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Welcome

Operator

Welcome to the Solvay Full Year 2019 Results Conference Call for Analysts and Investors. Solvay team, the floor is yours.

Geoffroy Raskin

Good afternoon and welcome to our fourth quarter and full year 2019 earnings call. I'm Geoff Raskin from Investor Relations, and I'm here with our CEO, Ilham Kadri, and our CFO, Karim Hajjar.

Before handing the call over to them, let me remind you that our results are compared to 2018 pro forma figures which already include the IFRS 16 impact. This means that the corresponding 4.5 % growth on the full year is excluded from the presented growth figures.

Today's call is being recorded and will be made available for replay on the Investor Relations section of our website. You may also refer to the slides related to today's broadcast on our Investor Relations website. With that, I'll turn the call over to Ilham.

2019 Financial Results

Ilham Kadri

Thank you, Geoff, and hello everyone. Thank you for joining us to discuss Solvay's results for the fourth quarter and full year 2019. I would like to begin today's call with a quick overview of our financial and operational performance. I will then shift to our progress against our growth strategy, and will also spend some time addressing our new 2030 sustainability programme we announced today, Solvay One Planet. I will then turn the call over to Karim, who will give more colour on our results, and will finally provide our outlook for 2020 before addressing your questions.

I start with our results which are shown on slide four.

The macro headwinds that we saw in the beginning of 2019 across our key end markets, including Automotive, Electronics, and Oil and Gas persisted throughout the full year. Against this challenging backdrop, we focused on our execution and on managing the factors that are within our control such as cost discipline, pricing, and especially cash management. This, in fact, enabled us to deliver operational and financial performance in line with our expectations. As a result, the mitigation actions we took enabled us to deliver on our full year EBITDA forecast with a positive ForEx impact offsetting a 2.8% decrease on an organic basis. Net sales were down about 2% for the year, with price compensating for almost half of the volume decline. Double-digit volume growth in Composite Materials and higher prices in Performance Chemicals supported business growth and we continued to deliver on the cost-control measures put in place previously. These measures resulted in savings of about €100 million in 2019. This includes approximately €70 million from the accelerated simplification programme that began in 2018 and €30 million from austerity measures.

Moving to free cash flow, I am pleased that we generated record cash flow of €801 million with €606 million of that coming from continuing operations. The change in bonus systems to include cash delivery, which was implemented in March 2019, has reinforced the focus on cash generation and on better phasing. And indeed, the progress on working capital exceeded our forecast for the year by around €50 million.

Turning now to slide five, I would like to highlight a few key strategic initiatives that we have recently completed or have underway.

First, we successfully completed the divestment of the Polyamides commoditized activities to BASF and Domo Chemicals. Consistent with our focus on enhancing the Group's financial flexibility, we used those proceeds to continue de-levering our balance sheet.

I'd like to take this opportunity to recognize the entire team. Since my year with them, I have seen first-hand their ability to deliver value for the business.
Next, we began the process of aligning the structure of the organisation with our growth strategy to help unleash Solvay's full potential.

I'll start with compensation, and have changed the bonus structure to reflect the differentiated mandate and align rewards to enterprise value creation.
Today, we are announcing additional efficiency measures that will enable us to operate as a leaner, more nimble organisation better positioned to support the needs of our customers.
These measures impact approximately 500 positions, including a representative number of senior management positions, as we delayer and simplify.
Decisions that impact people are never easy, and our employees continue to show resilience and focus in the face of change. However, we believe these actions are necessary to remain competitive and allow us to better invest in higher return opportunities. Importantly, these measures are in addition to those we announced in our mid-term plan, and therefore raise our target to generate gross savings of at least €350 million run rate by the end of 2024, up from the prior minimum of €300 million.

While we remain diligent in our cost, focus to mitigate some of these short-term headwinds, we also remain focused on our long-term strategy of creating solutions for our customers that deliver sustainable shared value for all. We have been making great progress innovating with several new solutions that meet the needs of our customers.
You may recall that we have formed a team across various businesses to collaborate on innovation for EV batteries. This is an exciting area for us with a sales opportunity of more than €500 million in ten years.The team is working together to accelerate our development of next-generation battery technologies and it is already having a positive impact. For example, our collaboration with a leading European auto OEM manufacturer resulted in our development of a new thermoplastic solution in an emerging electrical mobility application used in battery containers for hybrid vehicles. And we look forward to commercializing this new piece of business very soon.
This continued focus on innovation with our customers for long-term growth combined with our continued focus on self-help measures in the short-term gives me confidence in our ability to deliver on our strategic plan.

