martin Christopher Dunwoodie *Johnson Matthey Plc - IR Director*

Thank you. Good morning, and thank you to everyone for joining us for our results today. It's a little later than we'd originally planned, but this was solely due to difficulties our auditors had in completing the year-end order remotely due to COVID-19.

We have today both a webcast and an audio call. The webcast is listen only. So if you want to ask questions following the presentation, please join the audio call. The presentation is available to download from the Johnson Matthey website.

On the call today, I'm pleased to welcome our Chief Executive, Robert MacLeod; and our Chief Financial Officer, Anna Manz, who will take you through the presentation and then answer your questions afterwards. And with that, I'd like to hand over to Robert.

Robert J. MacLeod *Johnson Matthey Plc - CEO & Executive Director*

Thanks, Martin, and good morning, everybody. Obviously, we're in a very different world today since we last spoke, and I hope that you and all your families are keeping safe and well. Personally, I'd love to be doing this face-to-face, but obviously, given the circumstances, we have to do this remotely, but hopefully, it will still be a useful session for you. As usual, what we'll do is go through our presentation, and then give you the chance to ask any questions you may have.

This morning, as Martin has already said, it's Anna and me here with the IR team, and you'll be pleased to know we're appropriately social distancing, of course.

So to start with, clearly, the COVID-19 pandemic is one of the biggest challenges that our society and business has faced in recent years. It is an uncertain time. But at JM, we remain focused on the things we can control, and I'm extremely proud of how everyone at JM has collectively worked together to support each other and try to balance the needs of all of our stakeholders. But the good news is that we're delivering on our strategy, and you'll hear from me on the progress we've made and how we're doing it.

And you can see from our results that our -- that we delivered operating performance slightly ahead of expectations, before -- towards the end of the year, we began to see the effects of COVID-19, and that impacted operating profit by around GBP 60 million.

But our business is resilient. We have a strong balance sheet and are well positioned in this uncertain world. That's not just because of the strong foundation that we've built, but it's also because of our business model and the early and rapid actions that we took.



We all know that the automotive market is evolving away from the internal combustion engine, and it's likely that COVID-19 will only accelerate that. But no one yet knows how COVID-19 will impact the global economy, but we do expect that it will adversely impact demand across a number of our businesses, probably for quite some time.

In order to maintain our competitiveness and our ability to continue to invest in our long-term growth drivers, we have to be more efficient. Therefore, today, we're announcing the acceleration of our drive for further efficiency across the business. These new actions will deliver annualized savings of at least GBP 80 million by the end of our fiscal year '22, '23.

But looking beyond that, I'm confident in our medium-term growth. Addressing climate change is a priority for all of us, and commitments to net zero are accelerating across the world. These trends aren't going away, and our strategy is all about applying our science to provide solutions to address them. And all of this gives me confidence in the strength of our business.

So in a moment, Anna will talk you through our performance in the year in more detail. But first, I wanted to give you some highlights, update you on how we're navigating through COVID-19 and talk more about the actions we're taking to accelerate our strategy. So as I mentioned, our underlying operating performance was slightly ahead of market expectations before the impact of COVID-19.

In Clean Air, it was obviously a challenging year for global auto production, even before COVID-19. But I was pleased that we strongly outperformed in light duty, particularly in Europe and Asia, where we're benefiting from tighter legislation.

In Efficient Natural Resources, the year's operating results obviously benefited from the high and volatile metal prices, but we also made great progress in reducing our refinery backlogs. In addition, we're also well underway with the development of new technologies, particularly those which will help pave the way to a low-carbon future.

In Health, you'll remember that at the half year, we flagged the short-term hiatus in the market for opioid addiction therapies. But given our strong position, we've now agreed multiyear supply agreements for APIs used in these therapies. We also recently had the good news that one of our innovator customers has now received approval for their new cancer drug.

And finally, in Battery Materials, we've continued to make good progress on customer testing and the building of our commercial assets, which I'll talk to later. Those are some of the performance highlights from the year, but let me now turn to more recent developments.

Since COVID-19 started to impact us all, we've tried to balance the needs of all of our stakeholders. Whilst it's difficult, balancing the needs of all of our stakeholder groups is absolutely consistent with our values. Health and safety has to be our priority, and I want to say a heartfelt thank you to all of our people for their efforts and dedication during this challenging time. Thanks to their commitment, we've managed to keep the vast majority of our operations running, and we're still delivering for our customers.

This, of course, hasn't been easy because we've had to balance keeping our operations open safely or even keeping them open at all, and I'm pleased to say that we've managed that well throughout. But as markets start to reopen, we're likely to see new and different challenges emerge. For our suppliers, we've maintained our payment terms, and we've even promised to support any smaller suppliers who may be facing difficulties.

And across JM, there's been a huge desire to support our communities, whether it's supplying vital drugs to the health care industry, producing chemicals for food or energy supply chains, donating PPE to medical and care organizations or also supporting charities. And of course, we remain absolutely committed to doing the right thing for our shareholders, and we are grateful for the support we've received.

So notwithstanding the strong financial position of the group, but in light of the current uncertainty and recognizing the importance of balancing the needs of all of our stakeholders, the Board is proposing a final dividend for the year that is half the level of last year's.

Let me now give you a picture of what we're currently seeing across our sectors. In Clean Air, many of our auto OEM customers began to close their plants from the middle of Jan -- sorry, the end of January, firstly, in China and then in Europe and the U.S. from the middle of

March. In the vast majority of these cases, this was due to a decline in consumer demand rather than any particular government requirement to shut down.

What we're seeing now is a gradual recovery. First, in China, helped by the Chinese government, which has rolled out incentives to boost the industry. And in Europe and the U.S., our production levels fell sharply in mid-March, with April and May sales down close to 80% compared with last year, although demand remains in some areas, for example, in agricultural equipment and spare parts. So while demand from our customers is starting to recover, visibility remains low, which is making forecasting difficult for us all.

The European governments are now starting to follow China's lead with, for example, France announcing an automotive incentive program. In Efficient Natural Resources, the vast majority of our Catalyst Technologies plants have continued to operate close to normally throughout, and the same is true for our platinum group metal refineries, although they're doing so at a lower capacity given new ways of working.

For Health, our operations have been relatively unaffected, although we did see some small logistical delays around the year-end. And finally, new markets are on track, and I'll get more into that later.

So now looking at how we responded to the pandemic. Over the past few months, we've been focused on strengthening our financial position. Of course, in any crisis, it's critical to react quickly, and the JM team did so really, really well, taking immediate and decisive action to maintain our strong balance sheet and strengthen our liquidity.

