Event: Solvay Q1 2018 Earnings Conference Call for Analysts and Investors

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Speakers: Jean-Pierre Clamadieu, CEO & Karim Hajjar, CFO

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Operator: Ladies and gentlemen, welcome to the Solvay Q1 2018 Earnings Conference Call for analysts and investors. I am pleased to present Mr Jean-Pierre Clamadieu, CEO, and Mr Karim Hajjar, CFO. For the first part of this call, all participants will be in listen-only mode and after a while there will be a question and answer session. Please dial zero one on your telephone keypad to enter the queue for the question and answer at any time. I now hand you over to Mr. Jean-Pierre Clamadieu.

Jean-Pierre Clamadieu: Thank you very much. Hello everyone. Thanks for joining us today. I'm here in Brussels with our CFO, Karim, and our head of IR, Kimberly. Together, we will provide an overview of our first quarter 2018 results. Just a few other introductions, and then I will turn to Karim.

I would say that this quarter was very much in line with our expectations. Strong volume growth continued, driven by the Advanced Materials and Advanced Formulations cluster. As you know, much of our Advanced Materials cluster provides lightweighting solutions to our customers in markets like automotive, aerospace and a few others. We've benefited from the strength in automotive, and also the fact that our product gained market share, replacing metals with high performing polymer in a number of applications. So, overall, a very good run in the automotive segment. Aerospace composite continued in its growth trajectory, both for the military programmes and the commercial ones, generating significant volume growth.

Formulations performed well, too. We are focusing there to serve our customers' needs in terms of resource efficiency. Growth was especially notable in oil and gas. We serve mostly the nonconventional oil and gas markets in North America, and we've seen very strong trends there. The only point of attention during this quarter in this cluster is our mining chemical business, which was flat compared to last year. But in our view, it's a temporary situation, and we expect a good run for the full year in this segment, too.

On an organic basis, our EBITDA grew 9% in the first quarter, very much in line with our mid-term objective. And, this was also, unfortunately, something expected. The combination of scope – we had a couple of small transactions, which weighed on our perimeter, because we have not restated for these transactions. And especially, foreign exchange headwinds, reduced EBITDA by 3% to €533 million. In this context, we were able to maintain a strong EBITDA margin of 21% in an inflationary environment, as far as raw materials and energy input are concerned, so this is a good sign that indeed we benefit from significant pricing power in the various markets where we play.

With that, Karim, could you provide us with additional insights in our financial performance? And I will come back with some closing remarks regarding how we see the year in front of us.

Karim Hajjar: Of course. Thank you, Jean-Pierre. Before I get into the key aspects of our performance, maybe just highlight the fact that we have been listening. And I hope you appreciate the fact that we've tried to distil the key points in a more strategic press release. We will, of course, supplement that with a comprehensive financial report available on our website. As usual, I will refer to slides that you can access on our website and the figures that are referred to are on an underlying basis. And also it reflects the fact that we show the polyamide activities as being discontinued.

Let’s start with sales, and perhaps you can refer to slide number eight. The fact of the matter is net sales have declined 3% in the quarter. But, when you exclude the scope and the anticipated foreign exchange impact, sales increased by 6% year on year. Volumes were up 5%, driven by strong growth in Advanced Materials and Advanced Formulations.

Volumes grew 6% in Advanced Materials, as we continued to benefit from the lightweighting trend, which really relates to sustainability mobility. If you look at our high-performance polymers, especially in automotive, we’ve seen strong demand, fuelled by the drive for fuel efficiency, for electrification of vehicles. But, we also saw good demand in other markets, including healthcare, food packaging and electronics, to name but a few.

On the composite side of our business, sales volumes grew double digits on the back of increased production of commercial aircraft, including, by way of example, the Boeing 787 Dreamliner, the 737 MAX, and with the continued and anticipated ramp-up of the F-35 military programme. We’ve also seen improved demand in helicopter and in the business jet sectors. These are developments we clearly welcome. The industrial side of the business also showed improvement in the quarter, and that’s mainly linked to high-performance auto programmes.