On 9th January, we unveiled internally the purpose of our Group purpose shown on slide six. We bond people, ideas and elements to reinvent progress.
Our purpose is central to everything we do at Solvay. It calls us to go beyond who we are, to bond together as one team beyond our legacy companies, and invent future forms of progress with the aim of creating sustainable shared value for all through the power of science.

On that note, I'd like to turn now to a topic that is part of our history, and it is increasingly important to become a long-lasting admired brand and preferred employer by Millennials.
It is also key to attract quality ESG shareholders. I am speaking about sustainability, of course.
We already have in place an ambitious greenhouse gas emissions target, and have made good progress on this goal. In fact, over the past three years, we have improved on multiple metrics. Our greenhouse gas emissions reduced by 0.7 million tonnes or 5%, our safety where we have reduced accidents by 18%, and our societal actions increased significantly to 47% employee involvement.
While all of these are good achievements, focusing on these KPIs is simply not enough.

Earlier today, we announced our new 2030 sustainability plan called Solvay One Planet. The details of this plan are shown on slide 7.
I will not get today into all of the details, but I look forward to discussing it with you in the future. The plan outlines ten ambitious goals that are designed to help Solvay reach our full potential, and positively shape the group's impact in three areas – climate, resources, and quality of life through the next decade and beyond.
This plan is an integral element of our STRATEGY and PURPOSE and will play a critical role in helping Solvay unleash its full potential. We look forward to keeping you updated on our progress in our next calls.

Now, I'll turn the call over to Karim to review our financials in more detail. Karim?

Comments on segments

Karim Hajjar

Thank you, Ilham. Hello, everybody. I will now provide some comments on each of the three business segments starting with Advanced Materials on slide number 8. Full year net sales were flat and an organic basis. I'll now focus my comments on Q4 activities were sales were down 4% on an organic basis. Composite Materials which delivered double-digit growth for the first nine months showed some slowdown as anticipated, given the planned reduced production rates for the 737MAX. This was the main sequential change, as other key markets, including Automotive and Electronics, continue to be impacted by lower demand.

As you know, mobility (auto & aero) is the largest sector, representing over 50% of the segment net sales. Vehicle production declined globally by 5%. Solvay's sales to the Auto segment are down slightly less than that, as our technologies for electric vehicle batteries enabled us to outperform the broader sector.

Moving to Electronics, which represents about 10% of the segment sales and 5% of the Group Sales, the industry data showed fab equipment investments for semiconductors down 7%, smart device sales stagnating, both of which impacted on Materials segment. Against that challenging backdrop, or revenues in Electronics dropped by double digits in the year.

Overall, for the Advanced Materials segment, EBITDA was down 9% for the full year organically and 12% down in Q4. Fixed costs were up because of two main items – one, the production expansion to support growth in Composite Materials; two, the result of the planned reduction of inventories, mainly in Specialty Polymers. Higher prices and cost mitigation efforts only partly offset the higher cost base. As a result, EBITDA margins for the segment were down 2.6 percentage points at 25% for the year.

I will now turn to the Advanced Formulations segment on slide 9. Sales for the full year were down 10% on an organic basis. In the fourth quarter, sales are down 15% as conditions in the North American shale oil and gas industry continued to deteriorate, as customers remain focused on securing the lowest cost products in an already low demand environment, and as competitive pressures have intensified. Outside of Oil and Gas, demand was stable in markets, including coatings, agro, personal care, and full year sales there increased by 3%. But this growth could not offset the reduction in Oil and Gas.

The mining market had its own series of challenges in the fourth quarter, with various customer operations reducing production and that impact demand levels. I'm thinking of a large site, a customer site in New Caledonia, which shut down production and there were also strikes and disruptions across a number of other customer sites in Mexico, in Chile and in Indonesia as well.

Overall full year EBITDA in the Advanced Formulations segment was down 2%. The businesses, especially related to Oil and Gas, continued to adapt cost structures to the changing environment. And they've been successful in reducing their costs, but there is more to do and this will take time. Thanks to the self-help measures, I'm really pleased that the EBITDA margin was maintained at 17%.

Moving to Performance Chemicals on slide 10. Full year net sales are up 2% organically and down slightly in the fourth quarter. Both Soda Ash and Peroxides again performed well throughout 2019 with high prices mitigating some of the softer volumes at year-end. Overall EBITDA for the fourth quarter grew 12% with high prices and productivity improvements driving solid performance in that segment. EBITDA margins consequently increased to 29% in the quarter, almost 30% for the full year.

Now I'll turn to cash generation and the balance sheet which is highlighted on slide number 11. Total free cash flow to shareholders was €801 million, with our continuing businesses delivering €606 million in the year, an increase of €40 million over 2018. As Ilham indicated, we saw a significant improvement in working capital, most notably a reduction in inventory levels of nearly £100 million and a structural extension of payment terms with selected major suppliers, leading to an increase of days payable outstanding, whilst credit management discipline was also preserved. The outcome was a cash inflow in 2019, which exceeded our forecast by around €50 million, cash that we had previously expected to generate in 2020. This performance results in a cash conversion of 28% compared to 26% in 2018.