Firstly, we reduced our costs. We rapidly reduced our contractor numbers by more than 600. We restricted all discretionary spending. And as demand slowed, we adjusted shift patterns and froze hiring across the group.

Second, we tightly managed our working capital. In Clean Air, we reacted quickly. We anticipated the impact on our customers until the day we shut down, so we ran down our inventory in raw materials purchases. And in our pgm refineries, we controlled our intakes to recognize the fact that our refining capacity was reducing.

Finally, we immediately postponed a number of nonstrategic capital projects. However, we continued with and, of course, remain committed to our strategic growth projects, given how important these are in supporting our medium-term growth. And it's partly because of all these actions that we're in a strong position today, and I'm confident that we're well placed to navigate the current uncertainty, and the next slide summarizes why.

The first thing is that we have a robust balance sheet, and Anna will give you the detail on that shortly. But that's not all. The nature of our business model means that when the economic environment weakens, our balance sheet and liquidity strengthens as we have significant working capital inflow when demand reduces. We also benefit from our flexible cost base. For example, around 75% of our costs in Clean Air are variable. So when demand turns sharply, we can flex things pretty quickly. And of course, this is something we're used to dealing with. For example, as we've managed through the regular peaks and troughs of the U.S. truck cycle. And more broadly, the diversity of our portfolio reduces risk because we have exposure across multiple end markets and regions.

And also, don't forget our businesses run on different cycles, too, even within the same sector. So while Clean Air Europe and Americas are still at low levels of production, China has recovered strongly.

Taking a step back from the short-term developments, let's now turn to our strategy and what we're doing to drive this forward. Our strategy is clear, and a key element is focused -- is continued focus on efficiency. We've already delivered substantial savings from our existing initiatives, and today, we're announcing further efficiencies.

The reason we can do this now is because of the investments that we've been making over the last few years. First, we're consolidating our Clean Air footprint. And second, we're driving organizational efficiency across the entire group. And what that really means is simplifying the organization and making it easier to get things done. Together, these actions will take run rate cost savings to around GBP 225 million by the end of fiscal year '22/'23. And over the next couple of slides, I'll take you through what this means.

As many of you know, over the last couple of years, we've been investing in our Clean Air manufacturing footprint. Our new world-class plants in Europe and Asia are now almost complete. The first of these, our plant in Poland is now on stream. Two lines are operating. We're running validating -- validation batches and expect production will ramp up over the rest of the year.

China will follow shortly as we've already started commissioning and validation, and our plants in India will follow in a year or so to take advantage of new tighter legislation. With our new plants nearing completion, we're now able to take action to consolidate our footprint in Europe and remove inefficient capacity, and this will save us at least GBP 30 million per year. Our ability to operate efficiently is a key priority in Clean Air, more so as this business moves into the next phase of its maturity.

Our new plants will enable us to do just that. They're very similar to our existing newer plants in North Macedonia and the U.S. and, together, they will give us an efficient global manufacturing network. In the current environment and as this market matures, efficiency and agility are absolutely critical. This greater operational efficiency will mean that we can drive out cost. The plants are highly automated, and that's, of course, an added benefit in the current environment as any social distancing requirements will not materially impact our productivity levels.

And with our standardized manufacturing assets, we'll be able to move products all over the world. These plants can produce our entire product mix, heavy-duty and light-duty parts. And together, they give us a truly flexible, agile and efficient manufacturing base, one where our customers know that wherever we manufacture their products, they will receive the same quality and the way their product is manufactured will be identical.

And this is critical in helping us deliver for our customers and to enhancing their experience with us. With our investments in Clean Air nearly behind us, we're now focused on maximizing our returns from this business. And our drive for efficiency is broader than just Clean Air footprint, we're reviewing our manufacturing capacity across the whole company. Over the last few years, we've also been investing in the business and building our capability. This includes the setting up of a global procurement function, the centralization of our IT function to drive efficiency and rolling out our global ERP system, where we're now live in 4 plants as well as the corporate center.

All this is crucial to our long-term success and is now allowing us to further simplify our organization. By having standardized systems and processes, we'll transform and simplify the way we work. But whenever you add capability, there comes a point in which you need to remove areas of duplication to reduce complexity, so we're now removing areas of overlap between the corporate center and our sectors, for example, by consolidating our procurement activities.

This will leave us with a simpler organization, enable faster decision-making and allow more time for our business leaders to focus on serving our customers. In a world that's changing and increasingly challenging, this is more important than ever.

So before I hand over to Anna, let me just wrap up. We made good progress this year, and our operating performance was slightly ahead of expectations. Through many of the swift actions we've taken, we are well positioned in an uncertain world, and we're accelerating areas of our strategy to drive further efficiency and set us up for future success.

Anna?

Anna Manz Johnson Matthey Plc - CFO & Executive Director

Thanks, Robert. Good morning. Today, I'm going to get into the detail of our performance. I'm going to tell you why our strong balance sheet means we're well positioned, and I'm going to unpack the impact of accelerating our strategy on our financials.

But let's begin by looking at our performance in the year, starting with group sales. We had 1% sales growth in the year until the last quarter when we were impacted by COVID, and that reduced our sales by GBP 105 million. Sales were higher in Efficient Natural Resources and new markets, although that was offset by declines in Clean Air and Health. And it's in Clean Air we saw the majority of the COVID impact.

Before the impact of COVID-19, our businesses were doing well and grew 5%. The slide gives you the drivers by sector, and I won't go through each sector here because I've got a slide coming up on each in a moment. The 5% growth was despite a couple of one-offs, which happened in the first half, and are called out in the text boxes. In the last couple of months of the year, COVID-19 impacted profit by about GBP 60 million, and I want to break that down a bit for you.

Firstly, GBP 30 million of this was lost demand in Clean Air; GBP 15 million was higher trade debtor provisions, and that really reflects the greater risk we see in the macroeconomic environment. We've not actually seen much change in our cash payments and nor have we seen any defaults. And finally, GBP 15 million was delayed sales due to logistical challenges, and those have all since shipped in the month of April. As a result, operating profit declined 6% for the year.

Now let's go through the sectors in a bit more detail. Clean Air sales were down 4%, significantly outperforming auto production, which was down 10%. I'm not going to go through the bridge here, as that shows performance relative to prior year, and it's our performance relative to auto production that I want to focus on. The outperformance against auto production was in light duty. This was due to tightening gasoline legislation in Europe and China, increasing the value per vehicle and the annualization of our share gains in diesel in Europe.

Elsewhere, our performance broadly followed the market production. Globally, the heavy-duty market was down 11% and we followed the market. In the Americas, the Class 8 truck cycle peaked in September and, as we expected, we saw a sharp decline in the second half.

