SOLVAY Q3 2021 Results Call - 28.10.2021

Operator

Welcome to Solvay's Q3 2021 Results Conference Call for analysts and investors. Solvay team, the floor is yours.

Jodi Allen - Solvay SA - Head of IR

Good afternoon, everyone, and welcome to our third quarter 2021 earnings call. My name is Jodi Allen, and I'm joined virtually by our CEO, Ilham Kadri, and our CFO, Karim Hajjar. Today's call is being recorded and will be made available for replay on the Investor Relations section of our website.

I would like to remind all participants that the presentation includes forward-looking statements, which are subject to risks and uncertainties. You may refer to the slides related to today's broadcast, which are available on our website. With that, I'll turn the call over to Ilham.

Ilham Kadri - Solvay SA - Chairman of the Executive Committee, CEO & Non Independent Director

Thank you very much, Jodi, and hello, everyone. As always, I'll begin my remarks with the health and safety overview shown on Slide 3. Today, we have 49 colleagues who are infected with COVID-19, unfortunately, up from 32 at the end of July when we last talked together. We have to remain obviously vigilant, and we are gradually and carefully reopening our administrative sites with all the measures in place to protect our employees and ensure high levels of safety. And it is a return to work in hybrid mode. This is our new normal at Solvay.

On top of that, when necessary, as you know, we'll continue to use the Solvay Solidarity Fund to support people in need. Before we move to the results, I would like to highlight another announcement we made this morning. As we execute on our Solvay One Planet sustainability road map, we continue to look for areas to strengthen our commitments. One of these is within our climate pillar, and I'm really thrilled to share that Solvay is targeting today carbon neutrality before 2050.

With global warming set to reach or exceed 1.5 degree by 2040 and extreme weather events becoming increasingly common, it's imperative that we take decisive actions. And since I joined Solvay, we have reacted decisively to raise the bar setting realistic, yet ambitious targets, that we know we will reach. Our climate neutrality target represents a vital step forward in our journey towards net zero emission after, obviously, we launched our Solvay One Planet, and we joined the Paris Agreement SBTI last year. Our road map entails investments up to EUR 1 billion by 2040 for all businesses other than soda ash. And for soda ash, we have identified investments of approximately EUR 1 billion by 2040. This will be partially funded by non-recourse finance - and importantly- we fully expect these investments to also generate compelling economic returns. And we look forward to sharing more with you on this journey during the future ESG webcast being planned for December 1.

We are also proud that our Brazil site recently received the highest biodiversity rating from the Wildlife Habitat Council, a respected international organization focused on biodiversity conservation practices in the private sector. Solvay is the first chemical company in Brazil to achieve such a rating.

Finally, we are honoured to have received an award from Cefic just this week for the restoration and ecological plan of our Torrelavega soda ash site in Spain is a great example of the typical remediation effort applied at our plants.

Let me now move to our results.

I am very proud of the strong performance we delivered in the third quarter despite the challenging environment facing the whole industry. In fact, our employees are doing an excellent job managing this environment of inflationary pressures. And I'd like to say to them, thank you. Thank you to our teams globally for their continued hard work. Your efforts are paying off and without you, we would never be in such a good position after such a crisis.

As you know, sales in the quarter were up 25% on an organic basis and up by 6% versus 2019.

Next I would like to highlight that most of our end markets are back at the level of 2019, and the demand continues to be very strong. I will take just the example of Specialty Polymers, hitting a new sales record in the quarter. As we told you previously, this was driven by continued strong demand for our high-performance polymers used to lightweight, various parts of the vehicle and automobile and also using electric vehicle batteries, both areas grew by similar amounts in the quarter, around 50% year-on-year.

Other markets contributed to the group's double-digit growth versus Q3 last year. In fact, markets growing between 25% to 30% included auto, electronics and building. Markets growing between 15% and 20% included mining, consumer goods, agro and health care. And in fact, volumes were higher than 2019 levels in every business outside of composites.

Now geographically, all regions delivered double-digit organic sales growth versus Q3 last year. Europe was up 20%, Asia Pacific by 22%, North America was up 24% and finally, Latin America was up 45%.

Let's now discuss inflation a bit more given its significant impact. You may recall that we have been projecting these significant increases for several quarters, and the impact has sharply increased in the second half as anticipated. We are progressing well in securing price increases, and we will be unrelenting in protecting our margins in the face of the significant and ongoing industry-wide inflationary headwinds.

Now navigating within such an inflationary market is, in fact, an everyday fight. But again, our customer intimacy, our highly valued technologies, together with our good energy hedging and management, efficient procurement processes and the structural cost saving program initiated two years ago have allowed us to post another strong EBITDA performance.

And we delivered on the cash performance as well. And I'm happy with that. This is the tenth consecutive quarter of positive free cash flow generation. All in all, we are above last year levels on a like-for-like and year-to-date we have achieved double the cash flow versus 2019.

Before I pass the floor to Karim, we would like to celebrate a couple of recent achievements and reinvestment for growth in line with our strategy:

We are adding a new thermoplastic composite capacity in the United States of America with the completion of investments in Greenville in South Carolina. The new product line will have the ability to manufacture unidirectional composite tape from a range of high-performance polymers, including PPS and PEAK and help customers in energy, aero and auto markets by reducing weight and emission while being recyclable and circular.

Second, we have also announced the creation of a new joint venture (Shinsol Advanced Chemicals) for the production of highly purified hydrogen peroxide for semiconductors. The JV is scheduled to begin operations in the first quarter of 2023, enabling penetration of these critical ingredients into a new market and will have an initial production capacity of 30,000 tons per year.