If I turn to our Special Chem business, we delivered robust demand growth in the electronic sector, and that’s supported by our recent capacity expansions. And that helped offset a reduction in the demand for rare earth oxides in automotive, linked to the shift away from diesel to gasoline engines. Overall, that resulted in a stable volume for that business.

Turning to Advanced Formulations, volumes were up 8%, driven by the need for greater resource efficiency, by which I mean that the solutions we develop help our customers to optimise the cost, the yield and the environmental impact of the resources that they’re working on. That growth was complemented by higher pricing overall. The continued strength of the North American shale oil and gas market did lead to significant growth versus Q1 last year when we saw the oil and gas market begin its recovery. That strength was further supported by positive product mix with greater use of advanced friction reducers by our customers.

Turning to our Technology Solutions business, we saw strong demand for our phosphine specialities, most notably for the electronics industry, which propelled us forward. In mining, market conditions are stable with good demand for metal extractants. But our volumes at the start of the year were flat, mainly related to order patterns.

Turning to Performance Chemicals, volumes were stable overall. We saw solid demand in Soda Ash & Derivatives, but our progress was held back by logistical supply chain constraints, which are linked to a lack of railcar availability in the US, which meant that our sales were 4% lower, whereas the margins were very much as planned at the beginning of the year, as anticipated. Bicarbonate volumes were stable, but also benefited from product mix. On the other side of the equation, we saw very strong growth in our Coatis business, both in terms of pricing and volumes, as both the domestic and the export markets improved for both solvents and phenols.

That’s the top line. If I turn to slide nine and look at the bottom line and the EBITDA, in the bridge, you see that the strong volumes I referred to contributed strongly to our performance but were insufficient to overcome the adverse impact of forex and scope. I’ll say a few words on foreign exchange, where you see €43 million of negative impact. It won’t escape your attention that last year’s average dollar/euro exchange rate was $1.065. The equivalent for the quarter Q1 2018 was $1.229. That $0.16 decline alone, using the sensitivities that you’re very familiar with, accounts for €30 million out of €43 million. There’s a basket of other currencies that individually are pretty minor or modest, but collectively add to that €13 million difference or adverse impact. And, I’m talking here about the Chinese Renminbi, Brazilian Real, the Canadian dollar, and even the Saudi Arabian Real, for example, where we have the peroxide plants. That is part of the headwinds that held back our progress.

Now, if I leave those two aspects aside into the scope and foreign exchange, as Jean-Pierre mentioned, our underlying EBITDA grew by nearly 9% organically. We managed to maintain positive pricing power in this inflationary environment and that more than offset changes in the raw materials. And that's, again, due to our ongoing focus on pricing and excellence. In Performance Chemicals, this effect was partly offset by the anticipated pricing environment in the context of new capacity that we anticipated for a while now.

Operational excellence did have a very significant impact and a very positive impact on our bottom line, and it helped to feed strong demand at some of our saturated plants, debottlenecking and increasing yields, helping us reduce variable costs. I'd like to give you one example, where with our specialty polymers site in Tavaux in France, we managed to achieve debottlenecking by the deployment of digital advanced analytics that gave us insights as to operating more optimally than before. And that helped to contribute to double-digit increase in our production in the quarter in a market with very, very strong demand. These are the kind of examples that are contributing strongly to our bottom line. As Jean-Pierre said, we've managed to sustain our EBITDA margin at 21%, which, as you know, remains in the top quartile for our sector.

Our earnings per share on a continuing basis was €2.00 per share, up 10% year on year. This reflects a reduction in our financing charges and on our tax rate as well. And you will have noticed that our underlying tax rate was 25% in this quarter compared to 26% this time last year. Clearly, there's more to performance than just profits and EPS cash is key. And before I say a few words on cash, you will have noticed that we've now extended our normal analysis on our free cash flow by extending it for financial charges and also for minority dividends really trying to target the fact that our free cash flow that really matters to many of you is the cash flow available to fund our own dividend to our own shareholders. So hopefully that is a welcome development. It's not new information; it's always been disclosed. We've just taken one or two steps to make it even easier for you to understand our performance.