Operating profit declined significantly more than sales. While 75% of our costs are variable, there's a couple of specific items to call out this year, which meant the decline in profit was bigger than we might have expected. Firstly, we experienced a GBP 40 million impact from COVID, only GBP 30 million of this was a volume decline. The remainder was the higher trade debtor provisions. We also had GBP 15 million of one-off costs in the first half from manufacturing inefficiencies, and we've had higher infrastructure costs relating to the start-up costs for our new plants.

Looking forward, visibility on the recovery remains low, and external data shows a wide range of production assumptions for the next year. It currently suggests light-duty vehicle production declines of about 25% for Europe and the U.S., with Asia stronger. And in heavy duty, the declines in Europe and the U.S. are even greater. But of course, the outcome could be materially different. And irrespective of that outcome, we will adapt our flexible cost base.

Efficient Natural Resources performed strongly, with sales up 8%. In Catalyst Technologies, we saw good growth in licensing, and we benefited from recent methanol and formaldehyde wins. We saw good growth in first fills as new plants in Asia came onstream. Refill catalysts performed well, but refill additives were weaker. Additives were impacted by the lower oil price as when refineries are using lighter crude, they use less of our products.

Copper zeolite sales into Clean Air declined as auto demand was impacted by COVID. Pgm services has all been about precious metal prices. They've been both higher and more volatile throughout the year, driving double-digit sales growth in our refinery and our trading business.

Operating profit was up 40% as those higher precious metal prices benefited us by GBP 47 million. We didn't see all the benefit of price as we had some additional costs associated with working down those backlogs and also associated with the investment that we're making in our refineries to increase their resilience and efficiency.

Looking at 2021. The Catalyst Technologies business is later cycle, so we're not yet seeing the full COVID impact, but it will come through later on in the year. When it does, the impact of reduced volume will be greater, and that's because of the higher operating leverage as this sector operates with a large number of sites and higher fixed costs. And in pgm services, metal prices and volatility will, of course, influence operating profit. So we may not see all the price benefit we saw in the last year.

In Health, sales declined 15%. Generics were impacted by the temporary disruption in the opioid addiction therapy market in the second half, and we also saw lower sales of ADHD APIs. If you remember, we talked at the half year about Teva's proposal for a global

settlement framework in the U.S., which would supply free-issue opioid addiction medication. That created temporary uncertainty in the market, and we saw our customers stop buying in the second half. But we have a strong position in this market. We've got multiyear supply agreements with generic partners for the APIs that go both into tablet and thin-film opioid addiction products, and that will benefit us next year.

Innovators grew slightly. And as Robert mentioned, since the year-end, our customer, Immunomedics, got FDA approval for their triple-negative breast cancer therapy. The weaker sales meant that operating profit was down 38%.

Looking to fiscal '21, Health is relatively unaffected by changes in the macroeconomic environment, and we'll have the benefit of the stronger market in opioid addiction therapies and the ramp of sales to Immunomedics. In new markets, sales grew 7%. That was driven by the alternative powertrain with strong demand for fuel cells and some nonautomotive battery systems, things like e-bikes.

However, operating profit declined as a result of an GBP 8 million impairment of our eLNO plant, where we decided to go directly to our first eLNO commercial plant. That's because the pace at which we were improving our process meant that our demo client would rapidly become obsolete. We made significant investment in eLNO this year, and we're making good progress towards commercialization.

The slide gives you the full P&L, but I just want to highlight a couple of lines here: finance charges and tax. As we flagged, finance charges have increased due to increased interest on our metal borrowings. This is due to the greater average value of our borrowings, driven by higher precious metal prices and the fact that we pay higher interest on metal borrowings than on the rest of our net debt.

The underlying tax charge was similar to last year at 15.7%, and underlying earnings per share was down 13%. Here's a reconciliation to our reported results. The important number here is the GBP 140 million of impairment and restructuring charges. Robert shared with you the actions we're taking to restructure our business, and this is a noncash impact in the year. I'll get into more detail of the restructuring and its financial implications in a couple of slides' time.

I am really pleased with our cash flow over the full year. We had a free cash flow inflow of GBP 52 million, and you can see we had very little precious metal working capital outflow, and that is despite a 75% average increase in pgm prices. And that's because we significantly reduced the volume of precious metal working capital we used in our business, which I'll come on to shortly.

Cash outflow on CapEx was significant in the year, and I'll talk more about this on the next slide. We're investing in our future. Our CapEx spend of GBP 465 million was focused on our strategic growth projects. Our new Clean Air plants in Poland and China are largely complete, and they give us the capacity to deliver against the growth coming from new legislation, and they're far more flexible and efficient.

In Efficient Natural Resources, we're upgrading our pgm refineries for safety, efficiency and resilience, and that will further help us in managing and reducing levels of precious metal working capital.

In Health, we continue to develop our new product pipeline. And in Battery Materials, we continue to commercialize eLNO, building our first commercial plant and application centers. And we're investing to upgrade our IT systems to make our organization more efficient.

Despite the external environment, we will continue to invest to deliver future growth and efficiency. And in fiscal '21, CapEx will be up to GBP 400 million.

As Robert told you, we've got a robust balance sheet. We've got good access to liquidity at around GBP 1.3 billion, and that's because we restructured and increased our bank facilities, and we raised an additional \$300 million U.S. private placement in the year. Our balance sheet is robust, with net debt-to-EBITDA of 1.6x, and that's at the bottom end of our target range of 1.5 to 2. It's a significant improvement in the second half despite the impact of COVID on EBITDA and higher pgm prices.

Our debt maturity profile is balanced. And the majority of our facilities have covenants of 3.5x net debt to EBITDA, against which we've got material headroom. Our covenants are tested annually in March. I'm really pleased with the progress we've made on precious metal



working capital. We've reduced the volume of precious metal used in our business by GBP 345 million. There's 3 main drivers here: reducing our refinery backlogs, reducing other precious metal working capital and managing our business volumes through COVID.

Starting with backlogs. If you remember, we had an outage at one of our refineries, which led to an increase in our backlogs, and we've been working really hard to bring them down. In the year, we took out GBP 162 million of volume, and that was more than we anticipated. We've also worked to reduce volumes across the group. We've optimized metal movements across the supply chain, and we've improved our commercial terms.

And lastly, business volumes. We were quick to act and manage cash towards the end of the year. We saw the end market demand slowing and we acted quickly to reduce metal at every stage in our supply chain, so we weren't sitting on any excess inventory. Metal price increases in the year were huge. Palladium was up 56% and rhodium up 137%. Higher metal prices increased working capital by GBP 352 million, and that is out of our control.