Turning to slide 13. Our strong operational cash flow allowed us to reduce my debt by €414 million over the year after a dividend pay-out of €387 million. In addition, operational deleveraging of provisions amounted to €157 million. The combination of those two represents a record for us and helped to reduce both our leverage ratio and reinforce our investment credit rating.

You will note also that we made a voluntary additional pension contribution of €114 million in Q4. And indeed, following the recent completion of the sale of the Polyamide at the end January, we made an additional voluntary contribution of €0.4 billion just three weeks ago. The combination of both of these contributions will be to reduce our pension cash spent by over €40 million a year, with effect from 2020, and that does represent a yield of 8% after tax.

With that, I hand you back to Ilham to share the outlook for 2020.

Details of outlook

Ilham Kadri

Yes, thank you, Karim.
You may remember, on our third quarter in November, I shared that we expect 2020 to be a transition year for Solvay as we align the structure of the company to meet our new vision and strategy.
And with that, I would like now to provide you details on our outlook for the first quarter and year. We estimate underlying full year EBITDA to be flat to modestly down organically compared to €2.3 billion in 2019. And we expect the first part of the year will show a steeper reduction, reflecting both the strength of the start to 2019 and current conditions and developments in certain key markets. We expect growth to be back ended, with the first quarter down by high single digits as a direct result of three events.

First, on the Boeing 737 Max, let me remind you that we produced at a level close to 50 planes per month in 2019. Our forecast assumes 200 aircraft built in 2020 versus close to 600 in 2019. This difference will negatively impact our EBITDA by between €30 million and €40 million.
Second, the challenges in certain key end markets, which together make up 25% of group sales, continue in 2020, namely:
Oil and Gas: you will have taken note of the challenges in that business. And while we are working hard to mitigate the impact, it will be another tough year.
Auto: we expect the current headwinds to continue in the first half and anticipate improvement in demand in the second half of the year only.
Electronics: our order books have begun to show some modest improvements earlier in the year. While it's still too early, we're cautiously optimistic that this will be a source of growth again in the second half.

And lastly, on the Coronavirus or COVID-19. First and foremost, we are focused on ensuring the health and safety of our employees in affected regions. We are taking all necessary precautions and following guidelines from local governmental and health authorities on best practices. As you know, China presents €0.9 billion of our sales, almost 10% of the group sales, we have ten industrial sites, and none of them are located in Wuhan city nor in the Hubei province.

Some of our operations in China extended their holiday shut down by one to two weeks. As of today, we have resumed all operations. But clearly the indirect impact on business extends beyond China today, to also Korea and Italy for example. As we look ahead, we will continue to monitor the situation very closely. The potential impacts on our business from COVID-19 will depend on the severity and the duration of the outbreak and its impact on global supply chains. At this time, we believe it's too early to tell the full extent of the impact for Solvay. For now, we assume that the virus will impact us mostly in Q1 and we estimated the impact to €25 million euros in Q1, which alone is equivalent to almost 4% of Q1 EBITDA. We are of course actively monitoring the situation and we will provide an update next quarter when we have more information.

Turning to free cash flow, I am very, very pleased with the progress the company made in 2019. We expect to maintain the strong focus and to sustain cash conversion at 28%. At constant scope and ForEx this is equivalent to around €600 million free cash flow to our shareholders. In this context, we have recommended a stable full-year dividend of €3.75 to the General Assembly.

Finally, in order to monitor, ensure delivery and execute flawlessly on our growth strategic initiatives, I have established a Results Delivery Office or RDO in the company reporting directly to me. I am pleased to announce that Geoff Raskin will lead the RDO from March onwards, after six years of strong contributions to Solvay's Investor Relations efforts. I am extremely excited to start working with him closely in driving the next chapter of Solvay's transformation, and I invite you all to join me in thanking Geoff for his contributions over the past years.

Jodi Allen, who many of you know already, will lead Solvay's Investor Relations team. Jodi's broad experience come comes from her career at Cytec, ranging from commercial leadership roles in sales, marketing, business development, supply chain, communications, and in fact leading the investor relations at Cytec before she joined Solvay. Jodi will engage with you all very soon as we enter this next chapter of delivering on our GROW strategy. We're excited to work with Geoff and Jodi in their new responsibilities.

So, thank you all for listening to these prepared remarks. And Karim and I will now address your questions.

Q&A

Jodi Allen

Thank you Ilham and Karim. Before we start the Q&A, can I kindly remind you to limit yourself to one question only to allow time for all participants? And now I'll hand it over to the moderator.

