

**Solvay, First Nine
Months 2019 Earnings
& Strategy Call
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Welcome

Geoffroy Raskin

Welcome to Solvay's third quarter's earnings and strategy update call. We're sorry to start a couple of minutes late due to a technical issue with the recording.

Today Karim will begin by reviewing our Q3 and nine months results, and Ilham will then follow with an overview of Solvay's new group strategy, and then, we will open it up for Q&A. For those who follow-up to the conference call, a copy of the webcast materials can be found on the website.

Now, I'd like to turn over the call to Karim.

Financial Results

Karim Hajjar

Thank you, Geoff. Good morning and good afternoon. I will begin on slide 4. As we anticipated, the macro headwinds we experienced in the first half of the year continued into the third quarter. They proved to be consistently stronger than economic indicators were telling us in the last six to nine months. This impacted key markets, mainly automotive, electronics and oil & gas, which represent around 25% of our sales. To illustrate the point, world light vehicle production for 2019 was predicted to be -0.3% in May 2019. Now, it's anticipated to land at around -4%.

Against this challenging backdrop, we focused on actions within our controls, such as cash management, pricing, cost discipline and operational efficiency. As we explained earlier this year, we accelerated the simplification plan that was launched in 2018 and so far, we've delivered around €85 million in savings. Half of those savings are linked to improved and more stringent management of indirect costs, and the other half from headcount reductions, which are on track to reach 600 by next year, and that's ahead of schedule.

As a result, for the first nine months, net sales were up 1.6%. Underlying EBITDA was stable at -0.2% with forex compensating for an organic decrease of -2.6%. The EBITDA margin was sustained at 23%. Q3 EBITDA was down -1.8% organically, which is slightly better than the performance in the first half of the year, which was -2.2%, excluding the one-time effects in that period.

As an example of our approach to effective cash and cost management is our recent announcement about cancelling and adapting our projects in France and in Belgium respectively. This will free up €200 million to redeploy towards accelerating value creation elsewhere in Solvay.

Moving to Advanced Materials on slide 5, you will see that sales in the nine-month period were up 1.8% on an organic basis and were up 3% in the third quarter. This was propelled by double-digits growth in Composite Materials for the fifth consecutive quarter. And reflects continued build rates in a variety of commercial and military aircrafts.

Regarding the 737 MAX, the moderation in orders that we had anticipated to start in Q3 is now expected to occur in Q4. As a result, we expect orders to align with Boeing's 42-per-month level by year end, and we also expect normal season destocking across the sector, implying a significantly weaker Q4.

Growth in composites helped to offset the low demand in Specialty Polymers given the headwinds in automotive and in electronics we've seen since the beginning of the year.

One final point to highlight is that the year-to-date margin is 26%, similar to the first half, down 3% on last year. This is driven by the mix effect of higher sales in Composites, lower sales in Specialty Polymers and the combination could not compensate for the higher cost base. The higher costs reflect expanded production capabilities in Composites, destocking effects in Specialty Polymers, higher raw material costs and these were offset partially by the cost discipline measures that are strongly in place.

Turning to slide 6, sales in Advanced Formulations in the nine-month period were down about 8% on an organic basis and 13% in the third quarter. The main driver of the decline is the weak demand and continued challenges in oil & gas, with sales down more than 30%. The lower demand environment was further intensified by pressure in the industry to reduce costs. This has had an impact on our competitiveness in the market as we indicated in our Q2 results. We are taking action to improve the performance of the business, but it will take time.

The actions we're taking focus on two specific areas. One, adapting our costs structures to the new environment. Two, modifying our solutions to match the changing needs of customers. It's also important to note that whilst the historic performance of our oil & gas business has been volatile, it's only in 2019 that we've really seen a marked deterioration. And that is why we are now taking the impairment charge. Our oil & gas business today represents around 4% of group sales, and that's around half 2014 levels., and its profitability relative to our past is even smaller. Historically, between 2011 and 2018, that business has delivered a cash return every year in excess of the group's weighted average cost of capital of 6.7%.

Other markets in the segment were stable year-to-date, including mining, food ingredients, coatings and personal care markets. Despite those headwinds and the volume decline, margins held up at 18% thanks to strong execution.

Turning to slide 7, sales in Performance Chemicals in the nine-month period were up 3.4% organically and largely flat for the third quarter. Soda ash volumes were steady thanks to resilient demand from the two main markets: construction and container glass. Prices are up as a result of the annual contracts in place since the beginning of the year. Peroxides volumes were also stable with high prices, particularly in Europe. Overall, the EBITDA margin improved from 28% to almost 30%, reflecting the impact of prices and strong operational efficiency programs.

Free cash show to shareholders, shown in slide 8, was again strong in the third quarter at €313 million, more than double last year's performance. And it brings to €345 million for the year to date. Changes in incentives that were introduced in the second quarter are driving more disciplined management of working capital, with a particular focus on improving the phasing of our working capital and reducing the concentration in the fourth quarter that we've typically seen in previous years. Total operational deleveraging was positive at €140 million in the nine months, €241 million better than last year.