Metal prices will continue to be volatile, so we're working really hard on what we can control. We are going to accelerate our working capital metal volume reduction. The biggest lever continues to be backlogs. We've already been really successful in reducing them. And because of the work we've done, we now believe we can take out at least another GBP 300 million in volume by the end of this financial year, now that's based on metal prices at the end of March. But you can't plug that straight into your models as we would expect it to be offset by the ramp-up in demand in Clean Air, increasing receivables. The timing and pace of that ramp-up is currently hard to predict.

We have a strong track record of delivering efficiency. We've announced a number of initiatives since 2017, and we've delivered GBP 116 million to date with GBP 145 million annualized benefits by fiscal '23. The scale of the numbers here shows we know how to do this. And as you heard from Robert, accelerating our strategy will deliver at least a further GBP 80 million. This brings total benefits to GBP 225 million by fiscal '23.

And we're not done. We'll go on looking for more opportunities. Let me give you some of the details you need for your modeling. Here are all the numbers. Looking first at the totals, we'll deliver at least GBP 80 million of annualized savings. The total cost of that will be GBP 240 million. And as it says in the footnote, GBP 80 million of that is cash. Of the GBP 240 million cost, GBP 140 million noncash charge has been recognized this year.

The consolidation of the Clean Air manufacturing footprint in Europe will deliver a GBP 30 million annualized benefit within 3 years. It will cost GBP 91 million, of which GBP 30 million is cash. The simplification of our business will deliver GBP 50 million. It will cost GBP 70 million overall, of which GBP 50 million is cash.

In Battery Materials, we're impairing our lithium iron phosphate or LFP business, as we focus on the smaller, higher-value segment of the market, and that's where our eLNO customers play. In Health, we've done a review of our pipeline and our new product introduction approach, which has led to an impairment. And that's because we want greater focus on the most valuable molecules.

Given the ongoing uncertainty, we're unable to provide financial guidance for next year. There will be a diverse impact across our sectors, and I've already taken you through the dynamics of what we expect to see. Savings from our efficiency initiatives will support performance in the year by GBP 30 million, and we expect to see significant benefits from reducing our backlogs on our working capital.

We'll continue to invest in our strategic projects, which are critical for our future growth and efficiency.

And with that, I'll pass back to Robert.

Robert J. MacLeod *Johnson Matthey Plc - CEO & Executive Director*

Thanks, Anna. So you've seen our performance and how we're taking action to accelerate our strategy. Now let me talk about some of the exciting opportunities that will drive our future growth.

As you know, our strategy is to use our world-class science to solve our customers' complex problems. This ultimately creates long-term

value for our shareholders and a cleaner, healthier planet for everyone. I've already covered our established businesses, but quickly to recap.

In Clean Air, we'll continue to benefit from tightening legislation globally, particularly in Europe and Asia, and we've maintained our strong leadership positions in our key markets. And as our capital projects are nearing completion, this will allow us to drive greater efficiency and save costs.

In Efficient Natural Resources, we're driving growth, targeting our investment and resources into the highest growth segments, and this focused approach is starting to deliver results. And in Health, we continue to progress our new product pipeline.

But when you look at the world around us, it's clear that action around key global trends has increased. We all know that tackling climate change is one of the biggest issues that we face. And during the last year, awareness has grown more than ever. We will all need to work together to develop new solutions that will reduce our global carbon footprint. And we're seeing increasing momentum around net zero commitments, and the pace of change has really accelerated. This trend will only get stronger and may even be accelerated in the post-COVID world.

We're already using our science to provide solutions for net zero, and these will drive our medium-term growth. Our Battery Materials business will enable greater adoption of long-range, pure battery electric vehicles. And as hydrogen is increasingly recognized as an important part of the solution for cleaner energy, we are well placed there with our leading hydrogen production technologies and, of course, fuel cells. We mentioned the good growth we've seen in our fuel cells business earlier, and this technology will also play a key part in the decarbonization of transportation, particularly in heavy-duty applications.

Now let me take you through our progress with each of these. In the last year, the opportunity for our Battery Materials business has improved as the uptake in outlook for electric vehicles has increased. This is principally being driven by the tightening regulatory environment, consumer acceptance and the development of the technology and infrastructure. And we've also confirmed that customers will require customized solutions, each with differing requirements, and this plays to our technology strength and the strength of eLNO, our family of high nickel cathode materials.

It also means that the high nickel market will not only become -- will not become a commodity play anytime soon. And as a result of both trends, we remain convinced this is an attractive market for us. And in the last year, we've made significant progress in building our Battery Materials business. We've moved forward with our customer testing, our commercial plant and our application centers.

In the year, we have achieved an important milestone as 4 of our customers moved into full cell testing, 2 global automotive OEMs and 2 nonautomotive customers. Full cell testing essentially means that our customers have reduced their number of potential suppliers to around 3 to 4. It's also a more intensive and collaborative phase of testing, where we work together to optimize eLNO within a specific application. And of course, it means that our customers are putting in more investment from their side.

I'm very pleased to have 2 automotive OEMs in full cell testing as well as a number of other OEMs and cell manufacturers in the earlier validation phase. And of course, this sector remains our priority. However, the shorter qualification path for the nonautomotive sector will give us additional detailed knowledge about eLNO's performance and very valuable learnings, especially as we start to produce commercial volumes.

Whilst we continue to develop our technology and enhance eLNO for our customers, we've also been investing in building the infrastructure that is required to bring eLNO to market at scale. This is a substantial endeavor, but I'm pleased with the progress that we've made in the last 12 months. We've broken ground on our first commercial plant in Poland, and our application centers are up and running, as you can see from the photo.

These application centers will play an important role in the success of our Battery Materials business because customization is critical to our customers. And our new plant will start production in 2022, and eLNO will be on automotive platforms in 2024.

And as the world moves towards net zero, the opportunity in hydrogen is significant. Today, hydrogen is a critical feedstock for chemical processes, but there is increasing recognition that it can play a much bigger picture of the clean energy solution. This is recognized in many countries, and we expect substantial investment in the rapid upscaling of clean hydrogen production and its use across Europe and the world.

We span the hydrogen value chain and have strong established positions in both hydrogen production and fuel cells. We have the leading technology for blue hydrogen production. It uses natural gas as a feedstock, and we've developed a process that gives a higher yield and makes decarbonization through carbon capture and storage, both easier and cheaper. Blue hydrogen is already starting to commercialize. And our technology has been used in a number of high-profile projects, including HyNet's, low carbon hydrogen project here in the U.K. This will use our blue hydrogen technology in a refinery for the first time. So this is a really exciting opportunity for us. And with our established technology, we're well positioned to succeed.