Operator

Ladies and gentlemen, we will now begin our Q&A session. If you wish to ask a question, please dial zero one on your telephone keypad and you will enter a queue. After you are announced, please ask your question. Once again, please dial zero one on your telephone keypad to ask a question. Thank you.

We have a first questions from Geoff Haire from UBS. Jeff, please go ahead.

Geoff Haire

Yes, I was wondering if I could ask some questions around the Solvay Planet One initiative that you announced today. Could you just give us some idea of what you think the net financial benefit of that will be over time, and also what the cost will be of achieving those goals? And just as an add-on to that; do you expect to see the senior management compensation schemes will be changed to reflect achieving these goals given, I think, currently, it's only 10% of variable compensation is for achieving sustainability goals.

Ilham Kadri

Hi Geoff. Thank you for the question. Well, I always say that the sustainability programme, and definitely Solvay One Planet, has to be good for the people, for the planet and for the pocket. So, this is not a charity plan. So, it's part of our reallocation of resources plan. It represents an estimation of less than 10% of the CAPEX, right. So, again, this is part of our plan. There will be no increase in CAPEX because of Solvay One Planet. And the climate project also has a good return on investment, right, anywhere between 8%, 9%, to 10%, double-digit. All targets are as constant ForEx and scope.

On the 10% bonus, great question. We keep it at 10%, for the moment, right. We changed the incentive and the bonus scheme of our teams, as I say, to align them to the GROW strategy. As you may remember, we have now differentiated KPIs and strategic mandates for the RDO. And we align the incentives to these strategic mandates at the GBU level. So, the times of "one size fits all" is over. However, each leader has a component from the enterprise leadership value creation. So, yes, sustainability keeps 10%, differentiated bonuses aligned with the strategic mandate.

Operator

Thank you. We have another question from Wim Host from KBC Securities. Sir, please go ahead.

Wim Host

Yes, good afternoon. I would like to ask a question around the Soda Ash business please. Demand was a bit softer in Q4 than in the previous quarters, as it appears. So the question is, can you comment on the outlook for soda ash both on demand and also looking at the capacities you have in place with debottlenecking programmes and the pricing? There's a bit of variance amongst the different regions in terms of 2020 contracts. So, what is basically the outlook for soda ash in 2020?

Ilham Kadri

Thank you for your question. Well, soda ash demand, I mean, you've seen in 2019 has proven to be resilient in the past and is expected to continue to do so. Moreover, we at Solvay have a strong position in downstream in sodium bicarbonate as you know, which implies an increased exposure to end markets and related to soda ash. So, we like it, and we increased the resilience of our business. As you know, the flat glass represents 28% of the demand for soda ash, out of which 23% is for construction, 3% is automotive, more or less 2% for solar panel.

We see the impact of the slowdown of the automotive industry mainly in countries where it's just a small part of the economy. Just like Germany, South Korea, for example. However, it's mitigated by growth in other end users – construction container glass, we've seen detergents in Southeast Asia, India, lithium in Latin America. So, all overall, we expect a 2% growth in 2020 in the world, excluding China.

We can talk about China and COVID-19. But similar to 2019, we've seen a slowdown, you're right, in Q4. For us, we confirm that a solid delivery in 2020, you've seen the number from IHS in terms of the annual contracts and the increase in pricing they're published by [inaudible] in Europe; one, two, very modest in the US. And there were some price decreases in Middle East here and there. We as a leader will continue to leading and looking after our margins. So, that's our number one priority. And our European and US footprint allows us to take the best out of the market dynamic, not only in the regions inside the region but optimising our sales in the seaborne markets, which is a key market in soda ash.

Anything to add, Karim?

Karim Hajjar

No, to me, I think you've given a very [inaudible] answer. The way I would also perhaps say it is, it really is resilient. In the situation today, what we're not speculating is potential consequences of the coronavirus having an impact on global demand; that's clearly the only watch out for a lot of our businesses as you'll appreciate.

Wim Host

Okay, sure. Thank you very much.

Karim Hajjar

Otherwise, very stable and resilient. Thank you.

Wim Host

Okay. Thank you.

Operator

Thank you. Having a question from Laurence Alexander from Jefferies. Mister, please go ahead.

Laurence Alexander

Hello. Could you characterise inventory levels in the different chains you're exposed to and how you think about – or to the degree to which you're hearing from customers about the need to reconfigure the supply chains?

Ilham Kadri

Which supply chain are you talking about? Is it – this is in general, Laurence, or do you have something…

Laurence Alexander

Sorry, in the in the industry – I guess in Industrial and Automotive in particular. As you think about where your assets are, and your intermediate suppliers that you deal with, are you hearing that they are thinking about reconfiguring supply chains given the degree of disruptions that they're seeing? And would that affect the way you think about CAPEX and cost cutting over the next few years?