Turning to our performance, we are remaining totally focused on free cash; it absolutely is critical. Our free cash flow was €105 million from our continuing businesses. A little lower than last year, and that really reflects working capital build and phasing from one quarter to the next. Our CAPEX discipline is there – very much there. We're, I think, a couple of million euros lower than last year, totally in line with our expectation.

And maybe just worth noting that two or three years, you'll have seen, historically, Solvay's net debt increase in the first quarter. Last year we were flat, this year we are flat. In other words, the free cash flow we generate to our Solvay shareholders was adequate to pay for the dividend – interim dividend – that we pay in Q1 as well. As a result, our net debt is stable at €5.3 billion, and that includes €2.2 billion of perpetual hybrid bonds.

Clearly, we will continue to focus on our cash and fully expect to deliver the free cash flow from continuing operations.

And with that, I hand you back to Jean-Pierre.

Jean-Pierre Clamadieu: Thank you very much, Karim. So just a few comments to conclude this introduction. The first one to underline that we've announced, at the end of March, our transformation plan with a very simple objective: make sure that all of Solvay's organisation is focused on delivering solutions to our customers. And we are achieving that for a significant simplification of our organisation and key processes. For me, it was an absolute necessity, after a very significant transformation of the portfolio, to make sure that we can benefit indeed from the very strong portfolio that we've built over time.

So we've promised that we would give you, with these Q1 results, some guidance on what this will represent. We expect this transformation in organisation to generate a recurrent annual EBITDA contribution of €150 million. We think it will take us three years to achieve that. Half of these gains are on headcount reductions, and the other 50% are linked to efficiency improvement.

We have booked, with this quarter result, a one-time restructuring cost of €134 million to account for the restructuring cost of this organisational transformation. And clearly for us, the key objective of this improvement is to strengthen our ability to deliver continued growth.

We've been quite successful, in past years, to create an outstanding customer experience for a limited number of our customers. What we want to do is to make sure that across the board and all the customers that we serve for our various clusters, we have this ability to offer a differentiated customer experience.

Turning to the outlook for the rest of 2018, maybe just on a personal note, you will know that I will transition out of my current responsibility by the end of the year.

I can just tell you that the Board is very much on track as far as the succession process is concerned. We are currently reviewing candidates, both internal and external, with the objective to have completed the transition process by the end of 2018.

And I can tell you that in the meantime, I stay fully committed to make sure that we deliver on the various priorities that we have for 2018, which means that myself and my colleagues from the COMEX are indeed focused on driving growth in 2018. And we can only confirm our previous guidance of growing, full year, organically – of growing our EBITDA, I should say, organically by between 5% and 7%. By the way, we've started with 9% organic growth in the first quarter.

Foreign exchange will continue to weigh on the results in the second quarter. And it's very important that you realise that leaving aside the foreign exchange, organic growth is likely to be weighed towards the second half of 2018.

And with that, we are now, with Karim, in a position to take your questions.

Operator: Ladies and gentlemen, we will now begin our questions and answer session. If you wish to ask a question, please dial 01 on your telephone keypad, and we will [inaudible] you. After you're announced, please ask your question. Once again, please dial 01 on your telephone keypad to ask a question. Thank you.

The first question is from Peter Clark, Societe Generale. Sir, please go ahead.

Peter Clark: Yes, thank you. Hi everyone. I'll restrict myself to two. The first one is around the composites. You say the sales volumes were very strong, but if I try and adjust for FX as best I can, it looks like the underlying sales were up more modestly. So I'm just wondering, with price and mix, what's happening there. Is there some recovery in some lower margin business, and the trend going forward on that, obviously, because a recovery in composites is something you're pointing out at some point year?

And then in Advanced Formulations, again using my numbers anyway, I get the oil and gas business down sharply on margin. And I'm trying to wonder how much that might be the raw materials squeeze, although you said you had positive year-on-year pricing, I think, and how much potentially is the drag on the Ag side? And I know guar gum is quite important in that business as well.

And then tied with that, I guess, the guar on the oil and gas, whether we're actually seeing this coming through, as expected, on a gentle recovery path? Thank you.