It's also clear that fuel cells will play a key role in the decarbonization of transportation as the powertrain evolves. In the near term, this will be in trucks and delivery vehicles. In fact, we've already supplied fuel cell components to several hundred commercial vehicles and buses in China, and the picture on the slide shows you a truck in China that's using our fuel cell system. So it's a growing market and a large opportunity for us, and we're already an established player here and are investing GBP 15 million to double our manufacturing capacity across the U.K. and China, but it's also our unique position across the value chain that really differentiates us.

Not only do we manufacture the pgm catalyst but also the membrane too, and it's our ability to optimize the interaction of these components across the whole fuel cell system that gives us a strong competitive advantage. So as you can hear, there are a number of exciting opportunities that drive our medium-term growth, and we hope to talk more about the broader hydrogen opportunity in the near term -- sorry, in the near future as we look to reschedule our hydrogen seminar.

So let me now summarize for you. Overall, I'm pleased with the resilience of our performance and what we've delivered in the short term. We took rapid decisive action and are balancing the priorities of all of our stakeholders in some of the most challenging conditions that we've ever seen. We continue to execute against our strategy. And now that the right foundations are in place, we're taking the opportunity to accelerate this, driving further efficiency.

And whilst the environment is tough at the moment, science remains at the heart of JM, and we're well positioned for future success with our science-led solutions as the world drives towards net zero.

So that concludes our presentation. So let's take a quick break, and we'll be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We are taking our first question from the line of Tom Wrigglesworth from Citi.

Robert J. MacLeod *Johnson Matthey Plc - CEO & Executive Director*

Tom? We can't hear you. Is Tom there?

Operator

We are taking our next question from the line of Alex Stewart.

James Alexander Stewart *Barclays Bank PLC, Research Division - Chemicals Analyst*

I had a slightly longer-term question. So your -- the pgm review that Johnson Matthey pushes out changed your assessment of your China VI rollout. And I think previously, people have expected roughly half the cars to move to China VI in 2019 and then the other half in 2020. And it now looks like the China VI rollout was pulled forward and the majority of China VI platforms were actually launched in 2019



rather than 2020. Does that change your plans regarding growth in the Asian business? And do you think possibly it dilutes some of the value of having bought on a brand-new catalyst plant in China this year with the next phase not until 2023? I'd be really interested to know if that makes a difference to the way we think about the business.

Robert J. MacLeod Johnson Matthey Plc - CEO & Executive Director

Thanks, Alex, for your question. No, it doesn't change anything about our prospects and excitement about the China opportunity. The people are already switching to China VI. And whilst light duty was delayed a little bit, but starting in January '21, that was a light-duty thing only. Heavy-duty hasn't changed. And we absolutely need our new plant in China, and it's coming on absolutely at the right time to enable us to take advantage of this growth over the next few years.

Operator

We are taking our next question from the line of Adam Collins.

Adam Robert Collins Liberum Capital Limited, Research Division - Analyst

Can you hear me okay?

Robert J. MacLeod Johnson Matthey Plc - CEO & Executive Director

Yes, yes, we can hear you loud and clear.

Adam Robert Collins Liberum Capital Limited, Research Division - Analyst

Okay. Good stuff. A couple of things for me, please. First of all, on the increase in ENR profits in the second half, very healthy jump there. How significant was PM services to that? And then a couple of related questions on that. Are you hedging any of your price exposure?

And then secondly, what was the significance of pgm broking profits because of higher volatility in that area? That's my first question.

Robert J. MacLeod Johnson Matthey Plc - CEO & Executive Director

There are 3 questions in 1, well done. I think, actually, those are probably all -- if Anna doesn't mind, probably all best handled -- Anna, are you up...

Anna Manz Johnson Matthey Plc - CFO & Executive Director

Remind me of the last one when I get there. Do you want me to do those and then ask your next question? Or would you like to...

Adam Robert Collins Liberum Capital Limited, Research Division - Analyst

No, just maybe answer that first because it's a different area.

Anna Manz Johnson Matthey Plc - CFO & Executive Director

Super. So yes, I mean, we quoted that we had a GBP 47 million benefit from price in our profitability in Efficient Natural Resources. And so yes, a lot of the strength and growth in Efficient Natural Resources was driven by pgm services. Are we hedging pgm prices? That's a complicated question. Our fundamental philosophy is we don't try and take price risk across the group. So if we have a position, we close it out. But the way our refining business works is that we effectively make a percentage of the volume. And so as metal prices go up, that becomes a higher number. And so that business does better. So it's not a price exposure as such, it's more that the business becomes more valuable at higher precious metal prices.

Your last one...

Robert J. MacLeod Johnson Matthey Plc - CEO & Executive Director

About trading, how important is trading? I think it was trading profit, wasn't it, Adam, within pgm?

Adam Robert Collins Liberum Capital Limited, Research Division - Analyst

Yes, pgm broking volatility.

Anna Manz Johnson Matthey Plc - CFO & Executive Director

Yes. The biggest driver is precious metal prices and you see that come across everything and refining, but trading profits were up some in the period. But we don't disclose that breakout, I'm afraid.

Adam Robert Collins Liberum Capital Limited, Research Division - Analyst

Yes. Yes. On the hedging thing, what I meant there was using forward contracts to lock into 3 pgm prices on a forward basis. Historically, you haven't done that. And I think what you're saying there is that you've remained with that policy. You haven't done any forward hedging of the P&L.

Anna Manz Johnson Matthey Plc - CFO & Executive Director

Yes.

Robert J. MacLeod Johnson Matthey Plc - CEO & Executive Director

That's right, yes.

Adam Robert Collins Liberum Capital Limited, Research Division - Analyst

Yes. Second area, which is different, is on LFP, where you're saying that you're making some asset write-downs. A couple of battery OEMs have been making some positive noises about LFP for the car markets, claiming that they found a higher energy recipe in LFP. I just wanted to get your thoughts on why you don't think that's a market with potential in the EV market whether that's bus or car.

Robert J. MacLeod Johnson Matthey Plc - CEO & Executive Director

So thank you, Adam, for that question. Look, we do still think that LFP has a role to play, and we're well aware of some of those comments from other OEMs or some OEMs. But the market is broken down into a sort of fairly commoditized element and a high-end part of the market. That higher end part of the market is quite small. And some of the things you're talking about haven't yet been launched yet or haven't yet been committed. So when we look at the accounting and how we actually have to look at these assets, we've had to take an accounting impairment at the moment. But we are still in this business, particularly for the high-end market of LFP and for our customers that also we'll sell eLNO to them as well.

Operator

We are taking the next question from the line of Andrew Stott.

