Solvay First Quarter 2019 Earnings call

Speakers

Dr. Ilham Kadri, CEO
Karim Hajjar, CFO
Geoffroy Raskin, Head of Investor Relations

Geoffroy Raskin: Good afternoon, and welcome to our first earnings call. I am Geoff Raskin from Investor Relations, and I'm here with our CEO, Ilham Kadri, and our CFO, Karim Hajjar. Now, before handing the call over to them, let me just remind you that our 2019 key figures are compared to 2018 pro forma figures, as if IFRS 16 had already been implemented in 2018. These pro forma amounts were shared with you in February to facilitate the year-on-year comparison. Let me be clear, this positive IFRS 16 effect is excluded from the organic growth we refer to in our results review and in our outlook, and let me just remind you that the IFRS 16 effect on our full year EBITDA is a positive 4.5%. Finally, we have added accompanying slides to today's broadcast to help simplify and clarify the relevant information; you can follow these in the webcast. With that, I'll turn the call over to our CEO. Ilham?

Ilham Kadri: Thank you, Geoff, and hello everyone, thank you for joining our call today. It gives me great pleasure to host my first earnings call at Solvay. Before reviewing our quarterly results, I'd like to share some of my early observations, the timeline of our strategic review and some initial structural changes we announced earlier today.

First, let me share with you some of my observations. I have had the pleasure of meeting with many employees, customers and partners around the world. I have seen first hand that we have strong customer relationships; it became clear to me that we can build on these to create more growth opportunities. These customer relations are testament to the strength of our team members and, without question, our people are our greatest asset. I also spend time with you, investors and analysts, on a listening tour since the 1st of March. Many have given me very useful feedback, and I thank you. I look forward to keeping an open dialogue. I trust you will appreciate today that we have started to provide a simpler way of describing our results. We are now giving more color by segment to help you understand our business segment drivers, a clearer view of growth on an organic basis, as well as new supporting slides to accompany our webcasts. We will continue looking to simplify our presentation.

Second, on strategy, as I shared with you end of February, my mandate is clear: unleash and accelerate the value creation of Solvay by building on our strands and closing our gaps. That's why, in April, we have initiated a comprehensive strategic review. I look forward to sharing with you the outcome by year-end.

Third, on structure, this morning we announced the simplification and realignment of our executive committee. On simplification, in addition to the future HR officer and myself, our new executive committee consists of four members whose responsibilities have been realigned based on their expertise and track record. On realignment, the four executives have now direct responsibility for the P&L and free cash flow of the businesses that they lead. They prioritize and allocate resources across the enterprise to serve the best available growth opportunities, and they will lead selective strategic platforms at the intersection of different business units. I am confident that this disciplined management structure will drive clarity, more accountability and value creation for our customers and ourselves.

Let me briefly comment on each executive member, starting with Augusto. With his team, he doubled the Specialty Polymers revenues to €2 billion. This business is recognized as one of the best in the industry. Augusto will lead Specialty Polymers and Composite Materials. He will also lead the

Thermoplastic Composite platform to drive more collaboration and innovation, as well as future industrialization.

Vincent is our most experienced industrial leader, with a wealth of operational knowledge gained over 18 years. He will lead manufacturing, supply chain, procurement and global business services. In addition, he will lead Soda Ash, Peroxides and Aroma Performance businesses.

Hua Du, during his time at Solvay, has been experienced in running and transforming specialty businesses. He will now lead Silica, Special Chem, Novecare, Technology Solutions and Coatis. On a personal note, Hua Du and I worked together at Rohm & Haas before it was acquired by Dow, and I look forward to working together again.

Karim, who many of you know, has played a key role in supporting the strength of the company's financials, particularly through the transformation of Solvay's business portfolio. This new structure and roles align leaders' experience and track record with business and customer needs.

With that, I will now move to the result for the first quarter, which you can find on slide 4. Performance in the first quarter was in line with our expectations. EBITDA was essentially flat on an organic basis versus the same quarter last year. Including the benefit of foreign exchange, the underlying EBITDA was up 2.4%. As we indicated during our 2018 earnings call in February, the macroeconomic environment has become increasingly challenging, especially in some of our key markets such as automotive, electronics and oil and gas. This was balanced somewhat by strong growth in other parts of our business, such as aerospace. Our double-digit organic growth in Performance Chemicals due to strong pricing offset the volume decline; therefore EBITDA margins were sustained at 22% for the Group. Our EPS from continuing operations was largely stable, up 1%. Free cash flow to shareholders was negative €(91) million, mainly due to higher inventories as markets slowed. This performance is unsatisfactory and we are putting plans in place to improve it.