Jean-Pierre Clamadieu: Well, on composites, if you look on the impact of volume and mix on sales, it's a plus €16 million, which covers strong volume improvement that we are seeing in various planes. I mean, the project like the F-35, or some of the ramp-up of the single-aisle, large commercial airplane is indeed generating this increase in volumes. Karim mentioned also that other markets, like helicopters, are going well.

Regarding the price impact, prices are pretty stable in local currency in this business but obviously, as you can imagine, a significant part of this business is US-dollar driven. But overall, again the good news as we enter into 2018 is the fact that we have very good volume behaviour, and obviously the foreign exchange impact I was mentioning with a transactional impact on prices.

Advanced Formulations, I think we have a market which is going very well. As you can imagine, the oil and gas in North America, where we've seen, indeed, very strong dynamic mostly driven by friction reducers. Guar, we see people showing more interest, but it's too early to mention a big return of guar-based formulation in this segment.

I mentioned that the technology solution business, especially mining, was a bit soft during the quarter. But for us it's more phasing than a subject that we should really worry about.

On the non-oil and gas businesses at Novecare, frankly speaking, not much to comment. We've seen, as usual, a mix of pluses and minuses around there, but no specific trend. I think in Novecare, we are probably at a point of time where the focus should be on margin. And yes, we expect to be able to benefit from a very dynamic market in some of our segments to be able to improve our margins.

I hope I covered most of your questions.

Operator: Thank you. The next question is from Martin Roediger from Kepler Cheuvreux. Sir, please go ahead.

Martin Roediger: Thanks. I have also two questions. Good afternoon Jean-Pierre, Karim, Kimberly. First question is on your change in the organisation, where you expect €150 million annual savings over a period of three years. Normally, that is related with one-time costs with a factor of one to two, which would normally mean €150-300 million one-time costs. You booked €134 million in Q1. Is it fair to say that additional restructuring costs will be booked in the course of 2018 and eventually in 2019? And if so, can you provide more insight as to what is your best guess about the final restructuring cost, and also your best guess about the related cash-outs in total for 2018? Do you expect some €18 million cash-outs from that restructuring? But certainly, that's not the final figure.

And related to that, regarding the savings, I would like to know what is your guess about the retention rates? How much can you keep and how much you have to share with your customers?

The second question is on – especially for Karim – on free cash flow from continuing operations. In your quarterly report, you show that this figure dropped by 37% year over year from €168 million to €105 million. In your presentation, on slide 11, you show the free cash flow from continuing operations and attributable to shareholders was basically flat from €102 million to €99 million. I would like to understand the delta in the last year's figure between this €168 million and the €102 million. Thanks.

Jean-Pierre Clamadieu: Let me just comment before leaving the floor to Karim. I'm always very sceptical on the question about retention rates. I think you have two [inaudible] which are completely unrelated. On one hand, you have a need to drive improvement in your organisation through simplification, better processes and so on. And on the other hand, you have your pricing power. And it's not because you are doing the first type of activity that your pricing power will decrease. So pricing power I'm pretty confident. Now, the question, and I will let Karim address that, is what can we achieve in terms of organisation efficiency, Karim?

Karim Hajjar: Very good, thanks. Martin, good afternoon. On the organisational impact, the €150 million, let me just give you a bit of more clarity, more insight, 50% of that is to do with role suppression, call it headcount reduction over time; and the other 50% from really deploying a different discipline, a much more surgical, targeted approach around site purchasing and various elements of that nature. So, if I go back to your broad ballpark benchmark, you can expect one to two times. If you take half the €150 million and say €75 million is going to be role suppression related. A provision of €130-odd million compared to that is very much within what I think is a reasonable ballpark benchmark that you use. So, no surprise there. Perhaps maybe that extra clarity to give you that confidence.

What I would say as well, though, is that we still had anticipated a certain element of that in our guidance this year before we gave the guidance at the beginning of the year, so you shouldn't expect anything significant in terms of cash or profit as a result of our announcement. More generally speaking, the provision we made is non-cash at this stage, as you'd expect. I fully expect that the cash-out and any restructuring costs will be matched by the incremental cash savings, so it's going to be broadly cash-neutral in all material terms. That is our expectation. And at the end of this, we expect €150 million to be generated and released into the profitability.