You may remember, in July, we explained to you our strong leadership position in batteries and the potential it represents for Solvay. A couple of days ago, we announced that Solvay is advancing its innovation power in the electric and hybrid vehicle market to develop the next generation of solid-state electrolyte for batteries. On the ground, investments started with the opening earlier in the year of a dry room laboratory and research and development pilot lines in France. As you know, Solvay is leading the development of advanced inorganic material for solid electrolytes. This is a key component for solid-state batteries and accelerating the scale-up of these materials. Full operation is anticipated for the second quarter of 2022.

Also related to polymers, recycling is an important element. Solvay together with scientists has conducted a proof-of-concept showing that PVDC has the potential to be recycled. As you may know, PVDC is used in food beverage and health care multilayer barrier packaging across the world. Now that this initial breakthrough has been achieved we are inviting fellow companies operating within the plastic industry to play their part and to set a global PVDC recycling stream across the globe.

I also wish to highlight our recent innovation called Actizone, I'm really proud of as it actually started last year. We created a unique and long lasting disinfection technology and it's now commercialized by Reckit,t a global market leader in their iconic brand, Lizol. The technology was just launched in France this month and it will launch in Germany in the coming weeks, followed by other European countries in 2022 and in the United States of America in 2023.

Also our SolVair bicarbonate technology has been successfully tested on one vessel of La Meridionale passenger ferry operator, you can see in the south of France and we will extend our solution to all the engines of the ferry. The partnerships will enable compliance with International Maritime Organization (IMO), regulations for the reduction of what we call in our jargon, SOx, it's sulfur oxide emissions and will facilitate the removal of 99.9% of particle matter.

Finally, our soda ash is an essential material for the production of lithium carbonate by the Chilean chemical company Sociedad Química y Minera de Chile. And believe it or not, this is the biggest lithium producer in the world whose production is based on the natural brine resources from the Atacama Desert. We managed to close a multiyear agreement and expect to supply about 170 kt of soda ash next year and we will reach about 20 kt/year from 2023 onwards.

And this is a great example. And remember, I told you that Solvay is recycling the battery. This is yet another one. We are going beyond the material businesses or special can businesses and leveraging our full portfolio. And now Karim will review in more detail the group segment and financial performance. Karim?

Karim Hajjar - Solvay SA - CFO & Member of the Executive Committee

Thank you, Ilham. Good morning. Good afternoon, everybody. I will start with an overview of the 3 business segments, and I'll refer as usual to figures on an organic basis, which means at constant portfolio scope and currency.

Before going any further, let me remind you that the 6 businesses we divested early this year, together with the currency fluctuations are expected to impact full year EBITDA by around EUR 120 million. At this stage, the impact is EUR 16 million for the third quarter, EUR 87 million for the 9 months thus far.

Turning to the Materials segment on Slide #7.

You'll see that sales in the third quarter were up 26% versus Q3 last year. Sequentially, up 6% versus the second quarter of this year, driven by another record quarter, as Ilham mentioned, in the Specialty Polymers business. Sales in this business unit alone were up 33% in Q3, reaching EUR 570 million, reflecting continued high demand across all its key markets.

As Ilham referenced, growth was across all markets by the business. We continue our penetration of materials into auto and in particular, electric vehicle batteries where our technologies can be found in binders and separators and enclosures as well as sealing and cooling applications. Altogether, these grew by almost 50% over last year. And that's not the only market growing double digits. Our polymer sales into electronics also grew around 50% in the quarter. This was boosted by semiconductors, electrical components as well as smart devices. Sales also grew 20% in health care, and that includes polymers that are used in medical devices and pharmaceutical packaging.

Turning to composites. Sales are up 6% year-on-year as we start to see some signs of recovery. This quarter was the first with year-on-year volume increase since the beginning of the pandemic. It's also the third consecutive sequential improvement. It's important to note that our top line was again affected by supply chain, labor and manufacturing issues. The recovery is mainly visible in single-aisle craft, but do keep in mind the high level of inventories that are still there for the 737 MAX before we see a more pronounced acceleration of the production rates expected by our customers in 2022. Sales to the ‘space and defence’ markets also grew in the quarter and has remained resilient.

Turning to profitability, the EBITDA of materials in Q3 increased 52% year-on-year, and EBITDA margins improved almost 600 basis points to 32.7%, primarily driven by the record sales in Specialty Polymers by sustained pricing and significant cost reductions especially in the competitive business.

Turning to Chemicals on Slide 8.

Third quarter sales in the segment, up 20%. All businesses experiencing organic growth year-on-year.

Soda ash sales were up 8% in the quarter, and that's driven by higher volumes, slightly offset by lower prices. Demand trends in the third quarter were similar to what we saw in Q2 with sustained demand in the building market where flat glass is used, while the contained glass market that's used in hospitality, restaurant, catering (inaudible) industry, slightly improved sequentially, although it still lags 2019 levels.

Sales in the bicarbonate product line continue to be very strong. That's about 1/4 of our business there, the bicarbonate product line. It's very strong mainly in the U.S., driven by our solar technology that's used in flu gas treatments, which as -- I highlighted just a few moments ago, represents alone about 10% of the business sales.

Peroxide sales were up 11%, driven by volumes and prices. Market conditions remained strong in HPPO, which is used in automotive and building industries predominantly. Volume growth was further supported by customer wins in the electronic markets. Our silica business had another strong quarter. Sales growth of 17% with strong continued growth in the replacement tire market. The business also continues to benefit from market share gains, thanks to the penetration of its sustainable solutions, including our highly dispersible silica for tires that enable better rolling resistance and far better wear.

The Coatis business in Latin America is going from strength to strength. It's continuing its record run. Sales up 70% against Q3 last year, reflecting continued strong demand, customer wins as well as pricing actions.