Moving on to our earnings outlook. Let me remind you that, since our February call, market conditions have worsened, such as in auto and electronics. Karim will share, later, some external indicators that support this, but at a high level our outlook reflects our expectations that the challenging market conditions, particularly the headwinds in auto and electronics, will continue into the second quarter. We expect an improvement in momentum in the second half in both Advanced Materials and Advanced Formulations. As a result, our underlying EBITDA for 2019 is expected to be flat to modestly down for the full year.

In the face of these headwinds we are, with our new executive committee, adapting our short-term priorities and ensuring that the heightened focus on costs and cash will help to mitigate the challenges, whilst continuing to support our customers and key innovative programs such as Thermoplastics Composites.

With that, I'll hand it over to Karim who will provide more granularity on the markets we serve within each operating segment, then I'll come back with some closing remarks before we take your questions. Karim.

Karim Hajjar: Thank you, Ilham. Good morning, good afternoon everyone. I will now comment each of our three business segments, starting with Advanced Materials on slide number 6. The Advanced Materials segment delivered underlying sales up 3.4%. When you remove the positive impact from foreign exchange, organic sales were largely flat, reflecting a negative volume and a positive pricing impact of 1.4% respectively.

Our largest market in this segment is transportation, and it was a mixed market environment in the first quarter. The biggest challenge came from automotive, which represents close to 30% of the Advanced Materials sales, about 15% of Solvay Group sales. Worldwide auto production decelerated with light vehicle production down 5.3%, and this trend was compounded by inventory destocking. That combination significantly impacted our Materials segments. Solvay is most exposed to European auto, followed by North America and Asia. Since February, many OEMs downgraded their own expectations and, indeed, global light vehicle production forecasts were downgraded between February and April by a further 1.1% in Europe and by 0.5% in the US. This is expected to weight on us in Q2 before an expected recovery in the second half. One bright spot in auto was in batteries for electric vehicles, where we continued to enjoy double-digit growth, although this is off a much smaller base.

In contrast to the auto dynamics, demand from the aerospace market was very strong, reaching record sales and profit levels, up double-digits in the quarter on both counts. The programs driving the volume growth include the Boeing 787 and the 737 Max on the commercial side and the F35 joint strike fighter on the military side. Speaking on the news flow surrounding the 737 Max, I'll start by reminding you that our composite materials are used in multiple parts of the aircraft, including secondary structures of the airframe, the engine blades and multiple other applications. To-date we've not seen much change to the demand for our materials. You will note however, that our prior guidance was based on a rate increase up to 57 aircraft per month, whereas our updated guidance has us operating at a level closer to 52 aircraft per month, which reflects the different needs across the complex supply chain. Although we also remain attentive to Boeing's announced production rates of 42 units a month. We have great confidence in Boeing and in the aviation regulators to address the current issue. And we therefore expect the production rate to build back up to 57 units a month towards the end of the year.

Outside of this program, we see good growth in aerospace and we expect this to continue throughout the year. As an aside, you may have seen our recent announcement that we were selected as a partner for the primary structure of the Stratolaunch aircraft. Maybe you have even seen the images. This is the world's largest aircraft with two fuselages and a very large wingspan, broader than a football field. We are really pleased that Solvay's technology leadership contributed to this achievement.

Turning to electronics, which is about 10% Advanced Materials' sales and 5% of Solvay Group sales, we experienced significant headwinds. That impact was particularly felt in small devices where the demand for our high performance polymers was much lower than historical levels. You may also have seen the news since February from some of the large manufacturers who've described the weak demand environment, the light order books and many of whom have also adjusted down their own full-year expectations. Many of these are customers of ours so we are seeing the same pressures. Overall for Advanced Materials underlying EBITDA was down 1.8% and down over 5% on an organic basis, largely due to the volume and mix effects from the market that I've just highlighted. EBITDA margins are slightly down, 1%, but still solid at 26%.

And I turn to slide number 7and Advanced Formulations. Underlying sales in this segment were broadly flat and were down -4.4% on an organic basis. The impact from volumes was -7.8% whereas price had a positive impact of 3.3%. In this segment our largest market is oil and gas. This accounts for 20% of the segment sales and 5% of Solvay Group sales, and here you'll recall we are mostly exposed to US shale oil. What we saw is that activity levels stabilized in Q1 following significant decline in the fourth quarter. The modest sequential improvement we saw was related to seasonality. On a comparative quarter basis, sales volumes were significantly down in Q1 2019 relative to Q1 2018 when the oil and gas market was recovering this time last year. Let me also point out that the data in the market aligns with our customers' view that the drilled but uncompleted well activity in the US continued to increase in the first quarter. The most recent count at 8,500 drilled but uncompleted wells in March 2019 was 26% higher than in March 2018. Yet where Solvay operate is in the completion part of the process. That's where the hydraulic fracturing is done and activity levels in that part of the process remain low.