To your other point on free cash flow, €168 million contrasting with €105 million. The simplest answer is this: we have €4.5 billion of gross working capital. A shift of €20 million, €30 million, €50 million, €70 million from one month to another is not at all exceptional; very much within the realms of expectations. So if you have high sales in February, fairly softer in March last year and a reverse this year, that can have a pretty big impact when you're selling at nearly €800 million in one month, it can really boost that. So let's say it's purely phasing, which is what we've said.

If I look at the underlying metric and the focus on cash and the working capital discipline, I look at days sales outstanding. It's that. I look at overdues. It's very much in the green zone. So, I'd say the discipline that we've been generating and delivering is continuing. So, the short answer to your question is that. Maybe slightly more colour to that is less EBITDA has been offset by less cash tax payments, and it really is working capital. That really is the thing, and that purely is timing.

But as Jean-Pierre said, we've reaffirmed our cash guidance, and that tells you how confident we are, and you know we've delivered every time we've said it. Hope that helps.

Operator: Thank you. The next question comes from Geoffrey Haire from UBS. Sir, please go ahead.

Geoffrey Haire: Yeah, good afternoon and thank you for the opportunity to ask some questions. Just first of all on the cash flow, I was just interested to understand why you have only €5 million of interest payment on the cash flow, but you have €34 million on the P&L. I just wondered if you could explain the difference. Is it phasing or is there some other reason behind that? And also could you just give a little bit more detail on the expansion of receivables? I appreciate the answers you've given to the previous questions, but where in the business are you seeing receivables expanding?

And then the final question is: what do you think needs to happen to see guar gum oil and gas products being bought by customers? Because I know it's something that people have been talking about for some time.

Jean-Pierre Clamadieu: I'll take the last one and Karim will come back on the financial one. No, what it takes is probably more visibility on the oil price or ability for our customers to hedge their position regarding oil. What the guar-base formulation brings in unconventional oil and gas is the ability to produce longer after a given fracking job. I'm trying to simplify the pretty complex issue, but high-level, this is a reason why people would use guar versus friction reducers, so clearly, the ability to hedge their position in terms of oil exposure is something which will help the development of guar-based solutions.

So again, we've seen activity increasing to prepare for new – for larger use of these types of formulation, but it's not yet a significant part of our activities.

Karim Hajjar: To your other two points, starting with the question on financing charges. Couple of things: one is, the time at which we pay our interest on our senior bonds and our hybrids is biannual and it starts in Q1. Last year we had swap costs that you may recall we alluded to, which had a cash-out of €55 million from memory as well. Hopefully that gives you an indication as to why the cash is much lower than the P&L impact.

So far as the other part of your question on receivables, there's nothing that particularly stands out as an outlier. What I would say is the strong performance we've seen in advanced formulations with 10% advancement was pretty much back-ended in the quarter, and I think that to my mind says it's growing. But that's not at all part of our overdues or anything else; it's purely the timing of the sales. But I welcome that; we certainly have the ability to withstand and finance that kind of very modest working capital build. As I said, I fully expect Q2 to be equally as strong, etc., so not at all a point of alarm.

There's no other business – I'm just thinking aloud, if I may – but there's no other business where I'd say there's been any particular increase in receivables, to answer your point. Okay?

Operator: Thank you. The next question is from Chetan Udeshi from JP Morgan. Sir, please go ahead.

Chetan Udeshi: Yeah, hi, thanks. Look, I had two questions actually. The first one is on your mining chemicals business. A particular refinery in North Brazil, which was the biggest for alumina mine is probably running at 50% capacity or utilisation and I think cytec had a big exposure to this particular mine in Brazil. Can you give us any indication if you see any material impact from this event, which seems to have happened only very recently in terms of production cost?

And the second question I had was, again, sorry to come back to the €150 million cost savings, can you give us details on where you are actually cutting costs? Because if I look at your SG&A for 2017, you know, €150 million is almost 9% of that number, which seems pretty high. So, I would be interested to hear what are the key drivers of €150 million and how much of that is already reflected in your 2018 guidance in terms of benefits. Thank you.