Ilham Kadri

Yeah, no, it's good question Laurence. No, we're not hearing anything like this. If I focus on auto, and as you've seen last year, we've focused a lot on working capital since I joined the company. And frankly, that has been a challenge, an opportunity. And I'm very pleased with what the team has been doing last year in working capital and emptying the stock.

The Auto, I mean, you've seen it, each month we say we reached the bottom. Last year in production was -5% according to LMC. I'm following the numbers like you. It's around 0% or flattish in 2020 in terms of Auto build. Heavily weighted in the second half -6 to flattish Q2, +3% / +4% making it to -5%. China is supposed to be -8% this year. However, with the Coronavirus, we're here in January, it's really depressed, -18%. And we see how the quarter will finish. So, all in all, in terms of inventory, I think our customers have not indicated a specific change to supply chain so far.

Laurence Alexander

Thank you.

Operator

Thank you. We have a next question from Martin Roediger from Kepler Cheuvreux. Sir, please go ahead.

Martin Roediger

Yes. Hello, good afternoon. I have read in your report that you have reversed 48 million provisions in Q4. Was that booked in the underlying EBITDA? And did that affect just the corporate segment or also other segments? And if so, can you mention the split to the individual segments? Thanks.

Ilham Kadri

You can, Karim, take the accounting, and I explain the rationale.

Karim Hajjar
Yeah, sure, Martin. So, just to clarify and reassure if need be that, of course, given that the provision was made as an exceptional item, releasing it also goes as an exceptional item to ensure that nothing changes the comparability of our EBITDA at the time. The reason for the release is because as you will recall, when we announced the strategies, is we put an end to adapt the architectural projects a while back – but perhaps Ilham can tell you a bit more and remind you of the thinking behind that.

Ilham Kadri
Yeah, so Martin, it's an accounting thing. Obviously, the only value there is to show you that this company, you know, doesn't invest in bricks anymore. That provision was about separating with people in the Paris area and rehiring them in Lyon. So, we stopped that architecture project. And now we are doing what we need to do, which is investing in innovation technologies. And obviously, aligning our structure to our strategy needs cash. And this is the new €70 million provision we are making going forward. So, that's the only merits of that sentence.

Operator
Thank you. We have the next question from Mubasher Chaudhry from Citi. Sir, please go ahead.

Mubasher Chaudhry
Hi. Thank you for taking my question. I'm just wondering if you could provide some colour on the underlying components between you hitting 0% or down 3% year on year on EBITDA. And if you could go into a little bit more detail around the divisional EBITDA trajectories in 2020. Thank you.

Ilham Kadri
Mubasher, first of all, if you asked me – you didn't but I'm going to say it anyway. In 2019, the word for Solvay is resilience, right? It has been my first year, almost anniversary in two days' time. And 2019 has its set of challenges. And we've shown that the portfolio and our teams are resilient and we delivered on our promise for the bottom line in the EBITDA according to our guidance, and free cash flow obviously came above expectation.

2020 is another year, right? With its share of challenges and unpredictable events. First of all, you seen the story of 737 MAX, number one. We are following the news, keeping close to our customers. Our assumption that there will be 200 aircraft built in the second half. Second, coronavirus: we were probably one of the only probably few stocks who are giving you transparency and clarity on our Q1. So, we did it in all openness. We estimated the impact on Q1. Beyond that, we don't know. What we know is this our plants are up and running. Our people are safe and healthy and our customers are working on their supply chain. So, that's what we know. And obviously in Q1 earnings call I hope we can give you a bit more views on coronavirus. Third, in terms of volatility and Oil and Gas and Mining, specifically between H1 and H2, there will be some comps which will be easier in the back half. And the cost reductions impact, specifically due to simplification, as you know, our restructuring plan, we are just talking today to make a consultation and start the discussion with our social partners. And as soon as it will finish, we will start to accelerate and expedite our restructuring plan. So, all in all, we felt we will give you a range between 0% and -3%. Obviously, we have demonstrated last year that we can we're confident in our self-help efforts. We can put a mitigation plan in place and we can execute flawlessly against it.

Believe me, we are doing the same now. And if it's "raining cats and dogs", we will be ready. And that's what exactly we are doing, repeating what we've done in 2019 and preparing for a tougher even 2020. And you know, this is a microscope. 2020 is a year of transition, remember my words. And we are preparing 2021 and 2024 at the same time, redirecting the investments in the growth area. So, research – the grow pillar will get more investments from 40% to 60% where we directed money, capex and competencies to deliver against the growth.