Turning now to slide 9 for our outlook for the full year, we confirm our expected cash delivery of around €490 million by year end from continuing businesses. In addition, we expect to have a further €200 million cash contribution from the Polyamide business and we expect the transaction to close in the first quarter next year. We expect EBITDA to be broadly flat year-on-year. This corresponds to a decrease of around -2% to -3% on an organic basis, consistent with our May guidance range. This reflects our disciplined focus on cash, on costs, despite the significant deterioration in the oil & gas business and further declines in auto production and a more challenging macro than was anticipated in May.

As we look ahead to 2020, we expect many of the challenging market dynamics we're seeing now to continue into next year and we plan to give detailed guidance as usual during our Q4 results in February next year. And with that, I hand over to Ilham to discuss our new strategy. Ilham...

Strategy

Ilham Kadri

Thank you, Karim, and hello everyone. Today, we'll discuss the outcome of our strategy review and lay out our roadmap for unleashing Solvay's full potential. Before diving in, I'll start with a recap of the actions that we have taken since 1st March that led us to this point, which you will see on slide 11.

First, we've streamlined and realigned the executive committee, giving them direct, hands-on responsibility and accountability for the P&L and Free Cash Flow of the businesses they lead. Next, we modified the 2019 incentive plan to focus the organisation on costs and cash, which is already starting to bear fruit. We also initiated a comprehensive review to better understand the opportunities and the challenges facing each of our businesses. Finally, the team and I spent a significant amount of time engaging our employees, customers and investors. We gained valuable insights which have helped support our process to redefine who we are and our sense of purpose.

So, that leads me to slide 12, a summary of our findings. First and foremost, Solvay has a strong foundation from which to build. Our businesses are closely aligned with the powerful megatrends that drive growth in our end markets, and in those markets, we

have a number one or a number two positions. Science, innovation and sustainability are part of our DNA, and I'm truly impressed by the passion, engagement and talent of the people who define Solvay today. And underpinning everything is our focus on safety as we continue to work hard to reach zero incident because safe companies are good for employees and do better business.

I'm not going to spend time going through the detail on who we are, but I refer you to slides 13 through 15 to help you better understand Solvay and our value proposition. And while we have many strengths, we also have a clear understanding of our challenges. The portfolio transformation and the centralised operating model have created organisational complexity and silos that have led to suboptimal capital allocation and inefficiencies.

The plan we are announcing today is not just about what we will do differently strategically, but how we will do it differently as a team. In addition to changing how we manage our businesses, we have a great opportunity ahead to operate more holistically as one company with a common purpose.

Before looking at the business from the inside out, it's critical to step back and see things from the outside in. On slides 17 and 18, we've summarised the external landscape, the key macro drivers shaping our future, and our technologies that address these opportunities. As the world becomes more populated, urbanised and prosperous, demand for food, water and energy will continue to rise and the pace at which we are consuming our planet's resources is not sustainable. At Solvay, we will be part of the solution.

One example I'd like to highlight is thermoplastic composites, where we have a leading position and where we are aligned to megatrends, including lightweighting and resource efficiency. You are all aware that composites used in aircrafts significantly improve fuel efficiency, and for this reason, the content is significantly increasing in new and future aircraft builds. In addition, we are capturing opportunities in new markets. I'm especially excited about our brand new agreement with Baker Hughes to partner on the use of Solvay's thermoplastic composite materials in offshore flexible pipes and risers for the oil & gas industry. In addition to leveraging lightweighting and non-corrosive properties versus metal, our technology has demonstrated the ability to reduce their total cost of ownership by approximately 20%, which offers an attractive value proposition to our customers and helps to accelerate the adoption of this technology into a new market.

With that external concept in mind, I will shift now to our internal review. As I mentioned earlier, we conducted a bottom-up, deep dive analysis of our businesses to identify where each stands in terms of technology penetration, market consolidation, competitive positioning and growth potential. For example, both our specialty polymers business and composite materials business are currently at a low technology penetration rate given the early stage of shifting to lighter, more fuel-efficient, more sustainable materials, and we are leaders in a very consolidated market. This means there is an enormous opportunity for growth given the megatrends we highlighted and our leading position in these areas.

On slide 19, you see that each business has a different market position relative to its life cycle, and in order to maximise value, we must differentiate how we manage them.

This brings me to slide 21, where I'll summarise our new strategy represented by the acronym GROW.

Moving forward, we will continue to operate in three business segments, each with a new distinct business mandate. We have therefore moved some businesses to align with the distinct mandate, as shown on slide 22. Our Materials segment comprises our high-performance, high margin Specialty Polymers and Composites businesses. Our ambition is to expand our leadership position as a number one pure play advanced materials business. To realise this, we will accelerate growth. Our Chemicals segment comprises largely mono-technology businesses, including Soda Ash, Peroxides, Coatis, RusVinyl joint venture, and now we add Silica. Asset management is a key focus in this segment. These businesses all have demonstrated track record of resilient cash generation. Our ambition is to become a number one cash conversion chemical player in the industry. Our third segment, Solutions, is a mix of businesses operating in diverse niche markets. It includes Novecare, Technology Solutions, Aroma, and now we add Special Chem. Solvay will optimise these businesses, drive better returns and unlock value.