In contrast, demand in mining in the first quarter was steady, with sales in line with last year. Mining accounts for just under 15% of segment sales, just under 10% of Solvay Group sales. As a reminder, Solvay's biggest exposure is in copper followed by alumina. Positive product mix supported EBITDA growth in mining, and this partially offset the decline I've described in oil and gas. The team continues to work on new mine opportunities and we expect to see benefits from these new business initiatives in the second-half and beyond. Overall for the Advanced Formulations segment, underlying EBITDA was up 4.2%, equivalent to 1.7% excluding foreign exchange. EBITDA margins were maintained at 17%.

Finally the results of Performance Chemicals are shown on slide number 8. In Performance Chemicals net sales were up 7%, organically up 7.4%. This was driven primarily by price which was up 6.3%. As we shared with you last quarter, the Soda Ash business was successful in securing price increases this year and, and together with solid demand and strong operational performance, it led to double-digit sales growth. Likewise, the peroxides business made good headway in its price initiatives with an increase in Europe, and this also contributed to strong sales growth in Q1. We expect the segment to remain a steady contributor of growth throughout the year. Overall Performance Chemicals EBITDA was up 10% on an organic basis, with the margin expanding by 1% to 29%.

Bringing all of this together, Solvay delivered EBITDA of €571 million in Q1, essentially flat to the prior year, with pricing action and strong result in Performance Chemicals helping to offset the volume declines that we referred to in the context of the challenging macro-environment. Group EBITDA margins were sustained at 22%.

Now I'll move to cash generation and the balance sheet details on slide number 10.You will see that our working capital increased by €294 million. This increase is driven by three factors: one, normal seasonal factors; two, the reversal of the phasing impact at the end of 2018 that I mentioned to you in our previous results call; thirdly, and most importantly, it also reflects higher inventory levels of around €100 million in the businesses that were most affected by the market softness. As we look at this, we say that we know we can do a better job in terms of inventories and we fully intend to do so. Indeed we're kicking off a strategic initiative to optimize the entire supply chain under the leadership of Vincent de Cuyper. The outcome of the free cash flow to shareholders from continuing operations after financing payments and after minority dividends was an outflow of €91 million.

Turning now to our second quarter, and to the full-year outlook shown on slide number 11. We expect to face continuing headwinds in certain of our key markets, namely auto and electronics, in the second quarter. Whilst we expect to see sequential improvement in the second quarter compared to the first quarter of this year, on a comparative basis, Q2 2019 compared against Q2 2018, it will be challenging because of a peak business performance last year. We therefore estimate a significant year-on-year organic decline in Q2. In addition, you will remember that Q2 2018 included a €23 million one-time gain on post-retirement benefits. As Ilham mentioned, we are adjusting the full-year 2019 organic EBITDA to be flat to modestly down.

I've already indicated to you the key developments since February but to remind you, the three key drivers of the guidance updates are as follows. One, sales in auto will remain under pressure. This is our largest market exposure and the news flow since February is such that the magnitude of these headwinds is simply greater than was anticipated. Two, demand for electronics is expected to remain down for longer than anticipated. When we last reported our results I've mentioned the fact that a number of key players in the industry who happen to be key customers of ours, have downgraded their own full-year expectations, and we factored this into our latest view. Three, finally, our outlook reflects modest impact to EBITDA related to the changes in the Boeing 737 Max program build rates. We remain in close contact with our customers and we will continuously monitor the situation and support them.

I remind you also of what Ilham has mentioned, which is that in the face of these headwinds, we're focused on costs, on cash and of course on supporting our customers. Turning to cash, we are mindful that in our previous guidance we had not given you a specific indication of free cash flow. Today we can confirm our expectation that free cash flow to shareholders from continuing operations to be around €490 million, exceeding dividend pay-out and enabling net debt deleveraging by some €100 million. And now I'll hand you back to Ilham for her closing remarks.

Ilham Kadri: Thank you, Karim. Before taking your questions I would like to remind you that Solvay has many strengths: our talented and engaged teams of people, our technology and business portfolio, and our close relations with customers. I intend to bring more focus on our collaborations and more discipline in managing resources and priorities. Our new Executive team is focused on the short-term as well as the long-term and we are energized about the opportunities we have to drive sustainable value creation for our shareholders.

Geoffroy Raskin: We will now go over to the Q&A session.

Operator: Thank you. Ladies and gentlemen, we will now begin our Q&A session. If you wish to ask a question, please dial zero and one on your telephone keypad and you will enter a queue. After you are announced, please ask your question. We have our first question from Mr Mubasher Chaudhry from Citi so please go ahead.