Cash is king. When an environment is volatile, unpredictable, I say this 1st March, I repeat it now – cash is king. You've seen this that also, after resilience is the word for 2019, the other word I am extremely pleased and proud of this team than our phasing in 2019. When I came into the job, remember I told you I'm not happy with phasing of the free cash flow. Look at last year, was really good. And the cash conversion this year will be at 28%. And thus we confirm it regardless of the macro.

Mubasher Chaudhry
Thank you very much.

Operator
Thank you. We have a next question from Chetain Udeshi from JP Morgan. Sir, please go ahead.

Chetan Udeshi
Yeah, thanks. I just wanted to touch base on Q1 outlook where you're talking about high single-digit decline. If I just look at the key moving parts, you talked about coronavirus being a 4% hit. And if I were to assume half of the 737MAX EBITDA impact to come in first half, essentially, you've got 7.5-8% impact from those two items alone on a year on year basis, which essentially gets us to high single digits. So, can you talk about what is sort of holding the rest of the business flattish in Q1? That's first question. Second question I had was, to achieve your guidance do you need material pick up in macro in the second half?

Ilham Kadri
Thank you, Chetan. Karim, you take the first one? I take the second.

Karim Hajjar
Sure. Chetan, I think you started off with a very good insight around some of the key elements: coronavirus you talked about, Boeing 737MAX. Let me add to that list Oil and Gas. Q1 last year was strong. We know what happened in Q3 and Q4. Well, we are seeing continuing of the competitive pressures that we highlighted previously.

Auto. Whilst Auto is essentially showing signs of stabilisation, if you just look at LMC, they're still showing a 6% decline in Q1 2020 compared to 2019. What we haven't factored in on the upside of this, which is all the efforts on mitigation. So, we're not just, how I can say, "sitting ducks" in the face of headwinds. There's a lot of mitigation to deliver the high single-digits in the face of the headwinds.

Ilham Kadri
Yeah, and maybe to complete that, Chetan, on your next question. Obviously, we have a portfolio of chemicals which are more resilient, right? And we will test others this year, right? So, in pricing, I'm putting a lot of the effort with the team now on pricing and where we lead with pricing and look at the leakages. The non-oil-and-gas markets are growing modestly. Other areas, I mean obviously 737MAX is the topic of the day, of the quarter, of the coming six months, but there are other programmes. In military, we are also growing. In non-military, you heard the story of the Airbus A220, where we are one of the major suppliers, actually, including primary structures, so we are very happy with Airbus' plan. And the non-aero composite materials and thermoplastic materials are coming to kick off.

Operator
Thank you. We have our next question from Laurent Favre from Exane BNP Paribas. Sir, please go ahead.

Laurent Favre
Yes, good afternoon all and congrats to both Jodie and Joff. My question is on housekeeping, I'm sorry. Ilham, since you started, I think, we've had three quarters with corporate costs below €40 million, after years of corporate costs above €50 million. So, I was wondering if you could tell us what you think is a sustainable run rate.

And I guess the second part of the housekeeping question is on cash conversion. If we have over €40 million of savings on pensions, and I guess EBITDA as well on net financial costs, I'm just wondering what are the offsets if you keep the cash conversion flat. Is it capex? Is it, I guess, cash for restructuring? Any help on this could be really useful. Thank you.

Ilham Kadri
Thank you for the question, Laurent. Karim, can you cover the financials?

Karim Hajjar
Yeah, sure. On the corporate costs, you're absolutely right to spot the reduction in the corporate costs. Three things to highlight. One is there is the continuation on the cost discipline measures. The austerity measures had a big impact there. There were positive one-time impacts of lower claims from insurance. And then finally, we didn't anticipate the headwinds of 2019 in our internal projections and therefore we didn't deliver against our expectations, therefore bonuses were lower. These are the sort of elements that you see there. So, going forward, you can expect corporate costs to be slightly north of €200 million a year, if that helps you as well.

On the cash conversion, I think it's a great question. Fundamentally, if you just take what we did in 2019 and replicate it, if you will, the flat level of earnings, the savings in pension costs, in financing costs will help us essentially to fund a ramp-up in some of the restructuring cash costs, to drive the accelerated agenda and the efficiency programmes we announced today. So, what we're doing is ensuring that we're not diluting, not reducing our cash generation to deliver that value.

Ilham Kadri

And to add to that, Laurent, maybe this is what you also had in mind, is how much is structural and how much is one-timer. Obviously, we did some self-help. But I can tell you, since I joined the company, we are putting in place a lot of cost transparency dashboards, some have called it zero-base budgeting type of infrastructure because wherever there is something invisible, there is a waste, and for me there is an opportunity to improve the operational efficiencies. And that's what we are doing. We are starting in 2019, we continue in 2020 and the RDO led by Geoff as from 1st March, is going to really track those things, which will help the company to become more efficient and more effective and turn the one-timers into real structural way of new way of doing things, including travelling, managing better what we spend in consulting, etc. So, this is a new change in the way we do things inside the company.