Andrew Gregory Stott UBS Investment Bank, Research Division - MD and Research Analyst

So first one is around production on 2 fronts, so start with auto catalysts. So I think in my thinking you've got 18 sites now globally. Is that right? Once you've brought on the Poland, China and India plants, is that correct?

Robert J. MacLeod Johnson Matthey Plc - CEO & Executive Director

I don't recognize it's quite as high as that number. I thought it was 13 or 14.

Andrew Gregory Stott UBS Investment Bank, Research Division - MD and Research Analyst

13 or 14, okay. Let me ask it another way. Whatever the absolute number is, what's the percentage increase in production volume? And in the strategic appraisal you just outlined, you're obviously taking some action on your existing production base. I couldn't tell whether that includes production contraction, so an offset to some of the growth. Is that clear as a question?

Robert J. MacLeod Johnson Matthey Plc - CEO & Executive Director

I'm not sure it is clear. Could you try it again, Andrew? Sorry, I think we're both thinking...

Andrew Gregory Stott UBS Investment Bank, Research Division - MD and Research Analyst

You're bringing on new production, which means you've got additional volume. Are you actually reducing production in the rest of your auto catalyst sites?

Robert J. MacLeod Johnson Matthey Plc - CEO & Executive Director

So well, production is dependent upon the number of actual car production available -- demand out there. So I think your comment is more about capacity than actual production. Now what we've said is that part of this piece of work we're doing, we're going to be consolidating our footprint in Clean Air, which will mean we'll reduce capacity in our more inefficient plants and move that capacity into these newer highly efficient plants.

Andrew Gregory Stott UBS Investment Bank, Research Division - MD and Research Analyst

And so have you communicated the net number? So the plus and the minus is what?

Robert J. MacLeod Johnson Matthey Plc - CEO & Executive Director

It will be a net increase. But no, we haven't given the net numbers. And the -- but what we can say is the new plants are very, very efficient.

Andrew Gregory Stott UBS Investment Bank, Research Division - MD and Research Analyst

Okay. Okay. But obviously, the GBP 80 million captures the imprint from that lower production, correct?

Robert J. MacLeod Johnson Matthey Plc - CEO & Executive Director

Yes, yes.

Andrew Gregory Stott UBS Investment Bank, Research Division - MD and Research Analyst

Okay. Secondly, on LFP, following on from Adam's question, a slightly different question. So is there a chance to, in effect, retrofit some of the LFP production to eLNO or other chemistries if you get to that point?

Robert J. MacLeod Johnson Matthey Plc - CEO & Executive Director

No, there isn't. Not from these plants.

Andrew Gregory Stott UBS Investment Bank, Research Division - MD and Research Analyst

Sure, sure. Okay. And then, sorry, a final question, one for Anna actually. Anna, you made the point that you've got more positive imprints to come on inventory on the working capital maybe offset a bit by receivables. You didn't mention payables and the number on the balance sheet is dramatically different from last year. So I'm just wondering how you've managed to improve payables by GBP 700 million in cash flow terms, GBP 1 billion on the balance sheet. How much of that is timing? How much of that is structural?

Anna Manz Johnson Matthey Plc - CFO & Executive Director

This, Andrew, is a bit of an accounting complexity.

Robert J. MacLeod Johnson Matthey Plc - CEO & Executive Director

Andrew, you should see the smile on her face. You've asked the question, she's definitely going to give you the answer here.

Anna Manz Johnson Matthey Plc - CFO & Executive Director

I like the accounting complexity. If you go to the notes at the bottom of the balance sheet page, what it references is the impact of our metal funding swaps. If you remember, we had the accounting restatement a year ago. It changed the impact of those swaps on our receivables and payables. And effectively, they gross them up and distort them. So what I would suggest you do is you back out the impact that's noted at the bottom, and you'll see our underlying receivables and payables position and it's not materially moved. But if you want one of the IR team or myself to just take you through that, we can do.

Andrew Gregory Stott UBS Investment Bank, Research Division - MD and Research Analyst

Probably. Okay. I'll follow up off-line.

Robert J. MacLeod Johnson Matthey Plc - CEO & Executive Director

Yes, judging by Martin's face, you're probably better phone Anna rather than Martin or give Martin a chance to get -- to sort it out.

Operator

We are taking our next question from the line of Sebastian Bray.

Sebastian Christian Bray Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst

I would have 2, please. The first is on the opportunity to Johnson Matthey from hydrogen. Most of the EU government directives and intentions seem to be directed at green hydrogen. Is Johnson Matthey involved in any way in the high -- in the water electrolysis chain and the production of membranes for this? I.e., is there any play on green hydrogen at the company?

And my second question is on restructuring costs. As far as the distribution on a P&L and/or cash basis is concerned, how do these fall into fiscal year 2021 and 2022?

Robert J. MacLeod Johnson Matthey Plc - CEO & Executive Director

Thanks, Sebastian. I'll answer the first one, then Anna will give you the information on the second one.

So look, at hydrogen, I think you're right. Everybody wants to go to green hydrogen using electrolysis, but I still do believe, and we believe and many of the governments we're talking to believe, that blue hydrogen has a role -- or actually has a very significant role as a transitional technology as the hydrogen market develops.

But specifically to answer your question about green hydrogen, it is, in a way, the reverse of fuel cells. It's the reverse of how fuel cell works. And so there are technologies which use a pgm catalyst on -- to enable the electrolysis to react -- to occur to generate green hydrogen. And we do have a role to play in some technology there, albeit it's at a little bit earlier stage of our existing fuel cell business, which is more advanced.

And Anna, do you want to...

Anna Manz Johnson Matthey Plc - CFO & Executive Director

On restructuring? Yes. Look, I haven't given you all of the breakdown of benefit and cost by year because, if I'm honest, in the context of our current outlook, that would be false precision, but I can give you some color to think about it.

So as we've said, the saving is GBP 80 million. The cash cost of that is about GBP 80 million over a 3-year window. In year 1, so in the year we're in, we will see a GBP 30 million benefit. So you would think to realize the GBP 30 million benefit, you probably would expect a good chunk of that cash cost, at least half to be hitting the year we're in. I'm not going to give you the phasing for the subsequent 2 years, because it's how fast we can really move through this change.

Sebastian Christian Bray Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst

And if I may squeeze in a follow-up. The press release makes reference to the "upwards pressure" or potential upwards pressure on the CapEx budget for the eLNO facility in Poland. What are the main drivers behind this?