I will now provide further detail on each of the distinct mandates and how we will drive the greatest value from each.

On slide 23, Materials. We will prioritise investments and innovation in high margin markets with the highest growth potential. We have a good position from which to build, the vitality index in this segment, or sales of new products in the last five years, is 30%. To further accelerate growth, we will realign resources from being a product-driven organisation to being a market-driven organisation serving aerospace, automotive, healthcare and electronics markets. We will double down on investments in

innovation and commercial support to focus on attractive high growth areas, such as thermoplastics and batteries, where we have created common platforms with dedicated teams to leverage our expertise and accelerate innovation.

For example, in thermoplastic composites, we recently announced a capacity expansion in our US Anaheim site for the growing aerospace market, and a few weeks ago, we announced the launch of two Innovation centres (one in the US and one in Europe). Batteries for electrification is not a new area for us, but one where we are increasing our focus, our innovation efforts and our resources to accelerate penetration. We have a wide range of polymers for the binding and coating; and we have additives for electrolytes in current and future generations. We have also announced several capacity expansions to address the significant increase in demand, which has been growing by double digits for the past several years. What gives us the conviction of growth is our strong record of EBITDA growth, averaging 7% over the past five years, a figure that would be even higher had it now been for the current market headwinds. Our 28% margin demonstrates our ability to share in the significant value our technologies deliver to our customers.

Turning to Chemicals, or to the Chemicals segment, slide 24. In Soda Ash, Peroxides and Silica, we operate mono-technology businesses in more stable, mature, resilient markets. Our focus here will be to maximise our cash flow generation from these resilient businesses where we have a leadership cost position and competitive advantage. We have established a strong track record in cash generation: over the past five years, the segment grew by 9% on average; our cash conversion averaged 68% over the same period. Going forward, we will focus on productivity and simplification. And we will be implementing that expertise in our Silica business with the aim to operate with similar performance.

So what will be different? We have to adapt our organisation to focus now on delivering cash more than growth. This includes capex spend for infrastructure maintenance and focussing R&I spend on process innovation geared towards extending our cost leadership. We will take a careful look at any investment opportunity and we will only invest selectively, where we expect particularly compelling cash returns, such as our recently announced expansion of soda ash and bicarbonate capacity. Importantly, we view cash generation from Chemicals as an effective way to fund our attractive growth opportunities in Materials.

Turning now to our Solutions segment, slide 25. This represents a mix of businesses, each will have a clear set of priorities and specific goals to improve their value creation. Some of these businesses are underperforming or not yet optimised, and some offer growth opportunities in diverse but specialty niche markets. For example, we see select opportunities in three areas: consumer care & food Ingredients (where we have leading positions in vanillin and guar for personal care); industrial markets, such as coatings (where we offer unique solutions for waterborne applications); and resources, where we are the leader in improving the yield of metals and minerals from the mining industry.

You already know about the challenging situation in the shale oil & gas, as Karim described earlier, and this is a high priority with a recovery plan that is already underway. Let me be clear, when we say unlock value, we mean improved returns. We are not happy with the returns in this segment, which are below WACC. Therefore, the segment will have limited R&I and capex prioritised for the right projects.

Our distinct business mandates are only part of the story. Equally important element of our value creation strategy is how we will win, with our Solvay ONE operating model. Solvay ONE entails a completely new way of working, leveraging the many strands and competencies across our enterprise, not just within each business.

Slide 26 shows the significant departure from the way we have been managing the company: everything from our multiple cultures to our decentralised business structure and our fragmented approach to the market. I recognise that this structure results from a period focused on extensive portfolio transformation, with over 50 M&A transactions. We are a stronger and well-positioned group thanks to those portfolio changes but the opportunities ahead are even greater once we begin to operate as ONE Solvay organisation. The new operating model will impact how we do everything, from how we collaborate with our customers (who are the centre of everything we do), how we are allocating our capital and R&I resources, and finally our approach to cost and cash management.

Let me give you some examples. We will leverage our expertise and knowledge across businesses. One example of this relates to our new customer engagement model, show on slide 27. We will tailor our service and approach based on customers segmentation to better serve our customers and will measure the progress using the Net Promoter Score. We will also deploy talent to the new strategic account roles, with clear incentives centred around our most important customers. For example, a leading consumer goods customer shared with me that four different business teams represent Solvay, each selling a different technology. This led up to form one key account management team handling all of their needs across our group, and they saw an immediate benefit. Now, we need to do this for all our top customers, which will facilitate easier collaboration, streamline our own resources and increase the share of wallet. For other accounts, we are introducing a new e-commerce platform that enables

order placement and delivery management, and will leverage it across our organisation. I am convinced this focused approach will better support our customers.

Another key part of Solvay ONE is that our resources will now be centrally managed, as you will see on slide 28. We will direct investments in capex and R&I to the highest growth opportunities, whilst keeping strong discipline over our total investment size, because our focus is to generate more growth, cash and returns. This is how we will double down investments in materials by making better choices rather than just spending more.