Mubasher Chaudhry (Citi): Thank you for taking my questions. It's Mubasher Chaudhry from Citi. I had one overarching message around the strategic review and, from the commentary you mentioned, the objective is to unleash and accelerate value creation. I was just wondering if you could provide some color around this in terms of whether it's focused on any particular part of the business or what kind of KPIs will you be benchmarking the businesses to. And should we be thinking about any ongoing costs or one-off costs for the strategic review? That's my first question.

And then secondly, a bit more on the Composites side. I just wanted to try and understand the working capital impact. I'm assuming some of the increase in working capital has been as a result of the rise in sales there. Is this something that we should expect going forward or we should look for a release throughout the year, throughout the quarters? Thank you.

Ilham Kadri: Yeah, thank you, Mubasher. You were cutting up, so I think your first question was about strategy and then the working capital so I will do it with Karim. Let me start with the strategy. You know, every time I took a new job I'd do a due diligence of the business, like, I would buy it, you know, personally so this is exactly what I am doing with our leadership team announced today. And as I indicated, we have started a very normal comprehensive strategic review of all the businesses and I intend to outline our view as part of the plan including mid-term growth by year-end. So I always do strategy, structure and culture. That's the way I engage in my mandate.

Now, it has also become clear to me, since I joined the company and I became its CEO on 1st March that we have many opportunities ahead and I have challenged myself and our executive committee to take a fresh look at our strategic priorities and the long-term value creation plan and that's what we are doing. And as I said, my objective is very clear: unleash and accelerate the value creation and realize our fullest potential. We will do deep dives into all aspects of the business and it will take time and we will do it right, so – and I will share the results, as I said, going forward, by the year-end.

You want to take the working capital, Karim, question?

Karim Hajjar: Sure, I'll do that. So, Mubasher, the question on working capital, you mentioned Composites. I'd say Composites is managing its working capital really well; that's not at all what we're focused on. What I highlighted in particular as a source of attention for us is inventories and the businesses where we saw slow-down. So, as I said, Composites is reaching new records, so that's not what I mean. I'm looking at Specialty Polymers, I'm looking at one or two other businesses, such as Novecare, because that's where we're seeing a slow-down and that's where we see a significant opportunity to really tighten the way we're managing working capital and that will be monetized during the course of the next six to nine months.

Mubasher Chaudhry: Thank you very much.

Operator: Thank you, next question from Wim Hoste from KBC Securities. Sir, please go ahead.

Wim Hoste: Yes, good afternoon everybody; Wim Hoste from KBC Securities. Two questions from my side, maybe first on Specialty Polymers. Can you offer some additional clarity on the momentum of your smart device business? I know it's sometimes a bit lumpy and was certainly, in the past, pretty dependent on one big customer. You seem to have lost – or be less exposed to the latest generation of phones from that company but how is the order book looking and any clarity whether you're already qualified for the next generations. That would be helpful.

And then second question is on Advanced Formulations and specifically on the oil and gas chemicals business. Can you elaborate what happened to both price and mix in the quarter and what trends you are seeing? Is the mix improving or is all of the price component – or price mix component – due to higher prices being pushed to customers? Any clarity on that would also be helpful. Thank you.

Ilham Kadri: Yes, thank you. I'll start and then, Karim, you may build on what I say. Electronics, I mean obviously, for us includes semiconductors and smart devices, as you just said. It represents 5% of Solvay sales. It's about 12% of Advanced Materials. We have been discussing and sharing with you guys for several quarters now our reduced demand specific to the smart device market, mostly linked to the material loading into new designs. So you're right, it has been up and down and I'm sure you have heard some of our large customers indicate the continued weak demand in this market, which in fact impacts some of our supply. Now we are also exposed to semiconductors and here again one of the largest semiconductor producers has announced some profit warnings due to weaker demand and slowing economy and some areas are more resilient than others, right, in the electronic segment. You may not know but we also supply high-purity grades of hydrogen peroxide to semiconductors market and we are gaining, actually, there, market share.

The next question was about oil and gas, yeah, the advanced Formulations. The oil and gas represents 6% of the group's sales, or 19% for Advanced Formulations. The oil prices, as you have seen, have been extremely volatile over the past few quarters, $70 a year ago, down to $40 in December, over to $60 now, and I want to make it clear for you that the drill and completed activity is up significantly. We do not operate in the drilling process, where rather Solvay operates in the hydraulic fracturing process and this activity is quite low and has not increased at the same level, right? So both when you see price down, volumes are down, there is no mix impact as far as I know. Karim?