Jean-Pierre Clamadieu: Yes, but maybe a situation has changed in cytec because what we see today is some exposure, but nothing very significant. By the way, what has happened is one element, which explain the phasing that I was mentioning regarding TS, so there's some impact, but nothing really material. And the whole dynamic of the market is pretty good so that's nothing to worry about.

On your calculation, again €150 million saving, we've said half of it is headcount, half of it is efficiency so probably if you don't take €150 million, but €75 million you'll end up with something which is pretty much in line with the numbers you were mentioning. So the other are efficiencies without restructuring costs associated.

Karim Hajjar: Maybe just to add to that, on the role supressions, which is where the cost reduction is happening--it would be in functional costs in corporate and shared services. As we're really trying to make us a leaner and more agile, we put the accountability and the resources in our global business units. And as Jean-Pierre said, it's a much modest percentage than the 9% you alluded to. Because you've taken €150 million, you should take at least no more than half of that.

Operator: Thank you. Ladies and gentlemen I would like to remind you that if you wish to ask a question, please press 0 and 1 on your telephone keypad. The next question comes from Nathalie Debruyne from Degroof Petercam. Madam, please go ahead.

Jean-Pierre Clamadieu: Hello Nathalie.

Nathalie Debruyne: Hello, good afternoon. Thank you for taking my questions. The first one is pretty simple. If I look at corporate, just it's a simple number on corporate cost. I see only €50 million in Q1. I would assume that there you have seen a positive effect of the currency evolution. What can we expect for the full year? I assume that €200 million is a bit too low. So how do we have to look at the timing and phasing in this regard? And the second one is basically on your organic growth guidance. Because despite the nearly 9% organic growth in EBITDA for the first quarter and an assumption that actually it will be back-ended this year, so more directed towards the second half of the year, I wonder why you stick to the 5-7% organic growth in EBITDA.

Jean-Pierre Clamadieu: Karim, I give you two questions.

Karim Hajjar: Okay, I'd like you to come back maybe clarify the second part of your question. I'll start with the corporate cost though, Nathalie. You're right. Foreign exchange did have a positive impact relatively modest compared to the synergies and the cost discipline. There is absolutely an element of phasing there. I'd say looking to an annual run rate, I think you can take last year as a fair indication – from memory, it's about €245-250 million. That's still very much the right kind of ballpark to anticipate. No major changes there at all.

Clearly, we continue to look for opportunities to be leaner. And I'd say it's fair to say that as we embark in the next two years on this transformation, as I expect the bottom line to be improved. And part of that improvement will be visible in the corporate cost line as well.

The second part of your question, can you just maybe repeat and clarify a bit for me?

Nathalie Debruyne: Yeah, so I see organic EBITDA growth in the first quarter of close to 9%. And your guidance for the full year remains 5-7%. While given the pattern that we have seen last year, we were rather expecting the growth to be back-ended, especially when we look at the ramp-up of production rates in commercial aircrafts and all of that. So I was wondering if you could help me understand a bit how you see it evolving for the remaining three quarters of the year.

Karim Hajjar: It's a very important question. Thank you for clarifying. It's helpful. Couple of things, one is you'll recall last year had a very strong second quarter, both on an organic, let's say, strong momentum basis, so it's a very tough comp to go with. Things were going very, very well in many areas. So I think we're being more cautious around the evolution. And I agree with you about the growth. Also Jean-Pierre was saying at the beginning, we'd likely to be more back-end weighted this year so I would hold on that expectation. It is consistent with our expectation as well.

There is also one specific factor, which is, and we mentioned it both last year and in our guidance for this year, which is medical retiree benefits last year helped us in the second quarter. We do expect a repeat benefit, but of a much more modest magnitude so that will impact the second quarter evolution and growth this year. But all in all, we started very much in line with what we are expecting.

I don't see any cause for a long, or for any significant revision at this stage. Does that help?

Jean-Pierre Clamadieu: So the summary is we're confident for the full year, but be careful of the second quarter goal in Q2.

Operator: Thank you. The next question is from Thomas Wrigglesworth from Citi. Sir, please go ahead.