Robert J. MacLeod Johnson Matthey Plc - CEO & Executive Director

So the main driver behind that is, well, twofold. Firstly, we continue to see, as we talked about, our customers asking for more customization of their products and to enable us to make those particular products as each individual product was requiring us to make -- increase the flexibility of our plant, and that's putting a little bit more cost onto it. And also, COVID-19 might have a bit of an impact on the overall cost, too. So it's those 2 factors.

Operator

We are taking our next question from the line of Charlie Webb.

Charles L. Webb Morgan Stanley, Research Division - Equity Analyst

Just a couple from me. I guess, following up a little bit on the last couple of questions. Just firstly, on the GBP 80 million additional saving measures. Should we see this as a net saving? Or like in the past, will some of that be used to invest in growth? So firstly, is that a



net saving? Or will some of that be diluted down? And then just secondly, coming back to the hydrogen opportunity. Can you help us just in terms of what kind of growth rates you saw in FY '20? And kind of try and help us a little bit understand the scale of this business today would be very helpful. And then just your thoughts in terms of, do you expect kind of further hydrogen support subsidies incentives in the U.K. and in China? And in relation to that, are you having increased discussions with customers? And how did that kind of backlog pipeline look for you in blue hydrogen and fuel cells, et cetera? Would be just helpful, a bit more color.

Robert J. MacLeod *Johnson Matthey Plc - CEO & Executive Director*

I'll give you the color on hydrogen. Anna, do you want to go first with the GBP 80 million?

Anna Manz *Johnson Matthey Plc - CFO & Executive Director*

The GBP 80 million, yes. So that is a net saving. There are a couple of system enablement factors which you've already got in your forecast around SAP. So that capital cost continues, but the GBP 80 million is a net saving on our current plant base.

Robert J. MacLeod *Johnson Matthey Plc - CEO & Executive Director*

Okay. On -- so is that all right, Charlie?

Charles L. Webb *Morgan Stanley, Research Division - Equity Analyst*

Yes. No, that's great.

Robert J. MacLeod *Johnson Matthey Plc - CEO & Executive Director*

Okay. So on fuel cells, look, it's still currently a relatively small business. But in the whole grand scheme of JM, it is profitable, as we've said before, and our sales in the last year went up nearly 25% in the year. And of course, on the hydrogen side, the hydrogen -- that's the fuel cell side. The hydrogen production side, it's a bit more of an early stage on some of these projects. We talked -- I talked about the HyNet project here in the U.K. There's also another one called Acorn in the U.K. around hydrogen generation using -- well, use the technical term, it's steam methane reforming and an ATR process, which is an autothermal reacting process. So I won't go through all the details with you, but that's where we've got some great technology on blue hydrogen generation.

But -- and that, I think, is going to scale up over the next few years. These first plants that they're looking at are sort of quite big scale, but they're still not the massive scale that's needed for the adoption of hydrogen production more generally. And on the -- how we're seeing the market evolve, I mean, our fuel cell business, going back to fuel cells, is talking to a number of OEMs and about their plans for the future and start -- we're scaling up our -- where we're doubling our capacity in fuel cells at the moment. And we are looking to the future about how we would be able to scale that business up further as this market evolves.

Charles L. Webb *Morgan Stanley, Research Division - Equity Analyst*

No, that's helpful. And just in terms of thinking about Europe is obviously also looking at hydrogen as a technology -- sorry, blue hydrogen as an intermediate technology towards a kind of greater involvement for hydrogen more broadly. With Brexit and other things, I mean, is that still an opportunity given your position today, your technologies today that you are engaged in that you have access to and that you think you can grow into -- a market you can grow into?

Robert J. MacLeod *Johnson Matthey Plc - CEO & Executive Director*

No, absolutely, for sure. We're part of the Hydrogen Council. In fact, we are a Board member of the Hydrogen Council. And so there are key participants in that. And I think technologies know no boundaries. So if you've got the best technology, by the way we do, have the best technology to enable blue hydrogen, that people will want that regardless of where they're -- what geography they're based in.

Operator

We are taking our next question from the line of Jean-Baptiste Rolland.

Jean-Baptiste Henri Rolland *BofA Merrill Lynch, Research Division - Associate*

I would have 3, please. The first one on regulations and your anticipated impact on your Catalysis business. So regulations or, let's say, the stimulus package in Germany was making the choice not to offer scrappage incentives for internal combustion engines, which sounds like quite a strong political message sent to OEMs. I'm just curious to know if at your end, you're expecting any strategic responses or

whether you had already initial conversations with OEMs on this. That's point number one.

Question number two is, I heard your comment about shorter qualification time for non-auto applications for eLNO. And so I was just wondering, given your time line for commercialization is fiscal year 2024, I was just wondering, should we expect both applications to come -- to be commercialized in the same year? Or will they -- will there be a delay or any gap between the 2? I'm just wondering if you could clarify that.

And then final question on fuel cells. Could you give us an indication on how profitability is evolving in fuel cells? I remember last November, you had -- there had been a headline or a small article on Bloomberg saying that you had turned positive or at least profitable again in fuel cells and you hadn't been before for a couple of years, if I'm not wrong. I was just interested in knowing how this has evolved since then.

Robert J. MacLeod *Johnson Matthey Plc - CEO & Executive Director*

Jean-Baptiste, thank you for your questions. Look, so on the stimulus packages, they're all starting to evolve. They're all starting to come out. And what is absolutely clear is in Europe, where they're wanting to incentivize cleaner air and the move towards electrification and lower emissions. So the support in France is scrapping -- it's partly a scrappage scheme to scrap old vehicles with -- and replace them with lower emission models. That gives a certain amount of incentive. But then if you go and buy a battery electric car, you get an additional incentive.

In Germany as well, as you referred to, there's a scrappage scheme, but the benefit partly goes into hybrid cars as well as pure electric cars. So it's all emerging. But what is absolutely critical -- what is absolutely clear is it's -- is they're trying to encourage a move into lower emitting vehicles, and of course, hybrids are -- still remain a good opportunity for JM with the catalyst on, as you know.

On the qualification time lines of the non-automotive customers, you're absolutely right. As we said, they're shorter. But I don't think that means you should assume that any commercial production from non-auto will start in 2024. We'd anticipate that happening sooner than that because the qualification time lines are quicker and that will give us good learnings on how to run the plant effectively ahead of full-scale commercial production for automotive customers. So we would anticipate having the nonautomotive commercial volumes a year or so earlier than automotive.

And finally, on fuel cells, I'm afraid we're not going to break down the new markets business into detail. I've given you the top line number. Well, I didn't give you a number, I gave you the sales growth. And we make a small profit, small single-digit profit number, millions.

Operator

We are taking our next question from the line of Tom Wrigglesworth.