Wrapping up, the EBITDA of Chemicals segment increased 19% year-on-year, thanks to higher volumes in all businesses, high prices and also very strong contribution from our RusVinyl joint venture, which is in Russia and PVC. Taking all this together, it translated to an EBITDA margin of 27.3% in the quarter.

I'm now going to turn to the solutions segment, which you can see outlined on page -- on Slide #9.

This segment delivered sales growth of 28% this quarter. Beginning with Novecare, sales were up 25%, driven by double-digit growth across key markets, including coatings, industrial products used in auto and building and construction markets. We also saw more robust demand, more of our sustainable technologies, which supported the double-digit growth -- sales growth in agro, home and personal markets.

You may have noticed that we also have now provided separate sales figures for the oil and gas business, which today represents about EUR 100 million in sales in Q3, a sharp improvement over last year. We really hope that you welcome this additional disclosure, not least because it helps to also highlight the significant progress being achieved by Novecare in all its non-oil and gas markets. To be clear, most of the oil and gas business resulted in the Novecare business units in the past. And we've added 1 product line from our Technology Solutions business because that also supports the oil and gas market. And now what we have is a distinctive business where all of our fracking activities reside.

The Special Chem business delivered sales growth of 26% in Q3, again reflecting the continued strength in the electronics sector, particularly in semiconductors. Although products used in the automotive sector showed modest growth against last year, the business is now feeling the impact of the slowdown in production related to the chip shortage that I'm sure you're all aware of.

In Technology Solutions, sales were up 27% in the quarter, driven by higher volumes and strong pricing across the mining sector. As we mentioned last quarter, we are gaining market share with existing customers, and we're winning new customers as well. Other product lines, including phosphor specialties and additives, are also progressing and are supporting the growth.

In our Aroma business, sales were up 16% in the quarter, driven by strong demand in food and beverage as well as flavors and fragrance flavors and fragrance markets.

Wrapping up Solutions, the segment delivered 28% EBITDA growth versus Q3 last year, reflecting the strong and continued recovery across most markets, whereas the EBITDA margin was stable at 18.3%.

Now I'll move to group financials.

And first and foremost, I would like to share some elements that are related to the inflationary cost increases that we experienced in the third quarter because they reached EUR 145 million versus Q3 last 2020, a sharp increase versus the second quarter. And please note that the impacts I'm highlighting are after our well-established hedging practices.

To give you a bit more color, about 80% of this increase relates directly to raw materials and energy and the balance to logistics. Keep in mind that a significant part of the energy increase is related to the spike in natural gas in Europe, which manifested itself in the later part in the latter half of the third quarter. As a result of these developments, we now estimate that the full year cost inflation will be of the order of EUR 400 million -- rather than the EUR 250 million we indicated in July. That's the backdrop that has really motivated us to really drive and accelerate the increase in prices as the main lever that helps us to maintain our leading margins.

Turning to cost savings on Slide 10.

Once again, we've been able to generate new additional cost savings this time, EUR 41 million in the third quarter. There are 3 main areas for that delivery.

First and foremost, restructuring, which came in at EUR 18 million, and that reflects the reductions in labor-related costs. And you know that we've launched different simplification and restructuring plans such as in composites, but really across the group. These plants have thus far resulted in EUR 171 million of savings since the beginning of 2020.

Indirect cost reductions came in at EUR 15 million, and that also reflects the benefit of programs such as the zero-based budgeting that we put in place last year.

And then finally, productivity efficiencies at our sites came in with EUR 6 million in this quarter.

This brings our year-to-date total structural cost savings to EUR 172 million. Therefore, I can confirm that we are on track to achieve our full year guidance of EUR 200 million. Now you may also remember that our objective is to achieve EUR 500 million structural cost reductions by 2024. We remain well on track. And indeed, at the end of 2021, the cumulative cost reductions over the 2-year period should amount to EUR 375 million. That's EUR 200 million more than fixed cost inflation.

These cost reductions, together with the strong top line performance that you've seen have allowed us to post another strong EBITDA performance coming in at EUR 599 million which represents a 31% organic increase against last year and nearly 7% against 2019 as well on a like-for-like basis. That's really encouraging.

Now what I also want to do is to highlight that this EBITDA performance has been achieved in a very specific context. Since the beginning of the year, the impact from increasing raw materials, energy and logistics, totaled EUR 210 million so far this year. That is an unprecedented situation. Therefore, these new market conditions, these headwinds, require new actions. They require a new way of facing off to these headwinds, and we'll be actively pursuing those price increases across our businesses to mitigate the significant headwind. I can tell you that, for example, we are engaged deeply with customers as we seek to both meet their needs and preserve our margins, because everyone understands the necessity to maintain the balance in our commercial relationships as we navigate through this challenging environment. And again, you can see, actually, there are strong margins. It shows that we're making progress. That said, there is more to be done. We can never relent. And of course, I can tell you that the focus of the entire leadership in Solvay and for the entire commercial organization is very much around maintaining our leading positions in the market and driving pricing up. That is key. I would suggest to you that I have been our priority #1 for quite a few months this year.

But there's more. Cash is where it matters as well. It's where the rubber hits the road, as we say. So if you can turn to Slide 11, you know it's important to us. We worked really hard for more than 2 years to drive sustainable and consistent improvement in cash generation. And I'm really pleased that we're continuing to deliver. For the tenth quarter in a row, we're delivering positive free cash flow this time, EUR 276 million in the quarter. Since the beginning of the year, the total is EUR 692 million, slightly higher than the first 9 months of last year when we exclude scope, currency and the one-time elements that you recall we highlighted last year.

Now I would like to highlight a few additional elements to give you some color on that free cash flow. And I'll start with working capital. The current top line growth is driving a natural increase in our inventories and in our receivables, but we are managing it very, very carefully. And up to now, everything is completely under control. Just look at working capital to sales, you will see that it speaks for itself. As of the end of Q3, we're about 2% better than we were at the beginning of 2020, for example, stronger than in 2019 as well. That discipline is here to stay.