Approximately 60% capex and more than 50% of R&I will go to Materials to support the growth investments such as in thermoplastic composites, which has an addressable market of €500 million, and with batteries we expect our sales to grow to €500 million in the next five years. And you have seen, our recent news about our soda ash expansion, which is a perfect example of putting our investments into the most attractive opportunities to generate more growth, cash and return. To be clear, this is a completely different way of operating than what was done in the past, when businesses made their own investment decisions with limited consideration of generating the greatest value across Solvay.

Another element of Solvay ONE is creating a repeatable cost and cash playbook. With respect to cost, there are two elements: simplification and synergies, which we see on the left side of slide 29, and productivity measures, which you will see on the right side. In total, these two programs would generate structural cumulative gross savings of €300 to €350 million run rate by 2024. Here is how we will get there. First, we will fully deliver the simplification program launched in 2018. We will have €50 million left to complete in 2020 and we're targeting up to €300 million more with our new program. Next, we will launch our new synergy program focused on harmonising a common structure across Solvay. We will reduce our indirect spend through improved group-wide policies. We will also implement an order-to-cash program, reducing our logistics and packaging costs. We will also be launching a zero-based budgeting methodology. I have seen first-hand what results this can bring. While it will take two plus years to realise the benefits, I am confident it will bring new rigour to our efforts. Together, simplification and synergies will generate €100 to €150 million of cost savings run rate by 2024.

Moving to our productivity measures, we will also focus on operational efficiencies. Some businesses, such as composites, will continue their focus on yield improvements. We're starting to see benefit from our operational focus that began last year, such as a 20% increase of our historical production on our major lines in the US. We're planning further improvement in these lines, and are deploying similar programs at other major industrial sites in composites. We have also begun deployment of digital processes. We have many initiatives underway. Some are using data analytics and modelling to increase efficiencies of our plan, and others are more customer focused. We have launched it in 20 plants already, and we're targeting another 30 sites. These productivity measures are targeted to reach €200 million run rate by 2024.

Moving to slide 30, and in line with our strategic focus on cash, we're targeting €500 million more cumulative cash from operations in the next five years. The focus here is in two areas: liability management, which includes lowering our pension cash service, and decreasing our interest payments. At the closing of the Polyamide divestment, we will deploy around €500 million from the proceeds towards pension obligations, thereby reducing pension cash service costs for the next few years by over €40 million a year, starting in 2020. This represents a return of around 8% in total, far better than paying down debt. The right side of the slide highlights our focus on working capital, which includes the order-to-cash program driven by a leaner supply chain and more effective inventory management. The €500 million more cumulative cash generation will come from three levers: first, reduce pension cash cost, starting at €40 million next year, and this will grow over time. Second, the financial charges will continue to decrease. Three, and finally the order-to-cash program will release €100 million through more efficient working capital management.

Therefore, we are very energised by the opportunities of Solvay ONE, and I look forward to providing an update on our progress.

This brings me to our mid-term financial commitments shown on slide 32. We plan to deliver mid-single digit EBITDA growth on average from 2020 through 2024, and this assumes that we will resume historic growth trends in our key markets in late 2020. We expect half our growth to come from Materials, and around a quarter each from Solutions and Chemicals. Our target for free cash flow conversion is to exceed 30% by 2024 from about 22% today. And our target for return on capital employed is to exceed 11% by 2024 from around 8% today. As an aside, many investors told us that they didn't like CFROI because they couldn't

compute it or compare it with other companies. We've listened and we will begin reporting ROCE at the Glevel, and we will retain CFROI internally.

Looking ahead to 2020, as Karim mentioned, we expect the current challenging macro environment to continue to impact our profits. Yes, our free cash flow conversion will progress strongly as early as next year. Therefore, 2020 is a year of transition before our expected inflection in 2021.

Turning now to our capital deployment priorities. As you've heard, we will allocate capex and R&I to operate each business according to their specific mandates. We will also focus on reducing liabilities. And we will have a more disciplined approach to M&A as we move forward. We will selectively pursue opportunities aligned with our growth strategy that enhance value creation in terms of profits, cash and returns. We will continually assess divestitures and whether Solvay is the highest value owner. As we work to drive enhanced value, we will maintain an open mind. Ultimately, we do not believe there are any "sacred cows" in our business.

To conclude, the strategic roadmap we've laid out today is about maximising profitable growth and cash generation to drive shareholder returns. At Solvay, we have a strong foundation upon which to build, with leadership positions and sustainable solutions tied to megatrends. We are backed by a heritage and culture of innovation, and some of the most talented employees in the industry. With our new distinct business mandates and our Solvay ONE operating model, we can deliver growth, cash and returns to unleash Solvay's full potential.

Now Karim and I are happy to take your questions.

Moderator

Thank you, Ilham and Karim. Before we start the Q&A, can I calmly ask you to limit yourself to one question only to allow all participants to be heard. Operator, over to you.

Q&A

Operator

Thank you ladies and gentlemen, we will now begin our Q&A session. If you wish to ask a question, dial zero and one on your telephone keypad. We have the first question from Matthew Yates from Bank of America. Please go ahead.