Laurent Favre

Thank you. So, if you look at the net reduction of headcount of 950, can you give us an idea on how many of those would be in the corporate line?

Ilham Kadri

So, it's 350, right, Laurent? You are talking about our headcount efficiency programme?

Laurent Favre

Well, the 350 on top of the 600 which you announced last year.

Karim Hajjar

Correct.

Ilham Kadri

Well, I mean, whatever past is the past. So, you know that there was a headcount efficiency programme. When I came to the company, I told you we are going to accelerate that, which we did. It's spread across functions and businesses, the former programme, right? And I remind you that we delivered €100 million last year of savings, combining the headcount efficiency and the self-help measures, €70 million / €30 million split.

This year and on the top of the former programme, we started aligning the structure to our new strategy. By the way, Laurent, we will have done this structural realignments regardless of the macro, right? It's strategy: structure follows strategy. So, this structure realignment is actually a bottom-up exercise. So, the global business units have been aligning their structures to the new GBU mandate, strategic mandate, around the G, R and the O (from GROW) and started giving us their desired structure, leading to 500 positions suppressed growth, with 150 positions – new positions as an investment, mainly in the GROW and then with the net of 350 positions suppressed.

Laurent Favre

Thank you. That's very clear. Thank you.

Operator

Thank you. We have a next question from Andreas Heine from Mainfirst. Please go ahead.

Andreas Heine

Yes, could you please give some more insight on the Oil and Gas business that suffered most, so you said the 737MAX is kind of a special event, but Oil and Gas seems to be a very difficult market, more in a sustainable way? You are thinking about repositioning the business; but what have you experienced in Q4 and what is what we can expect for 2020 and for this business in [inaudible]?

Ilham Kadri

It's a great question, Andreas. Oil and Gas. So, I remind you, it was 6% of the group sales, right? I came very quickly, early in my mandate and sharing with you how I see this segment. The main decline driver was the weak demand and the underperformance in Oil and Gas across the value chain. This is not Solvay-related, right? You can read the news of customers and their customers and the Oil and Gas producers. So, lower demand and further, we saw intensification of the pressure in the industry to reduce costs, which impacted indeed the competitiveness of many players, including us, and I have already indicated in the quarter three results.

And our focus, since then is to recover from that situation. It will take time. There was a pressure on pricing from customers, which put them to look for less costly solutions to maximise their returns. And our portfolio, historically, as you may remember, with the acquisition of Chemlogics and merging it with the Guar business of ex-Rhodia, was historically more geared towards higher-value solutions. So, in recent years, the market has been commoditizing and shifted away from Guar. So, all in all, we remain focused, first of all, on quality, innovating with new products, not only that much of eco, bio products but rather lower total cost of ownership for our customers. This is what they are asking for: it is a lower total cost of ownership.

So, listen, since then we are trying to stabilize, gaining some new business. But the recovery process will take time.

Andreas Heine
And do you – from Q3 to Q4, have you experienced that it is deteriorating further, and do you expect this downward spiral to continue in Q1, for us to get a flavour of how deep we have to look?

Karim Hajjar
Andreas, maybe I can try and help. I think it's fair to say that the challenging environment is not abating, so, yes, it's getting even more challenging. Nobody can predict. I don't know anybody who can predict what the future will look like in a market which is so particularly volatile. What is reassuring – and Ilham mentioned it – is this is on our watch list. We have a very, very close connection with the leaders of that particular business. And what reassures us is they're doing everything that can be done. Fixed costs are being addressed, quality issues are being addressed. But it's not an overnighter. So, everything that can be achieved and is in our control, I'm confident, is happening. Your question is what does the future look like in Oil and Gas, it's a very difficult one.

Ilham Kadri
It's based – Andreas, it's also based in our guidance, right? So, that's how we see it. I mean the business since I we made the write-offs, we've put it in intensive care, as I call it. We changed leadership. The team is really at the deck, fixing, winning customers. We have the right leadership and the right team to do it. We are talking, engaging with our customers. We understand their new needs. And this is not something out of the blue. It is because our customers and their customers have been suffering. And you can see the Oil and Gas OEMs have been also making huge write-offs. The need for new products which can allow lower total costs of ownership is key. And we believe with our formulation expertise and competencies, we can deliver just that. So, I have every confidence in our team, and we will continuously update you on the progress.

Speaker
Thank you answer. Thanks.

Operator
Thank you. We have the next question from Sebastian Bray from Berenberg. Sir, please go ahead.