Two, Capex. You see that we spent EUR 412 million in the first 9 months, which is broadly the same amount as last year. Now despite our best efforts to resume our investment plans, we were impacted by raw material shortages and supply chain issues that again are very well-known for the whole industry. As a result of this, we now expect to finish the year with a total CapEx slightly below EUR 700 million. And you know that we compare with EUR 700 million to EUR 750 million we indicated to you at the very beginning of this year.

Third point I'd like to add on free cash flow is, as you know, we're deepening, we're accelerating our restructuring programs. We spent EUR 39 million in cash to make that happen, which brings the 9-month total to EUR 92 million. That's the highest I've seen for many, many years. It's actually EUR 26 million more than last year. The payback is very compelling.

Finally, not in sales, but second -- the least impact, but it's very important, is the continued deleveraging of our balance sheet. The benefits of all the work on pensions and on debt are paying off and are visible in the bottom line; with pension financial charges together being EUR 32 million below the first 9 months of last year.

As a result of all these actions, our free cash flow conversion ratio is close to 40%, for the last 12 months.

Finally, before I turn back to Ilham, a word on our net debt. The level at the end of September 2021 is slightly below the end of 2020. The strong free cash flow and the inflows related to the 6 divestments more than offset both the dividend payments of EUR 388 million and EUR 102 million voluntary contribution to our pensions that we made in Belgium, in fact, in the first quarter this year. And I remind you that we still have plans to make another EUR 300 million in additional contributions in the next 6 months, which will bring the cumulative additional pension contributions to about EUR 1.1 billion. Indeed -- and the question of debt and pensions, it's useful to take a step back sometimes and to really take note of the cumulative progress on our global indebtedness since 2019.

And Ilham, I'm not sure you realize this, but since you became CEO, the fact is -- and this is a real factor, that our balance sheet has strengthened by EUR 2,5 billion in just 10 quarters, with a fall in net debt from EUR 5,5 billion to EUR 4 billion now, a fall in pensions from EUR 2.7 billion to EUR 1 billion. I just wanted to make note of that because when you look at each quarter individually, we sometimes miss the big picture. And with that, I'll hand you back to Ilham, who will provide our outlook for the remainder of the year.

Ilham Kadri - Solvay SA - Chairman of the Executive Committee, CEO & Non Independent Director

Yes. Thank you, Karim. Thanks. It's teamwork. I'll now comment on our outlook for the full year shown on Slide 12. We are very pleased to confirm today our full year EBITDA guidance for 2021 despite the key headwinds facing the whole industry today. The fourth quarter won't be easy to navigate, considering not only the strong demand in a lot of markets, the usual softness during the holiday season, the chip shortages impacting some auto businesses, the raw material, logistics and supply chain disruptions or the potential power restriction in China as you all know.

So some of our plants are sold out one day and have to slow down or stop the day after because of these issues: discussions with clients on price increases or difficulty to deliver products, in fact, managing these uncertainties has become an integral part of the daily job of our teams.

It's also somewhat difficult to anticipate the full impact of cost increases and disruptions given the very high volatility we see with some raw materials and with the energy prices in Europe. As Karim mentioned, our best estimate for the full year inflationary cost impact is now about EUR 400 million. So things are changing rapidly, and we are fully mobilized to respond effectively and we are ready.

Notwithstanding these challenges, our focus on the top line gives the confidence to confirm our EUR 2.2 billion to EUR 2.3 billion EBITDA guidance for the full year. I remind you, this represents 20% to 25% growth on an organic basis against 2020 and around 4% against 2019. Even plus 13% excluding composites and oil and gas, which had a slower recovery.

On cash, we are increasing, as Karim said, our free cash flow guidance and now estimate generating around EUR 800 million for the full year. This will represent a free cash flow conversion ratio between 35% and 40% higher than our strategic commitments and 3 years ahead of time.

In short, we have not forgotten the lessons learned during the COVID crisis, and we are making good use of them today to make Solvay even stronger. This means we will continue to be innovative to think differently, to stay close to our customers, drive value and to go the extra mile. And we will continue to implement our growth strategy and look forward to the future that will be more sustainable for sure. So by now, Karim and I will be happy to take your questions. Back to you, Jodi.

Jodi Allen - Solvay SA - Head of IR

Yes. Thank you, Ilham. We will now move to the Q&A portion of the session. (Operator Instructions) Thank you, and I'll transition now back to the moderator.

Q&A

Jodi Allen

We will now move to the Q&A portion of the session. And I ask that you kindly limit yourself to one question per analyst, if possible, so that we can address as many analyst questions as possible today. Thank you. And I'll transition now back to the moderator.

Operator
Thank you. Ladies and gentlemen, we will now begin our Q&A session. If you wish to ask a question, please dial 01 on your telephone keypad and you will enter a queue. After you are announced, please ask your question. Once again, please dial 01 on your telephone keypad to ask a question. We have the first question from Matthew Yates from Bank of America. sir, please go ahead.

Matthew Yates
I've got one cash flow question and one operational question, if that's all right. So on the cash flow, you're talking about €2 billion cumulative CapEx for decarbonisation, but that's over the next 20 years. Is the simple way to think about this a €100 million a year spending, or is it much more concentrated and front-end loaded than that? The operational question relates to Soda Ash. Obviously energy prices are up a lot. I think IHS are talking about $40 to $80 a ton depending on feedstocks. I'm not sure if you agree with those numbers. But is there a way to think about the percentage price increase you need next year to pass this through? Is it around 20% or is that, am I way off there?