Karim Hajjar: Just building on that, Ilham. Well, the answers are as follows: on the pricing in Advanced Formulations, Oil and Gas, it's essentially flat, probably about –1% or so and that's in Oil and Gas. What is very encouraging is that I'm seeing positive pricing power in the other parts of Novecare, excluding Oil and Gas but also in the mining and the Technology Solutions so that's very, very encouraging. What's impacted that segment is not pricing, it's really the volume and that's where the Oil and Gas comment comes in.

Karim Hajjar: Does that help you?

Wim Hoste: Yes, very clear; thank you very much.

Karim Hajjar: Thank you.

Operator: Thank you. Next question from Peter Clark from Société Générale; please go ahead.

Peter Clark: Yes, good afternoon everyone. I think these are questions for you, Ilham, really. I mean I presume we're going to have to wait for the strategic review for any revision to the mid-term targets because, obviously, based on the guidance given in September that now requires almost a double-digit EBITDA growth on 2020 and 2021? So that would be the first question: quite a simple one I guess.

And then the second question – and it's something I asked on the Q4 call when you were, I think, listening in but effectively, looking at performance chemicals again, I mean this is the division that really has performed at least to expectation, often exceeding. On my numbers, certainly and certainly with your guidance for 2019, anyway, for me it leads the growth through 2020 to 2021 rather than the growth engines. Is there any reason why I might be wrong on that? I mean do you still see this very strong pick-up on the growth engines in 2020 into 2021?

And just very last quick one: in terms of the rejigging of the responsibilities, inevitably, with a smaller ComEx, I see some of the businesses have jumped around and particularly something like Aroma Performance now with some of the Performance Chemical businesses. Should we not read too much into that in terms of what might be coming up, because I've always had question marks about the specialty content in something like Aroma Performance? Thank you.

Ilham Kadri: Okay, and thank you Peter. I will pick up the strategy question as well as the performance chemicals and maybe Karim can speak about Aroma. Well, Peter, I took over as the Solvay CEO since 1st March, so pretty new in the job and I'm making changes as I shared today with respect to organization, structure and responsibilities, having around me, and for unleashing the potential of Solvay, a very seasoned, experienced team with choices based on track record of the team members. As I said, we've already started working on a strategic, comprehensive review and to do a deep-dive. It takes time, so bear with me, be patient. We expect to update you by the end of the year. The date will depend on the format and the venue, which is still being decided.

On the performance chemicals, actually I'm very pleased to see 10% year-on-year growth. Soda Ash, you know, markets is holding up, Soda Ash is 50% flat, in construction, also the rest is more in other markets like detergents, etc. We've been able to increase our prices and I'm very, very glad to see that we are leading the way. We are market leaders and what market leaders do is that they go and they can increase prices whenever supply demand is tight and that's exactly what our team did, by the way, in Soda Ash and Peroxides.

So, listen, this is a diverse portfolio and the good news is that in a tough year – and 2019, obviously is not going to be a walk in the park, but we are extremely well-positioned with our portfolio and its diversity and performance chemicals in quarter one to go through the challenges and mitigate the headwinds.

Karim, you want to take Aroma?

Karim Hajjar: Just on the third question, I wouldn't read anything in terms of what happens to Aroma, or rather what I will say tough is this: when we are reducing the size of the executive committee team, we are reshuffling diverse responsibilities to balance two things. One is the workload of one another, but also leveraging the various experiences that we bring into the equation. That really is all I would read into it. I think the outcome of the strategy review that Ilham has announced will give you more color as to where we see the value to be created most.

Peter Clark: Okay, thank you.

Karim Hajjar: – but don't read more than that. Thank you.

Operator: Thank you. Thank you, next question from Martin Roediger from Kepler Cheuvreux. Please go ahead.

Martin Roediger: Thank you. Hello Ilham, Karim, Geoffroy. I dare to ask three questions: on the free cash flow guidance, obviously that implies a decrease of 13% year over year. Can you talk about the levers? I see working capital was a huge drag in Q1. I know your EBITDA guidance, of course, that excludes positive FX effects but what else is key? Do you plan higher CapEx, or is there anything else we should be aware of?

Second question: sorry to come back to the realignment announcement today on the management board. You promise now a closer line of sight into the business, allowing you to prioritize and allocate resources, I see the change in charges for the business units and you talk about creating more discipline but I still struggle to understand how that will create value. Can you give an example that we can better understand what you are looking for in that area?

And finally, on cost savings, Solvay has implemented a program to simplify the organization one year ago in March 2018, laying off 600 people and you have booked quite substantial one-time costs during 2018, in the hope to reduce costs. Can you tell us what is the success of that program so far, in terms of earnings and what is still to come?

Thanks.