Matthew Yates

Thanks for taking the question and the presentation. If I limit it to one, can I just ask in terms of the message you're trying to send around unlocking value, particularly on assets that you've classified in the Solutions division, you said towards the end of your speech there that you will look at divestitures. Can you just maybe a bit more explicit on what you mean by unlocking value, the process and timeframe for that, particularly with some of the peripheral parts of the portfolio?

Ilham Kadri

Yeah, well thank you. Hi Matthew. Well first, of all the GROW Strategy is about to grow and what I like with this acronym is more than an acronym. It is a common denominator across the three reporting segments: grow top line in Materials, grow resilient cash in the Chemicals, and grow the returns in the Solutions.

First of all, I believe that we have meaningful organic growth opportunities ahead. This is plenty of work to be done. In terms of M&A, as I have said, we will have a more disciplined approach as we move forward. We are definitely raising the bar in terms of our focus on growth, cash and returns. We will selectively pursue opportunities. It has to be aligned obviously with our growth strategy. And it has to enhance the value creation in terms of profit, cash and returns. And as I outlined, we do see opportunities to unlock value to improve the returns in the Solutions segment.

Moderator
Next question?

Operator
Thank you. Next question from Wim Hoste from KBC Securities. Please go ahead.

Wim Hoste
On the outlook for the Composites business, after very good growth in the past few quarters, I hear you now kind of hinting for a slowdown in the fourth quarter. Can you maybe elaborate whether that slowdown is entirely and only tied to the 737MAX reduced build rate or are there other reasons to become a bit more cautious? Can you maybe elaborate on that? Thank you.

Ilham Kadri
Okay, thank you Wim. Well, a reminder, and I'm very pleased to report that, this is the fifth quarter in a row with double-digits growth in aerospace. So I really commend the excellent work done by our Composites team. You may remember we acquired the Composites business back in 2015, took us time to really integrate it. We started and we accelerated the integration since now a few quarters, and we are seeing the results. The fourth quarter will be lower as our orders to 737MAX have begun to moderate plus normal seasonality as we approach the year end.

Wim Hoste
Okay, understood, thank you.

Operator
Thank you. Next question from Chetan Udeshi from JP Morgan. Please go ahead.

Chetan Udeshi
Yeah, hi. Given that I can ask only one question, I would probably ask one on, can you explain how is the incentives criteria aligned with the new financial targets you've presented to us?

Ilham Kadri
Well I mean, indeed incentives are important part of my compensation and the compensation of the executive committee is tied to performance. No one wants the company to succeed more than I do and more than the executive and the senior leadership do. The senior leadership and the executive committee, myself included, will also go through the same process as the GBU leaders, because one size doesn't fit all and we're going to align the incentives of the reporting segments and the GBUs to their new strategic mission. And we will align that and this will be overseen by the board.

Operator
Thank you. Next question Martin Roediger from Kepler Cheuvreux. Please go ahead.

Martin Roediger
Yes, thank you Karim, Ilham. One clarification question on your target for mid-single digit EBITDA growth until 2024. That means on average 5% growth. When I look at your cost savings program of €300 million to €350 million that means half of that earnings growth comes from the cost savings, leaving the other half to, let's say, ordinary volume growth. That sounds a bit conservative. You mentioned 2022 to be a transition year. So my question is, what is your GDP assumption on average for the next five years and do you factor in any earnings reduction in some products or any low retention rate for your cost savings program to come up to that rather conservative assumption? Thanks.

Karim Hajjar
Martin, maybe I'll kick off with an answer and then see what Ilham would like to add. Fundamentally, the cost savings programs we've announced, the targets will largely offset inflation and the growth you're going to see will come from the deployment of the strategy. It will be organic growth. Half of it will come from Materials, a quarter from Solutions, the other quarter from our Chemicals segments. It's very high quality sustainable growth that will drive this. And bear in mind, obviously, our starting point is one of the highest EBITDA margin, if you look at our peers. So that's really the context that I'm sure you're aware of as well.

Martin Roediger
Okay, thanks.

Operator

Thank you. Next question from Mubasher Chaudhry from Citi. Please go ahead.

Mubasher Chaudhry

Hi, thank you for taking my question. Just a quick one on the Composites part of the business. Now, historically it's been one that has not seen a great EBITDA drop-through it, but now it's forming part of the growth business going forward. So I just wanted to find out if the initiatives to improve the EBITDA drop-through, are they coming through and kind of what the plan for those efficiencies are going forward, given that this is a growth engine now?

Ilham Kadri

Thank you for the question. Well, indeed we are, first of all, there are different aspects to that question. First of all, there is a sustained demand in aerospace, right? And our key customer focus and market demand of more than 40,000 commercial aircrafts with more than 100 seats in the next 20 years. So there is a good underlying fundamental for growth in this business. That's number one. Number two, I think what what's happening is that the synergy between Specialty Polymers and Composites in the first cluster becoming a pure play advanced material is gone. It's going to also help us to further penetrate the aerospace market.

On the yield and productivity improvement, in Composites, yes we see it. We see a leverage between the top line and the bottom line. And this is a great story of leveraging the power of Solvay. We took one of our best supply chain leaders, and we exported competencies from legacy Solvay to the Composites Materials business. And now they are five cultures in a row. I can see the impact, and they continue cutting waste, and this is part of our growth story both on the top line and on the bottom line in the Materials segment.