Ilham Kadri
Let me start, and Karim you follow? I may start with the second question and then follow up on the carbon neutrality. Indeed, you've seen the IHS publication+20€ per ton, +20% more or less for Europe in 2022. There are also prices up in APAC, above US$300 almost per ton as we speak, etc., and 300, 350 LATAM and EMEA. You can take them as a proxy. We, at Solvay are at the higher range and above this.

The way to look at it is that obviously this is a high energy intense business. Obviously, we have a policy of energy hedging. We don't disclose the amount of it, but it's supporting us and helping us. And you've seen our numbers in terms of pricing in the sales bridge against the quarterly cost savings, although we don't disclose it on a business unit level. Believe it or not, this is the first time in our history where we have started renegotiating the prices on soda ash business in a given year for contracted business because it's an abnormal time. Our customers, they understand that. So we are discussing it with them. And obviously, as we are in quarter four, we are also starting the discussion as traditionally we do for next year's pricing. So more to come, as usual, and you've seen it through my tenure with the team. We will ensure that we protect our margins and continue ensuring that in each business it deserves the prices it should deserve.

On the neutrality, and maybe Karim, you can give a bit of colour how we are going to do this. Obviously, you've seen us announcing carbon neutrality and it's a big day for Solvay because we are part of the chemical industry, which is harder-to-abate-industry. We've been working on this since my arrival in the company in March 2019. Obviously, Solvay One Planet was the first step to declare a bigger ambition on sustainability. We joined the Paris Agreement. We joined the SBTi last year. We did 2x the Paris Agreement target in 2019-2020. So 4% structural decrease in emissions in 2019-2020, and Paris requested 2%. And this shows – and we did it on high value projects with good returns.

On the soda ash, that soda ash represents, last year, I think 2020 was 64% of our emissions. So there is a soda ash case and a non-soda ash. And that's why we're making the split. On the soda ash side, it's about exiting coal and we have seven assets in Europe, which are still using coal as primary energy. Since I joined the company, we are now announcing the second plant, Dombasle in France, after Rheinberg in Germany we announced earlier in the year, exiting coal, which has been approved by the Board of Directors yesterday.

And we are doing it to recourse financing, obviously. So we did consolidate, but the CapEx is turning to OpEx. And the way I asked the team to do it is very simple. It's to show me and to show us. And obviously it's a competitive landscape that we can do it at lower lended costs, including vis-a-vis our natural imported competition. And that's what we are doing with those two investments.

And moving away from coal or gas, you've seen it now with the spike in gas prices. It actually supports our less cyclicality and dependency on highly cyclical energy. And that's what we are going to do with biomass base on wood chips in Rheinberg and here we are using what we call RDF, refuse-derived fuels, which is by the way, just non-valorised waste. We burn the waste. And this is going be good for the planet, but also profitable. Karim, anything to add on financing?

Karim Hajjar
Yeah, sure. I mean, Matthew, I think – I don't have a better indication than your average of a 100 million a year. I think it is a good proxy, but the reality is it's not going to be as linear as that. However, the important point, and I'll go back to what Ilham gas said is there will be a fair proportion of that that will be non-recourse financing. So yes, we use the strength of our balance sheet, but the cash will stay with us as well.

More importantly, this will not get in the way of our growth plans. And it also won't undermine the capital discipline and the real focus we have on generating returns. And I say that because what I really like about this from a pure financial standpoint is the returns are really compelling. This underpins the resilience. It improves the competitiveness of all our businesses without in any way disrupting our growth potential. And that's what I find particularly attractive.

And clearly, maybe giving you an example, we announced you recall Rheinberg, same thing, we moved away from coal early in the year. Soda ash, we've announced Dombasle. Both of them benefit also from project financing. Again, this is an example, let's say being smart, using other people's money wisely, let's say, putting in the equity you need. And that helps us to move the agenda. As I said, the returns are very, very strong. I hope that helps.

Matthew Yates
Thank you both.

Karim Hajjar
Thank you.

Operator
Thank you. Next question from Mubasher Chaudhry from Citi. Sir, please go ahead.

Mubasher Chaudhry
Hi. Thank you for taking my questions. One bit near-term. Can you elaborate on your conversations with your customers with regards to the price increases that you've seen in the current quarter? And is there is an understanding that the pricing will need to come down when the raw materials come off, say, well potentially in 2022 and therefore we see the margin remaining flat as opposed to margin expansion story? The second question is a bit longer term. On capital allocation with the strategic review of the soda ash division, and then a strong performance of materials business that you're seeing now, are you open to large ticket M&A or do you think the focus is still very

much on cost containment and efficiency execution before you turn to thinking about big ticket M&A? That'd be helpful. Thank you.

Ilham Kadri
Thank you very much for the question. Well, listen, on pricing, frankly, although it's painful specifically the level of inflation we see now, and it's probably – and very unusual – and first time in my career I see such spike in such a short period of time. Actually a side of me likes it, because it stress tests our value proposition, and it's the best timing to go and get pricing. Not only for commodities obviously, but also for specialties. We are discussing constructively with all our customers. Our sales team is working hard. You may remember actually I told you after getting fit and working on our cost, and I think Karim has given you a colour on how the infrastructure now is getting leaner, better, more efficient and productive at Solvay. Now it's the time we are switching gears to the growth potential of Solvay.

And I think frankly, even before joining the company, that's what attracted me. We are the only one who has all these specialty polymers and the carbon fibre, the composite know-how in one home. And we are unique there. And you see it now, when I told you back in 2019 at the growth strategy launch that the battery platform and the thermoplastics platform are going to be the emerging growth platforms. Frankly, even me, I couldn't believe that it's going to be so quickly increasing and growing after a year and a half, two years.

So we have a unique value proposition. You've seen that our sales in our sales bridge, we’ve achieved 139 million in price increases in the quarter versus 145 million cost impact. Those are the data, and there is more to do, given the headwinds, which remains and are clearly increasing in quarter four. We expected this at the beginning of the year, but I told you 200-250. Now it's more for 400.