Karim Hajjar: Martin, let me start the answers, maybe start with free cash flow. We've guided €490 million this year. And you're correct, it is a decline compared to last year's €566 million. Now, the first thing I'd like to remind you of is what I said during our earnings call, where I indicated that, in a way, we'd overperformed by about €60 million and we expected a reversal because of a phasing in the first quarter. We've seen that; that's the first point. CapEx will be stable. Now, to answer your question directly, how can we get comfortable that we will deliver that free cash flow? It's very simply: by doing what we've said we're going to do, which is to manage our inventories down by monetizing that €100 million into cash between now and year end. We've done it in the past and we're absolutely focused on repeating that this year. So really that is all there is to it, in the context of broadly flat to slightly down EBITDA. That's how we're going to do it – so we're not going to invest more, we're going to keep the discipline going there.

Ilham Kadri: Okay, I can take the new executive committee members and the announcements of this morning. What I've done, Martin, is obviously to align the experience and the strengths of each executive to the need of each business unit at this moment of time. Their new responsibility and accountability is very new and actually very different from the prior responsibilities. They were supervising, they were not owning the P&L and the balance sheet. I'm confident that, again, this disciplined management structure will drive accountability.

And to give you an example, we had and we still have a global business unit type of centricity, where our GBU presidents' own their P&L and free cash flow, which will remain. We have a very strong – and I'm very pleased with the caliber of the – and it's A-caliber of presidents leading our businesses across the globe and our silos, but we need an enterprise leadership and that's the role of the executive committee. I want my leaders and my executive team to have skin in the game. They do the arbitrage in terms of resources allocation between business units. they lead on CapEx allocation and on the innovation delivery. So those are a few examples which show you that we are going to change the way and ensure we prioritize and allocate resources to the best growth opportunities for Solvay as an enterprise and not looking at it by silos.

I hope it's clear. There was another question?

Karim Hajjar: On the cost simplification program. If I can take that up directly, Martin, so I'll remind you that in March 2018 we did announce, as you rightly say, number of jobs suppression and the cost reduction. 600 net job suppressions, to remind you: 160 in France, 90 in Portugal, 80 in Brazil and so on. The news is: at the end of last year we finished the social procedures so the program is now underway, it's beginning to bear fruit but it's relatively modest but it's also helping to mitigate inflation, for example and fixed costs. So it's starting, essentially.

Ilham Kadri: And I can give also more color on the cost. As you may recall it has been decided to close our two Paris offices. Some people will be allocated to existing sites, either in Brussels or Lyon in mid-2021, or 2022, which is important for building – first of all for simplification of our footprint, and second for building critical mass, specifically in the parts like research and innovation and this will help and foster more collaboration, while being closer to our manufacturing sites.

We're reviewing the restructuring costs and timing as we speak and I'm really looking at ways to create more value from this process, which is underway as part of my larger comprehensive strategic review.

Martin Roediger: Thank you.

Operator: Thank you, next question from Chris Ryan from Bank of America. Please go ahead.

Chris Ryan: Hi, yes, good afternoon. Thank you for taking my questions. Just one last one on the working capital: given the large outflow in Q1, can you just specify more clearly: typically Q2 and Q3 are also outflows and then Q4 is a large inflow. Does that mean we can expect inflows in Q2 and Q3 and Q4 as well?

Karim Hajjar: No, I think it's a great question. I think the answer there is I expect to see the net cash from inflows coming through in Q3 and Q4 more than in Q2. Q2 is going to be, let's say, roughly break-even would be a fair estimate at this point in time. But again, it depends on market dynamics. If markets are recovering stronger and we need to invest in our customers and their working capital, that's exactly what we'll do. Ilham, anything you want to add?

Ilham Kadri: Yeah, I think you know

Chris Ryan: Sorry –

Ilham Kadri: Go ahead, please.

Chris Ryan: No, no, sorry. Please go ahead.

Ilham Kadri: I mean Karim said that and you've seen that our inventories were up in a slowing market, so we're not satisfied with the current status and the free cash flow phasing must improve and I learned in a previous life that free cash flow is king. So we clearly need and we will do a better job. We've implemented two changes, by the way, in the company since I joined Solvay. First, on this year, already incentives impacting business Presidents' incentives and our executive committee members: we have now a cash flow threshold for both the first half and the full year, which was not the case before. Second, we are kicking off a strategic initiative to optimize the entire supply chain under Vincent's leadership and he is our industrial guide. So you will see from those two initiatives much improvement on free cash flow phasing and discipline management.
Next question.

Operator: Next question from Geoffrey Haire from UBS. Please go ahead.

Geoffrey Haire: Good afternoon, this is Geoff Haire from UBS. Most of my questions have been asked but I just wanted to ask: with the realignment of the ComEx, will you be changing the compensation scheme, or LTIP schemes that you have for the management team, given you want them to have more skin in the game ?