Mubasher Chaudhry

Thank you.

Operator

Thank you. Next question from Andreas Heine from MainFirst. Please go ahead.

Andreas Heine

Hi, I have a question on the Solutions segment. It seems that you put here more together the kind of troubled areas. Is that the areas where we then also see let's say, more harsh restructuring going forward beyond what you have initiated already to reposition the business? And is that also the areas where we have to look for portfolio changes? Could you please a little bit outline in more detail how we have to see the distribution?

Ilham Kadri

Yeah, thank you for the question. Well, the way you know we put all of this together and we regrouped the segments, we put you know GBUs (Global Business Units) that have similar characteristics in terms of market penetration, consolidation and growth potential, so I'd like to remind you that.

Now the Solutions cluster of businesses have different mandates. The majority of the businesses in that segment are actually resilient and stable businesses. One business, the oil & gas, you heard the story. It needs significant improvement. We're going to fix it. It's underway. And more importantly, we have a number of businesses, they have some leading and differentiated positions, which I like personally. They offer attractive growth opportunities. For example, Technology Solutions is part of that, and remains a very attractive business as a leader in, as I said, in improving productivity and yield for the top global copper producers. Novecare, in personal care, in agro, aroma, we have leading technologies in natural vanillin, etc. So all of this, it's a good place to be in. Now, we're not happy with the returns, and whenever returns are below or WACC, we will not be satisfied. So that's what we're saying. We will improve the returns and that's the key focus. The good news is that we have a path to do so.

Andreas Heine

And how patient are you for this segment to get to the returns you require, so bringing them back? Could you put a timeline behind that?

Ilham Kadri

Well I mean, I'm not going to – we will take the time we need in order to make the right assessment and give them time to do it. But the focus is definitely shareholder value, and this will be our guiding post. But that improvement is included by 2024, yes.

Andreas Heine

Thank you.

Operator

The next question from Geoff Haire from UBS. Please go ahead.

Geoff Haire

Yes, thank you. I just wondered if you could help us with the cost savings of €300 million to €350 million. What's the cost of those going to be?

Karim Hajjar

Geoff, hi there, there are no new restructuring costs associated with that. As we've mentioned, this is about accelerating the delivery that was already announced and is already provided for. It's already banked in. And what we have here is the operational efficiency and the real transfer end to end programs, as a part of the Solvay ONE additional, which is really around flowing it through to the bottom line without any associated restructuring costs. It's not about labour related costs.

Ilham Kadri

So just to be clear maybe and to build on it, for 2020, we have €50 million left of the original program, which was launched back in March 2018, and that is going to be accelerated and completed. And now we're targeting up to €300 million more with this new program. So we will deliver on the simplification as I mentioned. We have a new synergy program on harmonising the common structure across Solvay. That's good news, there is room for improvement there, and we will reduce our indirect expense to improve policies and leveraging again our scale. And I'm extremely excited about the order-to-cash program. We just started a few weeks ago in reducing our logistics and packaging costs. Not to talk about launching, but this is new, the zero-based budgeting methodology, which is going to take a bit longer time to deliver on it. So all in all, those are structural type of cost programs, and we are extremely pleased with this.

Geoff Haire

I'm sorry. Can I just follow up on that, also the move to one supply chain, does that mean you have to consolidate ERP systems, and there is no cost associated to that?

Ilham Kadri

Well, the good news, I didn't have this all my life in my different experiences, is that we have very few SAP systems. That's the good news with Solvay. So no worry, there is very little investment in more SAP systems.

Operator

Thank you. Next question comes from Nathalie Debruyne from Degroof Petercam. Please go ahead.

Nathalie Debruyne

Hi, good afternoon. Thank you for taking my question. I would actually just like to go back to the cost savings that you are targeting. Could you maybe elaborate a bit on the phasing? What can we already expect in 2020 and how is it going to build up towards 2024? Thank you.

Karim Hajjar

Nathalie, hi. I think as Ilham said some of the costs savings like the zero-based budgeting will take time to mature and crystallise. I think the best indication I can give you is broadly a linear build towards the run rates we've described. I don't anticipate any strong peak in any one particular year although, obviously, as I'm sure you will have detected, acceleration is very much part of what we're doing here as well.

Ilham Kadri

So the former program, which was underway, will be accelerated. And the second part, which is really new and we are starting, will be probably the inception will be in 2021, for your model.

Nathalie Debruyne

Okay, thank you.

Operator

Thank you. Next question from Peter Clark from Societe Generale. Please go ahead.

Peter Clark

Yes, good afternoon everyone. Thank you. Looking at the state of businesses now looks much more sensible, but it does beg the question, certainly for me, apart from cash from Chemicals to Materials in the near timeframe and maybe going out a few years, the logic of keeping these businesses together. I heard you felt the business was much better as an organisation, the opportunities would be stronger, but certainly in terms of the logic here, certainly either increased transparency with Materials and Chemicals and then also Solutions, the logic of having them all together? Thank you.