Thomas P Wrigglesworth *Citigroup Inc, Research Division - Director and Chemicals & Basic Materials Analyst*

So first question is the Asian light-duty market performance from JMAT seemed to outstrip the underlying market very strongly. My understanding of our initial conversations with John Walker was that would likely to occur more in the '22, '23 period. Is that just a platform development? Or are we actually seeing early adoption come through in the Asian business for light duty? That's first question.

Second question, just on the dividend. You've highlighted this is not a new dividend policy today. But could you just help us understand what the date posts are at the Board level that would lead us back to the kind of the previous level of dividend payout?

Robert J. MacLeod *Johnson Matthey Plc - CEO & Executive Director*

Okay. Thank you, Tom. I'm glad we finally got your questions. So on the Asian light-duty side, I mean, it's principally China. And you're right, it's early adoption with some models. Some customers have gone early. And we would expect that they'll -- obviously, once you've adopted it, they'll keep going. You'll see greater adoption across the customers. So there will be a gradual ramp-up over the next few years as more and more OEMs adopt the new technology.



And on the dividend, yes, absolutely, this is not intended at all to be a rebasing of the dividend, and we remain committed to our progressive dividend. It's hard to judge with an uncertain outlook exactly when that -- when our dividend will recover to pre-COVID times. It's the Board's intention to get there, but that will depend on how the market evolves and the economy evolves.

Operator

We are taking our next question from the line of Chetan Udeshi.

Chetan Udeshi JP Morgan Chase & Co, Research Division - Research Analyst

Three questions. First is, can you maybe just help us understand, what is the impact of mild hybrid in general on the value of catalysts that you guys sell into the internal combustion? So I'm talking about essentially 48-volt technology. Does that have any impact on the value of the catalyst?

The second question was, it seems you've deemphasized 21 generic molecules in the Health business, but that doesn't seem to be impacting the GBP 100 million incremental profit contribution that is expected over the next 5 years. Why have we not seen that number being adjusted downwards? That's the second question.

And the third question was just around, if I look at the numbers for fiscal year that has just ended, it seems there are significant write-downs across most of the businesses. So in terms of how to evaluate, investing for growth, is there some -- in other words, is there more scrutiny in terms of investments than in the past?

Robert J. MacLeod Johnson Matthey Plc - CEO & Executive Director

Thanks, Chetan. Thanks for your questions. So look, just on the first one, for the mild hybrids, what's the catalyst value for mild hybrids rather than a regular internal combustion engine car. It's very similar. So there's not much value difference between a mild hybrid and a regular car because, of course, when the internal combustion engine is running, it needs to meet the emission standards that are required at the best -- with a regular car. So that's why the cathode system needs to be pretty much the same. So Anna, do you want to have a go at the other 2?

Anna Manz Johnson Matthey Plc - CFO & Executive Director

Yes, sure. So on the Health business, we had 75 molecules in our pipeline. What we've done is a review of our pipeline focus. And we've removed 21 molecules from our pipeline that were impacting further out that were reducing focus on the delivery of nearer in models. So really, we just sort of honed in the focus on how to deliver the value, and that's the impairment there.

And then your last question about write-downs. I mean, there's 2 big areas of write-down in our numbers, one is around Clean Air and the other is around LFP. With respect to Clean Air, when we went to invest in those big, new efficient plants, we said to you at the time that we needed the incremental capacity but that we also were putting in additional capacity to allow us to consolidate what was an aging plant footprint and, in some areas, quite inefficient into these new, more efficient plants. So that was absolutely always our strategy.

What you've seen with COVID is volumes have, in the short term, fallen a little bit. That's allowing us to go faster to realize some of that cost. And then going faster, therefore, the impairment is slightly larger.

With respect -- the other big area that we've had a write-down is around LFP. And again, we went into LFP, I don't know, what, 8 years or 9 years ago now as part of our entry into Battery Materials. We're pleased with our entry into Battery Materials, and we're pleased with our position in eLNO. However, what we've learned a lot from LFP, and we're staying focused on the higher-end piece, we're not delivering value from all of those assets because the lower-end part of the market is not delivering the value that we would have thought. And there, we are making a write-down as a result.

Chetan Udeshi JP Morgan Chase & Co, Research Division - Research Analyst

Can I follow up on that?

Anna Manz Johnson Matthey Plc - CFO & Executive Director

Does that -- sorry, Chetan.

Chetan Udeshi JP Morgan Chase & Co, Research Division - Research Analyst

No, I just wanted to follow up, sorry, on LFP point. Are you at the moment -- or are you working with any of the OEMs, car or battery OEMs, on any of the higher-end cars, maybe not the mass market, but somewhat higher-end cars, including any of your LFP material in the batteries? Or is that not in the pipeline at the moment?

Robert J. MacLeod Johnson Matthey Plc - CEO & Executive Director

So on our LFP business, we continue to have sales that go into high-end vehicles, premium vehicles, and that's the high-end value of the market that we're still remaining in.

Operator

We have another question coming from the line of Alex Stewart.

James Alexander Stewart Barclays Bank PLC, Research Division - Chemicals Analyst

Sorry, I know it's quite late, so I'll keep it very short.

Robert J. MacLeod Johnson Matthey Plc - CEO & Executive Director

That's all right.

James Alexander Stewart Barclays Bank PLC, Research Division - Chemicals Analyst

In Health, you have taken effectively 30% of the pipeline molecules out and maintained your EBIT guidance for 2025, '26, which you just discussed, which implies that either those 21 molecules, the future value you had received was gradually declining over time or the value for the remaining 55-odd molecules has been going up.

Which of the 2 scenarios was it? Can you now see more value in the remaining pipeline? Or were you actually seeing negligible value in that 21 molecules?

Anna Manz Johnson Matthey Plc - CFO & Executive Director

I think it was neither. I think we always saw more value in our pipeline than the hundreds that we described externally. And also, some of these molecules have launch dates that are beyond 2025, some of the molecules that we are taking out of the pipeline. So I guess that's a long way of saying we're confident in the GBP 100 million. The molecules that we're taking out, many of them would have benefited beyond 2025 so would have been subsequent growth. And they're not particularly large molecules in the first place, which is why they were a bit of a distraction to us, and we focused on the higher value piece.

Operator

There are no more questions on the line. Please continue.

Robert J. MacLeod Johnson Matthey Plc - CEO & Executive Director

Okay. Well, look, I think if there are no more questions, thank you very much, indeed, for your time. And thank you very much for accommodating us in this way of doing the results presentation. I hope you are all well and your families are well and your work colleagues well and do please take care. And we look forward to seeing you as we go around seeing shareholders. Thanks very much indeed.

Operator

This concludes the conference for today. Thank you for participating. You may all disconnect.



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