Ilham Kadri: Yeah, a great question. Well for this year, I already said it, I immediately impacted the free cash flow, right, as part of the incentive. We're not going to change much. They are accountable for, anyway, the key financial metrics we are monitoring and sharing with you for the whole enterprise. And you can expect after the strategic review that I will obviously discuss it will my board and decide in due time what are the key financial metrics which mirror and represent the key financials we want to put in our radar screen for creating value for the shareholders. Next question.

Operator: Thank you. Next question from Sebastian Bray from Berenberg Bank. Please go ahead.

Sebastian Bray: Hello and thank you for taking my question. I would have just one please and it's on the outlook for the Performance Chemical segment. How exactly do you view hydrogen peroxide pricing moving into H2 this year and H1 of next year and similarly for Soda Ash? Given that the construction exposure is so strong, I would imagine the demand could get a bit weaker in the course of the year. How exactly do you see this? I guess what I am getting at – and it relates to a question that was asked earlier – is are you comfortable with this business again showing quite strong growth in 2020? Thank you.

Ilham Kadri: Maybe quickly, and Karim can give more color: I mean on Soda Ash, we see the demand and the market is actually very strong, both in demand and pricing. It's a tight market, so if you read the public reports of our largest customers, building construction and some of the automotive, it's actually developing very well more recently. And part of it is because it's replacement and not a new build either in, again, construction or in automotive. On the Peroxides side, major markets include pulp and paper, it's about 50% chemicals is 15%, and we have then many other small markets. Demand was solid in quarter one. We had, you know, demand of more HPPO volume. We sell them to big players like the – our hydrogen peroxide going to HPPO with big players out there. And it goes to mega facilities like

Sodala[?] in the Middle East, so the more we produce there, the more we can sell. So price increases contribute, actually, to the segment growth.

Karim, anything to add?

Karim Hajjar: I think you've covered the key ground; Maybe one thing to add for Sebastian’s benefits, which is at this stage, we're seeing tight supply-demand dynamics. I want to be cautious about 2020, because anything beyond this year, I don't think anybody has strong visibility. What I do know is we've got strong leadership positions, so I can see a continuation of the dynamic, but I don't want to pronounce myself on that direction at this point in time.

Sebastian Bray: If I might then have a quick follow-up to the, and just moving back to the Advanced Materials segment. Can I just check, was the growth in the Composite top line particularly – I think it was mentioned as being close to 20%, or if it's not, then please feel free to correct me – matched by growth and profitability or did you see negative or positive operating leverage in that area? Thank you.

Karim Hajjar: I'd say your – you said it very accurately, correctly, so there's nothing to correct. Your 20% is a good estimate and I think the profit is better than that.

Ilham Kadri: And I think, you know, again, you know, I can add a bit of flavor here. You can imagine I'm spending a lot of time looking at the different business units, and, specifically, the Composite Material, which is one of the largest and the latest acquisition we've done. We have not been happy in the past with level generated between the supply and the bottom line of this GBU. The good news is that it's changing. We have great leadership in place, Carmelo is our President of the GBU, he has changed probably 70% of his leadership. We took our best industrial guy of the Group, of Solvay Group, and we ask him to go and lead the industrial and manufacturing activities within Composite and it's already showing some good results in quarter one.

Top line, as you said, your guess is good, we are seeing, you know, very good performance. A strong backlog of aircraft order is already there. So, again, more we can produce the better it is. But, okay, a quarter is not a year. And I'm asking my team and our team to do the same thing again and again. But I'm extremely pleased and encouraged with the Composite performance. And having now the Thermoplastic Composite platform led by Augusto and leveraging the strength between the two divisions – Speciality Formula and Composite – is a huge avenue for Solvay and for us. Nobody has that breadth of the portfolio and we believe we are going to create new markets.

Next question?

Operator: Next question comes from Chetan Udeshi from JP Morgan. Sir, please go ahead.

Chetan Udeshi: Yeah, hi, it's one question and, sort of, a follow-up to that is I know when you say Q2 will see significant decline in EBITDA, I am assuming that's an organic business. Can you maybe give us some color on what you mean exactly by significant – it seems like probably a much bigger decline that maybe what people might have had in the model so far? That's number one. And a second question on second half, besides just, you know, macro recovery, is there some specific elements, you know, specific to Solvay, which supports second half improvement in earnings? Thank you.

Ilham Kadri: Karim?

Karim Hajjar: Okay, Chetan, on your first question. Essentially, what I can do is remind you that Q2 last year was really peak levels of performance in Auto, in Oil & Gas, in Electronics, and this is now behind us because of the changes in the macro environment. I'm not going to repeat the fact, you can do the maths on the €23 million of benefit one-time events. So, yes, it is going to be below, but you'll see what it is. And, essentially, it's going to be on an organic basis excluding the medical one-time – it's going to be negative – but we've factored that in to our updated guidance for the full year.