Ilham Kadri

Sorry, I didn't get the question. Can you repeat please, Peter?

Peter Clark

Well, in terms of – I understand the split of the businesses is much more sensible, I think, than how they were classified before. But in terms of the logic of these three units together because certainly, aside from the story of cash flow from Chemicals to Materials, looking longer term, I cannot see the logic of these three business units together.

Ilham Kadri

Yeah, okay, got it. Well, I mean, the way I see it is there are synergies of being such a group today. First of all, financially, I mean you've seen it in 2019, our Performance Chemicals businesses, let me go through the old vocabulary, have been holding up us, right. Very resilient in 2019 despite the pressure on our automotive and electronics businesses, a part of the Materials industry. So at the end of the day it's about leveraging the portfolio financially, as I said, is extracting cash and investing it in the growth. We have also on a nice scale powerful research and innovation at business and corporation level to drive innovation across the company. For Specialty Polymers, you still need organic chemistry and we find it in the Solutions segment, right? That's number two. Number three, believe it or not, we can still increase the share of some customers. The anecdote, that is more than anecdote now, I was telling you in my prepared remarks, when one customer, a leading FMCG company, came to Solvay, they wanted to have access to four different business units. They were buying solution formulations from Novicare, they were buying soda ash, they were buying specialty polymers products. So all of this, if we can leverage that reach for our customers, it's great for Solvay to maximise the share of the wallet.

And to end with this, because the list can be longer, it is the supply chain I talked about. And this is based on similar ARPs and both in the logistics in the indirect sense is bringing us a fabulous opportunity to leverage our scale.

Operator

Thank you. Next question from Martin Evans from HSBC. Please go ahead.

Martin Evans

Yeah thanks. Just back on Geoff's points about the €300 or the €350 million of savings, no real cost apart from the sag end of what you've put through already. And I'm looking at this Solvay ONE initiative and it's full of lots of exciting words, deploying talent, incentives, tailoring the service. But I don't want to be too sceptical, but it's the same products really, the same people, the same customers, the same plants, the same dynamic. Could you maybe give us an example, a real life example of how you would hope to achieve these savings within the business? Thanks.

Ilham Kadri

Well let me start and maybe then Karim can get to the numbers if needed again. Well, I mean, in any company, you look at the commonalities, the common denominator, and here, there is an opportunity for us because it was fully decentralised before – and nothing wrong with decentralisation. What I love in decentralisation is the empowerment of our business leaders to deliver on the P&L and the cash, and this will continue.

What we are changing here is to centralise what we can better control and prioritise centrally, and what we are going to do is really build a common structure whatever it makes sense, right? I talked about the supply chain. You may remember in quarter 1, we suffered from a peak of inventories because our order-to-cash process was not the best in class, and that's what we're fixing today and improving it. And when you improve it one GBU or one business, we can repeat it in other businesses. And that's the playbook we are building repeatable cash and cost saving playbook.

The zero-based budgeting is another one we're going to do across businesses. And it's great to have that opportunity of indirect sales, which have been decentralised and now we're centralising them. I mean everything, which is not the raw material, so we're looking at that and preparing the playbook through group-wide policies but also leveraging our purchase. Anything to add, Karim?

Karim Hajjar

No, I think maybe just add a couple of very practical examples that I've seen in the last few months that brings it to life, Martin. One is we're changing incentives in the second quarter around cash. And what do I've seen? Month in, month out, significant consistent discipline and improvements on basis of outstanding receivables, on payables, on inventories, and actually it comes into the bottom line now.

What's new is that we see that everywhere in every business, including Composites has had a fantastic time, whereas previously if I compare to the past, I'd say those businesses that were doing better than others were perhaps less focused on that delivery. Another anecdotal, if you like, is travel and expenses, discretionary costs. One size, one approach across the organization and real focus. And the way I would describe it is a real sense of enterprise first, a partnership between the users, rather than folks focused on their perimeters. We're not saying it was bad. It's just the bar has been set higher and I really see it. It's part of the coupling effect.

Ilham Kadri

And it's repeatable playbook.

Karim Hajjar

Yeah, big time.

Martin Evans

Okay, thanks very much.

Operator

Thank you. Next question from Marcus Mayer from Baader Helvea. Please go ahead.

Marcus Mayer

Yeah, thank you. Good afternoon. Marcus Mayer, Baader Helvea. A question on the new capex discipline. Basically, the question is split into two. So, you said €200 million projects have been cancelled, that is basically the old capex way. Do you have these projects been already in the building phase and do you expect any kind of impairments there? And the second question is that the soda ash capex program is basically an example for a new capex, the new Solvay capex way, so to say. As other two large players announced significant projects there, do you not fear overcapacities in the years after 2021? Thank you.

Ilham Kadri

Yeah. Well, thank you. I mean, what we are doing in terms of capex and you mentioned the €200 million write off capex, we stopped two projects you are referring to. So this is probably a perfect example on how in the new world we're going to invest in better growth returns, right. So I think you guess probably the answer there. We've indicated, I think, in the past an economic threshold for our investments, which are like very much around IRR 15%, right Karim? Which makes the ROCE around probably more than 20%.