Thomas Wrigglesworth: Good morning gentlemen. Good afternoon. Thanks very much. A couple of questions if I may. The first one is you report net pricing, but I'm quite interested to know how much the raw materials went up and therefore how much kind of top-line pricing was moving. And forgive me if I should just be looking the sales numbers to get that. But I guess overall, I'd expected sales pricing to have moved a bit faster, noting the raw material pressures. I'm keen to know how much price increases you are actually pushing through the business.

The second one is again coming back to the composites. I think we've try to address this on other calls so forgive me for pushing it again. If we think about the production schedule, are your materials ordered kind of two quarters before, like a delivery would be announced on one of the major producers' planes, or is it one quarter? Could you give us some kind of understanding as to how – just so we get a feeling obviously as we can obviously look at the public releases about ramp-ups, schedules, but it's about when that might pull through some of that order book in the composite business? Thank you.

Jean-Pierre Clamadieu: Well, on the second question the average lead time is six to nine months, but we are very different. We have very different situations with different project customer on supply chain. Our products are very high value product which means that in some cases, people could build inventory. And there they're probably not as focused a supply chain, as we see in our businesses like automotive.

But six to nine months' lead time is a good proxy to try to figure the relationship between end demand and our own delivery to customer. On the pricing impact, Karim?

Karim Hajjar: On the pricing impact, it's probably fair to say that the impact into pricing was relatively modest, but was also offset by an increase in our raw material cost as well. So net-net, we've got a relatively small increase in our net pricing, but nothing significant. Otherwise, we'd have highlighted it as well. So I don't want to start giving minute amount of detailed information.

Maybe to just pick up on one other point Jean-Pierre mentioned earlier, which is this progress is despite the negative transactional FX impact that we've overcome in this quarter as well, which wouldn't be the case historically. So that's why our net pricing is progressing.

Jean-Pierre Clamadieu: And again we see the picture – at the group level, we have specific businesses. We've pointed to soda ash where we have indeed not been able to fully compensate by pricing the increase in energy cost. But when we look at the group level, we are impacted between price increase and raw material and the transactional currency on both side is almost balanced.

Operator: Thank you. The next question is from Patrick Lambert from Raymond James. Sir, please go ahead.

Patrick Lambert: Hello, good afternoon everybody. A few questions, actually very specific to again composites and epoxy resins prices, which have gone through the roof, and it doesn't seem to affect you dramatically. Can you comment a bit on your pricing composite systems and how you take care of the epoxy resins prices moves? That's question number one.

And question number two linked to that, I think it's pricing in advanced material. If you could comment a bit more on which sector silica and maybe some of the new specialty chemicals have suffered a bit more than advanced materials, especially polymers. If you could comment on where prices were down significantly in advanced material? Thank you.

Jean-Pierre Clamadieu: On your last point and this is really mostly the foreign exchange impact and the transactional foreign exchange impact, which explain the slight negatives pricing impact on – that you see on the top line for advanced material, we don't have any pressure on prices there. We just have situation where we export from the US mostly to other regions of the world. And we've seen the impact of this phenomena.

On composite, yes, we've seen some pressure on raw material and energy cost. You've mentioned epoxy resin. But something which was easily offset by price increases, although we tend to have long term pricing in composite, but the trajectory of this pricing evolution was favourable and we continue to focus very much on excellence initiative in composite. By the way, this is not the end of the game and I still see a number of opportunities for us to continue to increase our excellence initiatives within the composite material to make sure that we generate further upsides in our results.

That's an area where we continue to make it a focus, but it's a business where we've been able to offset, without any specific difficulties, raw material increase you are mentioning. Is there any more question?

Operator: We have no further question.

Jean-Pierre Clamadieu: Well, as there is no further question, I just want to thank you very much for having attended this call. Again, all what we've said demonstrate that indeed we are very much in the trajectory we expected for 2018. With Karim, we are looking forward to see many of you during upcoming road shows or conferences. We will host our AGM next week on 8^{th} May in Brussels and we'll publish our second quarter results on the last day of July, 31^{st} July.

Thank you very much for your time and looking forward to continue this interaction with you. All the best. Thank you.

Operator: Thank you Mr Jean-Pierre Clamadieu and Mr Karim Hajjar. Ladies and gentlemen, this concludes today's conference call. Thank you all for your participation. You may now disconnect.