And we are still continuing to increase prices. In the open volumes, we have energy surcharges. We are putting it. I told you that's the first time in our history where even contracted business, like in soda ash, we are putting it on the table. And customers, they understand. They look at the numbers and the data like you do and I do. So that's extremely important. And we're anticipating the ‘22 price negotiations they are underway, just too early now to talk about it. And as you know, for contracts, there is a lag between cost increase and prices increase. On average at Solvay it is four months. That's the example in Silica, for example, and in commodities, like Coatis, we are capturing the increase right away.

And indeed for sustainability of it, what I like it stress tested specifically the specialty portfolio. So now we are looking at our value proposition, our value pricing. And obviously if we believe that we were not pricing enough and well, our products and solutions, we will fix it through these periods of renegotiations, including by the way, the terms and conditions. Karim, you want to address the other question?

Karim Hajjar
The other question is really around capital allocation and M&A, etc., and you mentioned soda ash. All done in soda ash has announced a carve out that gives us at some point portfolio flexibility, of course. But in the moment, the focus is on driving that improvement, not just financials. You can see the results speak for themselves. But also in terms of sustainability and the two projects.

So what's our view on M&A? We are clearly open. We're looking to upgrade our portfolio with discipline, absolutely with discipline. We won't overpay ever. We will make sure we focus on returns. So we look, and clearly we have some dry powder, look at the cash on our balance sheet. So to my mind, of course we're looking very selectively in a way that's very strategically coherent. Where we find opportunities, we don't hesitate. And you've seen us acquire, okay, a small business on Agro at Novecare because we saw that we’re clearly a very good owner that can drive a lot of value.

My only regret on that particular one, which was 10 times bigger, and that would’ve been nice. So what I'd say is we are looking. Cash funding is not a constraint to our ambitions. It really is around driving the agenda organically in the first instance, priority number one, but also the portfolio lever is there. And we'll take our time to find the right opportunity there. Thanks, Mubasher.

Operator
Thank you. Next question from Jaideep Pandya from On Field Research. Sir, please go ahead.

Jaideep Pandya
Okay. I'll stick to one question only. The soda ash business that you have discussed to carve-out, interestingly, quite a few other assets, at least have been rumoured to be on the market, especially more in the US, with rumours on Ciner and Tata. And if you add all this capacities, then it looks like almost 75% of US capacities are up for sale. So just want to understand how do you see this in the context? What is really driving so many businesses to – or so many players to actually put their assets up for sale? And how do you see, let's say, the future of soda ash in this backdrop? Is this something where all options are open, i.e., even an IPO, or is it something where you're going to carve it out and definitely sell it to either a strategic or a financial? Thank you so much.

Ilham Kadri
Hi, Jaideep. Thank you for the question. I remind you that we announced the carve-out of soda ash a while ago. Actually the COVID-19 has delayed our plans. Because we were already ready into early 2020. We started this a bit later and the objective of our carve-out is to enforce the internal financial and operational transparency and accountability and increase the strategic flexibility. And this remains our focus at the moment.

I have done such carve-outs in my career. I know they can be complicated specifically for a founding business like soda ash at Solvay. And we indicated that in February 2021. It's going to last approximately 12 to 15 months. So you can expect better news by the end of quarter two next year. And when and if we make additional M&A decision, we will inform the markets. At this stage, there are no decisions. We are just busy with the carve-out and doing the right thing here. To give you an example, a significant number of legal entities out of a total of 400 entities needs to be reviewed and reconsidered carefully. So it takes time.

And transformation is a process, not a destination. I mean, we are not for sellers and we are guided by improving Solvay’s profile in order to create shareholder value. So that's key for us. And we've done it with six recent small product line divestitures. When we believe we’re not the right owners, when we believe there are commodities, we make a deal, provided people are paying the right multiple.

The rest, frankly, I'm not going to speculate on what's going on in the markets. I'm watching like you and anything which can build equity for a beautiful business line soda ash, take it. Back to you.

Operator
Thank you. Next question from Chetan Udeshi from JPMorgan. Sir, please go ahead.

Chetan Udeshi
Hi. Two quick questions. First, if we see in Q1 at least the company was successful in keeping the net pricing close to zero almost. In other words, the price increases offset more or less the incremental energy costs. Can you give us some sense of how do you see that in Q4? I think that would be useful. And second question, straightforward. I think you mentioned something about the project for solid state batteries. I don't know if you can give us some colour on what is the chemical backbone that you're using? Is it based on PVDF, or is it some other materials that you are using to develop your solutions for the solid state? Thank you.

Ilham Kadri
Thank you, Chetan. On pricing, obviously it's a battle of every day. I think I'm satisfied, not totally satisfied, right, with where we are. So I think the team has done a good job. Obviously, it's always difficult in a given year to go and renegotiate established contracts, I think. But as I told you, Chetan, and the team, I was, frankly, during my career, inflation times are really good times to really challenge your pricing strategy.

As we speak, we hired people to help us internally to review thousands of contracts, terms and conditions, the formula pricing in inbound, outbound. Do we have the right formula in terms of energy, in terms of logistics, in terms of raw materials and vulnerability here and there, wherever we have a sole supplier we are validating and qualifying more than one. We are having a discussion, as I told you. I give you the extreme example of soda ash, because it's historical.

And frankly, when I put it on the table with the team, obviously it's never happened. But when you go, the customers understand that it's fair. It's very credible. They need winning suppliers. So we are doing this. We are on pricing every day. Costs are increasing. We don't see them decreasing. I don't have a crystal ball on energy and gas for next year. I'm hearing different energy companies and we have our intel where it's going to go, but I am now counting with the team that H1 costs are not going to ease up. If it does, good news. It's going to be an upside.