The pick-up in the second half really reflects factually what we see around us, what we're listening and hearing from our customers as well. In Oil & Gas, we see a bottleneck, a new pipeline opening on the Permian Basin in the second half. In Mining, we're confident that we're going to start seeing the fruits of the new mine that we secured opening and contributing to the bottom line. So there's a continuation of a strong dynamic. We also, again, with limited visibility, we see what our customers in Electronics and Auto are telling us, and what they themselves recognize the uncertainty of a pick up in Q2 – we're not speculating anything different. We're saying, okay, if that's what our customers tell us, that's what we're reflecting. What they're saying is a recovery in the second half.

Chetan Udeshi: Thank you.

Karim Hajjar: Thank you.

Operator: Thank you. Next question from Mutlu Gundogan from ABN Amro. Please go ahead.

Muldo Gunjuglan: Yes, good afternoon. The first question on the outlook. Can you quantify what you mean with modestly down. That’s the first question. The second question is on Specialty Polymers. So your volumes were down 10% year on year. How much of that was due to destocking you believe. And just wondering, you do mention that indeed the weak trends have continued in Q2. Can you confirm that destocking is also moving into Q2 as well. And then thirdly on the timing of the strategic review, Ilham you mentioned end of year. Are you then referring to the Q3 results, I think, in November, or do you plan to organize a separate event? Thanks.

Karim Hajjar: Maybe let’s start by answering the first two questions Mutlu. I think that the outlook saying modestly down is that so he can take low single digit as a good proxy for that, which hopefully gives you a narrower boundary. The question on destocking, yes, what we have started to see in Q1 will continue in Q2. That’s exactly what we’ve said and I can confirm it again. Though we really note that that was like a very fairly based expectation, given what we’re hearing from customers. On the final question Ilham, on the timing of the strategy review. Do I say anything particular?

Ilham Kadri: Yeah, definitely. As I told you know, by year end, so anywhere between quarter three and the year of the year. We didn’t decide yet on the format and the venue, but we will let you know as soon as possible.

Geoffroy Raskin: We have time for a last question.

Operator: Thank you. The last question from Laurent Favre from Exane. Please go ahead.

Laurent Favre: Yes, hi all. Thanks for the time. So I was supposed to pick one question. Can you give us a qualitative statement around the 737 impact on the guidance cut ? Is there anything you can say around your assumption versus what has been communicated by Boeing on the production cut. You know, would you get more given the inventories and the chain, you know, anything you can say would be helpful for us. Thank you.

Karim Hajjar: I’ll take that. Yeah so Laurent, good afternoon to you. Essentially what I can do is start by advising you, reminding you that the range, the income range from that platform we’ve announced previously from the website of being between $200,000 and $500,000 per aircraft for Solvay. What I can confirm today is we are at the lower end of that range. That’s the first point.

I have indicated that Boeing is indicating a run rate of 42 with an expectation of a recovery towards year end. Different parts of the supply chain at 52. So it’s a question of mathematics. You can actually take the lower end of the two to 500 and do some math. That very much will be more precise clearly. But I hope that helps you to say this is what has contributed to the – that part of the modest reduction. But –

Laurent Favre: Thanks, that’s it.

Karim Hajjar: Let me just complete and finalize. But – what I am saying is we're not concerned of that. We are expecting to go back up to the 57 units a month, where we expect to be at this point roughly in May or June anyway. So it does have an impact.

Ilham Kadri: So – and just to summarize. In quarter one, we were building a rate of 52 per month, with a plan to ramp up to 57 by mid-year. That's our plan, alright. There was no impact in quarter one, and we are really in close contact with our customers, and we'll continue to monitor the situation. The supply chain of such material is extremely complicated and complex, and that's why we didn't see much impact. Now, as I told you, above and beyond this program, we have many more programs. We have just announced a few days ago that we have been selected as a primary structure supplier for StratoLaunch. We have renewed a major contact with one of our customers in aerospace, and we have a backlog. So we see this business unit and this business continue to deliver very, very strongly. Make sense?

Laurent Favre: Oh yes. A ot more quantitative data than I had expected. Thank you.

Ilham Kadri: Thank you. So thank you for your questions. I think the full IR team led by Geoffrey is available to respond to any additional questions, and I will also travel with them and you will see with Karim under our meeting again in the coming weeks. As a reminder, we will host our annual shareholders meeting next week on 14th May Brussels, and we will publish the second quarter results on 31st July. Thank you very much.

Operator: Thank you Ms Ilham Kadri and Mr Karim Hajjar. Ladies and gentlemen, this concludes today's conference call. Thank you all for your participation. You may now disconnect.