Karim Hajjar

Yeah.

Ilham Kadri

And this is it. So any business case, if it's lower than that, don't come to Ex Comm. If it's above that, come with your business case and we shall see, all right? I think that's a real discipline we're going to have in the company to ensure that we – it's in line with the strategic priorities and the mission. And as you've seen 50% of the growth will come from Materials in the coming five years and we need to reallocate the right investments.

On soda ash, I mean, there are strong market dynamics you've seen this year. Still supply is balanced. We have actually a brownfield expansion in natural trona. If you look at the investments which have been announced, we believe we have one of the best lower cost investments in the industry with compelling cash and returns. Actually the IRR was more than 17%. So we're offering security of supply to our customers with technology and cost leadership. And in the future, discussion and negotiation counts, right, for our customers to have supplier like us who can deliver a consistent supply of goods.

Marcus Mayer

Okay. Thank you. Understood.

Operator

Thank you. Next question from Mutlu Gundogan from ABN AMRO. Please go ahead.

Mutlu Gundogan

Yes. Good afternoon, Ilham and Karim. I have a question on divestments. You're using the proceeds from Polyamides to delever, which you say is creating value with returns above your cost of capital. Now if this is the case, does it make sense to divest more businesses within the Solutions segment instead of trying to get the returns up?

Karim Hajjar

Great question, Mutlu. I think fundamentally, we're focused on growing the business. Where we know we have €1 billion coming in, we're looking for the best way to create value at those proceeds. The fact that we can deploy €500 million to generate a return, as you rightly say, well above our WACC, is highly attractive. And I would say if you look around us very, very unusual. We're not paying a premium to externalise pensions, we're not doing any of that. So it's huge value creation. So we continue to look for opportunities like this, but as I said, they're quite exceptional in their availability. And maybe the other point I will highlight is we're focused really on the free cash flow conversion. That really is a key piece. Now we know that benchmark to look around us is around the 30% mark. And so what we're saying is in this strategy, we're going to get there in this plan period, which means we will have overcome the drag of the very, as you know, very high levels of pensions and environmental liabilities that have been weighing on us. And that to my mind is really what this is all about as far as the cash equation is concerned.

Ilham Kadri

Yeah. And to build on that, I think in the Solutions, you've seen their margins, so they are at par probably with peers, sometimes even better. I think the improvements of returns we see a step to do that and this is key. And when we see that we can create value. Growing is not only growing the top line, it's about also growing the returns. And I think the difference now is that these set of businesses, and some of them more than others, are going to be focused on returns much more than before than growing the top line, and that's a different mission and we know they can do it and now they have a path to go after it.

Mutlu Gundogan

Thank you.

Operator

Thank you. Next question from Chris Ryan from Bank of America. Please go ahead.

Chris Ryan

Hi. Yes, thank you for taking my question. Just a quick one on the debt actually. You said regarding the net debt reduction you talked about the polyamide sale proceeds, reducing it by €0.6 billion. Would that be the fully repaid, the hybrids that are callable in 2021 or will that be to repay another senior unsecured without refinancing it?

Karim Hajjar

That's a great question. I think as you're probably aware, there are certain restrictions as to the levels of hybrids in one's balance sheet. They are a permanent part of one's capital structure. The fact that we managed to reduce it beginning of the year, I think

is a clear indication of the continued optimisation. Let's say, what I can say is we will continue to look for opportunities to create value in the same way. So it's around really improving, reducing the financial charges, which by the way we're saying we're going to reduce by about €35 million run rate over the planned period as well. So I won't go into further details at this point on the specifics as to which debt, which maturities will get us there. We'll continue to look for opportunities to do that.

Chris Ryan

Got it. Understood. Thank you.

Karim Hajjar

Thank you.

Operator

Thank you. Next question from Jaideep Pandya from Millennium. Please go ahead.

Jaideep Pandya

Hi. Thank you so much, Ilham. Just a quick question really on PFOA. Sorry to ask you this because this is not a part of your strategy or anything like that, but I just want to ask you on a call like this, in terms of how are you guys dealing with it? How much provisions have you taken if you have taken any provisions? And should we be worried at all about this topic with Solvay or not? Because obviously your name has been mentioned a couple of times in different articles. Thank you so much.

Ilham Kadri

Fine. All the questions are relevant. Listen, I'm going to just repeat what I told you in my, I think, quarter 2, right, earnings call. Solvay never sold short chain or long chain PFAS. In the past we purchased processing aids containing PFOA and PFNA from other companies but have not been, have not manufactured those processing aids compared to others. And we naturally phased out the PFNA and PFOA ahead of the schedule set forth by the EPA in the US. So based on what we know today, we believe that our provisions for environmental risks are adequate, so I'll just repeat what I said earlier.

Jaideep Pandya

Okay. Thank you so much.

Operator

Thank you. This was the last question. Back to you for the conclusion.

Ilham Kadri

I'll do it. Well, thank you very much. I really appreciate your time and I look forward with Karim and the IR team to meet many of you on the road in the next two weeks, so thank you very much.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference call. Thank you all for your participation. You may now disconnect.