So therefore, we are keeping our pricing momentum and we're reviewing it every week with our teams, yeah, with the corporate team. So we are doing just that. And this is important.

There was a question about batteries. Again, very happy that since 2019, we really played the batteries game as a platform. And when I say as a platform, I'm not sure it's really struck you in 2019 was my first nine months in the job. I was struck by the power leading technology, power position of Solvay. And when I say we circled the battery, I'm weighing my word. Battery is a cathode and an anode. We are in separators. We’re in electrolytes. We're in the casing, and now we have even soda ash with lithium mining.

And we are technology agnostic, and that's what you are alluding to probably, Chetan. We are not making anode, cathode or separators materials, but developing binders, coating, and electrolytes. So battery technology, it means using those different cathode chemistries. And the answer is we are present in all. So different generation of batteries. We commercialised generation two. We are already qualifying generation three and generation five, which is the solid. We are working on this.

Now on the technologies it’s beyond PVDF, that's what you ask for. We're not going to disclose which one is our preferred one, because we have still competing technologies, but we are working on several ones. And the launch of this dry room lab and another line to assemble an already mimic what a solid battery of tomorrow can be, is a testimonial that we are progressing very fast with our customers. I think that was the question on solid batteries. Back to you.

Operator
Thank you. Next question from Geoff Haire from UBS. Sir, please go ahead.

Geoff Haire
Hi. I've just got two. One quick question and then probably a slightly longer question. First of all, just on Q4 pricing. I think you said, Karim, that there'd be 400 million of cost increase due to raw materials and energy. I think by implication, that would mean you'd need to get prices up about 9% to 10% in Q4. Is that roughly where you think you can get to, given the negotiations you've had so far with customers? And then the second question, just sticking on the solid state batteries, when you launched this product commercially, is it going to be for EVs, or is it going to be for consumer electronics first? And when do you think the first revenue will come from it?

Karim Hajjar
Good afternoon, Geoff. On your first question, your maths are – I'm not sure if they're right or wrong - but for me, here's the math. I said 400 million is our estimate for the full year. We had just over 60 million from memory in Q2, 145 now. So we're 200, 210 million of the way there. So that implies for the headwinds of the order of 190 to 200 in Q4.

Within our guidance, what we said is we will expect to deliver an EBITDA for the full year between 2.2, 2.3. So I'm not going to give you a precise answer. What I can tell you is we have factored in an expectation that we will mitigate. Now, part of that will absolutely come from pricing. You saw what we did in Q3. The run rate of what we started in Q3, and that hasn't fully crystallised, but also come through to the bottom line.

So in terms of euros, I can tell you, but I don't want to give you a percentage because I think it could be unhelpful in many, many respects. It's the euros we're looking at. But I do expect us more than ever to, let's say, to really maintain our leading margins. If I said it differently, we really liked the fact that our EBITDA margin now nine months into the year is 24.1%. If I can ignore 2020 and look at 2019, that's 1.1% better than 2019.

Now I'm not going to say that's not going to reduce to go up a bit. Yes, of course. There are always little seasonal impact, etc., but do expect us to keep those leading margins. That's really what we're saying. But it may not be linear from one quarter exactly to the other, but the focus on pricing will absolutely be maintained and will drive us up.

Ilham Kadri
On battery again, solid state, and thanks for the question. Obviously, as you know, the generation 2-3, so it's really based on current PVDF. We have a roadmap. We more than doubled the capacity since I joined the company and be patient with us, we're going to tell you a bit more about our plans, either in the coming quarters or during a future Capital Markets Day. So we are busy with that. And that we master, we know, and frankly, we can do a better job in making it more efficient and productive.

The holy grail will be the solid state, obviously, and the generation 5, it's further out, probably post 2025 to the end of the decade. We have (inaudible) as well from governments and we put together demo plants and we have small scale capacity, and we are upgrading it with some very good competitiveness there. So there is a bigger surprise there. If we can move to solid polymer electrolytes, it will give you a lot of performance and safety security, number one, to highly valued by our customers. Nobody wants to recall cars because of problem of flammable batterie. But also the weight and the density and the affordability and the cost of ownership. So we'll get to that. And I think we are protecting our IP wherever we can, and we can tell you more in the coming quarters. Back to you.

Operator
Thank you. Next question from Sebastian Bray from Berenberg Bank. Sir, please go ahead.

Sebastian Bray
Hello. Good afternoon and thank you for taking my question. It's on the special chem business. There is quite a lot of news flow coming out of China about some rather outrageous price increases for rare earths at the moment. And it might add up the capacity that Solvay has at La Rochelle and elsewhere. As a rough guess, I think it's about 20% to 25% of processing in this market. I remember back in 2010-2011, there was a big spike, and this had a quite positive impact on EBITDA. If this were to repeat, would we be looking for, let's say, 50 million or 100 million of EBITDA uplifts from this segment? And linked to that, how do you think about the demand for rare earths on a 10 or 15-year view in terms of the erosion from auto catalyst business versus for use in EV electric motors? Thank you.

Karim Hajjar
Sebastian, I think it's an interesting question you're asking. I think the situation today is different from the part that you allude to. I don't believe that we're in a bubble, which is what we saw in the past. I wish I could say to you, I see 50 million to 100 million. And you know what? I wouldn't hesitate to tell you that if I really believed it.

What I can tell you is that we are a niche market. I think some of the markets we're serving – customers we're serving, essentially we're in fading business, diesel, etc., over time. They're fading. They're stagnant. But fundamentally what we've described is very much so within our expectations, let's say, we factored in within the 400 million, for example, we factored in these expectations. But I really don't think we're in a bubble with a significant upside at this point. Thank you.

Operator
Thank you. Next question from Laurent Favre from Exane BNP Paribas. Sir, please go ahead.

Laurent Favre
Yes. Good afternoon. It's a two-part question on materials. The first question is around pricing in raw materials. You only had 1% pricing in Q3 for the division. So I'm assuming that there wasn't a lot of pricing and there wasn't a lot of raw material inflation. I was wondering if you could talk about maybe the delayed in inflation in composites because of the fibre contractual arrangements, but also what you're expecting in terms of the further innovation in specialty polymers? And then the second question on specialty polymers. On silica, you talked about the decline in car production, and the issue with chip shortages. I'm surprised that polymers has managed to have the highest sales on record in the history on Solvay when car production is about 20% below all-time highs. So I'm just wondering, is it that the non-auto parts of specialty polymers is doing phenomenally well? Or is there some restock in the chain? Thank you.

Ilham Kadri
I may start, Karim, and I'll start probably with specialty polymers. Well, you've seen the numbers, obviously very good quarter on specialty polymers and we expected it to be this way. Let me start with the market situation because you hear a lot about auto and probably you're trying to compare us with other peers.

From OEM perspective, there was no major slow down yet in quarter three. So from specialty polymers perspective at Solvay, our demand has been extremely high since January, by the way. Yet we did have some customers orders cancelled here and there even in quarter three. So we do expect to feel some slowdown in quarter four, and this is factored in our forecast. The story on our results, it's a bit in my mind I tried to make it in a simple way. Even with some softness in demand, we still have full plans. That's what we see. I mean, there's lots of red in the capacity utilisation here.

There may be some inventory, but we don't think there is much yet on inventory build up based on our intelligence directly with our customers. And here, I feel better than last year, because last year when the COVID-19 hit us, we didn't have a central order book and we didn't waste a good crisis. So we build the central order book now where we have a pulse a bit on what's going on and we are in direct contact with our customers.

So some parts of the value chain had no inventory, so they tried to rebuild, but it's getting consumed immediately, so no backlog. Therefore many of our customers believe it or not are still screaming for inventory in quarter three. And that's what we know from our intelligence again. Intrinsic demand from consumer is still there. People are still buying cars. Now, OEMs are given priority because of the chip shortages. You've seen it. And that's what we hear through the high-end, high margin vehicles, and both are either EV or luxury brands, high-performance vehicles is the sweet spot of specialty polymers. That allows, frankly, the OEM to sustain their margins. Specialty polymers are used to this type of vehicles. Therefore, we still saw high demand in quarter three, specifically on those areas. And we see continued penetration of EV and hybrids, as you know, where we have more weight in this vehicle. You remember my six, nine, 12. Six in ICEs, nine in electric and 12 in hybrids. So the OEMs favouring those models, it's better for us.

So all in all, the forecast, market is probably getting softer. This will somewhat affect us in quarter four, is again in the forecast. And it's in there already. And please note, I mean, we'll talk about auto and batteries, and I like that. But all other markets in specialty polymers outside auto are also performing very well and growing at high rates. So all of these together translated into superior performance in quarter three and a new record.

You want to talk about – I'll take carbon fibre as well, or you want to do that?

So carbon fibre, as a reminder, our asset base is a bit more flexible here versus our competitors, meaning we are not 100% vertically integrated into carbon fibre. We procure a large option of our needs, as you know. And this means we have less of an issue with fixed costs. Although, as you know, last year with the slowdown and halting of civil aviation, we did what it takes. We restructured our infrastructure. Two plants have been closed and the third one is underway. We didn't lose volumes. And frankly, composite materials when the aviation civil because - defence is doing well -will get back to 2019 level, which we expect by 2013 is going to be far better business at very healthy and higher margin. That's what you've seen from ex-Cytec, or even the composite materials within Solvay the earlier days of this decade.

And indeed we procure our needs. Our contract structure provides some protection. We have formula pricing as you know. But we are also able to get pricing, obviously, because we have those formula pricing. We have multi-year formula pricing. And as we speak, we're also reviewing those formula. But yeah, definitely we can pass on some pricing. Thank you.

Operator
Thank you. Last question from Alex Stewart from Barclays. Sir, please go ahead.

Alex Stewart
Hi there. Just to go back with this auto question and the one also, because if you look at the numbers, your auto sales and materials or your polymer sales were down 20% this time last year and not 45%. So that's up 15% over two years. Global car production was down 10% relative to 2019.

Karim Hajjar
Sorry, Alex, you're cutting off. Alex, I'm sorry to interrupt, but you're cutting off. You're going to have to repeat your question. We cannot hear you. Thank you.

Alex Stewart
Okay. It's fine. I'll give the IR team a call afterwards. Maybe that's better.

Karim Hajjar
Okay. You can try again one more time. And then if that fails, feel free to reach out directly. Have one more go, please.

Alex Stewart
Okay. I hear what you're saying about the auto industry and demand is still good and they're prioritising premium cars. But this time last year, your sales to the auto industry were down 10% to 20%, and now they're up 45%. So that's 15% higher in the third quarter this year relative to the third quarter 2019. Over that two-year period car production is down 10%.

Karim Hajjar
Alex, I'm sorry. Your voice is intermittent. We're going to have to take it offline. I do apologise. I wish the connection was better. I'd love to answer your question hopefully today, but we'll take it offline with the team. Thank you. Next question please, operator?

Operator
Thank you. We have no more question. Back to Jodi for the conclusion.

Jodi Allen
Yes. Thank you everyone for your participation today. Indeed, Alex, feel free to follow up with us. But anyone who has additional questions, the whole IR team is here to speak with you. Thank you so much and have a great day.

Operator
Thank you, ladies and gentlemen. This concludes the conference call. Thank you all for your participation. You may now disconnect.