Sebastian Bray
Good afternoon and thank you for taking my question. I just have one. It's the development of the financial charges at Solvay to be expected for 2020, in particular two components. Is the working cost of borrowing in 2020 simply a matter of taking into account the tweaking and removal of a hybrid structure that has happened over the course of 2019? And the second bit, the cost of discounting provisions in Solvay was fairly high in 2019 at €105 million versus, I think, close to zero in 2018. Do you have any guidance on this? Is it simply a matter of deducting out $20-25 million on a run rate basis? Thank you.

Karim Hajjar
That's an interesting question. I don't think I'm in a position to answer expectation on discount rate. I think there's different ways of approaching it. But I will defer to you and other experts to say what could discount rate look like going forward. What I can do is confirm and give you more clarity on some of the elements you highlighted. In May 2019, we retired €700 million of hybrids. It was costing us 4%, no more. In September, we retired $800 million of US senior debt, replaced it with Eurobond of ten years at 0.5%. We're contrasting 3% coupon with 0.5% coupon. Both of those elements went up to drive the financial charges like for like by €20 million a year, in cash.

Sebastian Bray
That is helpful. Thank you.

Karim Hajjar
Thank you.

Operator
Thank you. We have a next question from Matthew Yates from Bank of America. Sir, please go ahead.

Matthew
Hey, it's actually Matthew from Bank of America. Can I just ask a question around the dividend please? And just can you update me on what exactly the policy towards distributions here? You had good cash flow, you are signalling, I think you said earlier in the call, €600 million of free cash expected in 2020. So, how do I reconcile that with a flat dividend? Is the focus of management very much on deleveraging at the moment?

Karim Hajjar
Matthew, it's a great question. I'll just take this question. Generally speaking, we have a progressive dividend policy which means that it is stable to growing. And typical, what you can expect from Solvay is that we will never cut our dividend. We will take a very robust view. And certainly, when we see earnings growth, of course we'll share it with our capital providers. That's what you can expect from Solvay. Now, why did we decrease it this year? Quite simply, look at 2019 results, they're stable to organically declining. Look at 2020, we expect the same thing. To our mind, really reassuring that we're going to generate the cash, the strong dividend cover, be on an earnings basis or a cash basis, is the priority. And that's what motivates our thinking. It's completely in line with our policy and cost practice.

Matthew
Understood. And then just as sort of an adjacent follow up, just around the portfolio. I guess it's been three months now since the strategy presentation. Has the thinking changed at all around monetising some of maybe the non-core assets within the portfolio?

Ilham Kadri
Well, thank you for the question. I mean, it's not a three months thinking, right. I guess we started the review in our strategy, the GROW strategy. And first of all I hope you all appreciate that we look now at our segmentation of businesses in a different way than in the past. Putting the right realistic objectives by cluster and aligning the strategy, the mandates, the compensation, the structure to deliver just that between the G, the R and the O (of GROW). So that was our number one thing.

The two obviously – I mean, as I said, there is no sacred cow at Solvay. Right? No sacred cow. We always ask ourselves if we are the right owner of any assets we have in the portfolio. I think that's a duty of the leadership of the CEO, the executive committee and will continue to do that. By the way, I remind you that we just closed the Polyamides divestiture end of January. I'm happy to claim it, actually, it started four and a half years ago, before me. It just went a long, long way, and I thank the team, by the way, who are listening to me, because it has been a ride. And we did that. And by the way, maybe there is another number. In the past five years, did you know that we have divested €5 billion enterprise value worth commoditized business? €5 billion enterprise value between the PVC, the Ecoservices, Polyamides…

Karim Hajjar
Ecoservices.

Ilham Kadri
Eco-services, Polyamides.

Karim Hajjar
Acetow.

Ilham Kadri
Acteow. So, you know, we are not shy. We are not shy to address, you know, the portfolios that fit with our strategy. And again, questions I always ask myself with my leadership: are we the best owners, is it the good time, the right time, is it the optimum time to extract value for the shareholders?

Matthew
Thank you both.

Operator
Thank you. We have a next question from Alex Stewart from Barclays. Sir, please go ahead.

Alex Stewart
Hi. Good afternoon. I wanted to ask a bit on the soda ash contract settlements because the Chinese spot soda ash price is as low as it has been for three years. Energy cost is going down, demand is not good in a lot of the biggest markets for soda ash. So, can you just talk us through maybe how you think the annual contract price is in Europe and North America settled after 2020? Be very useful and interesting to get your insights. Thank you.

Ilham Kadri
Thank you, Alex. Well, I wish I can tell you more but I cannot comment on specific customer contracts, right. But certainly, I invite you and I recommend IHS, which is a good reference from the industry, right. As I said, according to HIS, and we can share with you the data, I'm sure you have them, the annual contract, so an increase anywhere between around €5 a tonne in Europe and $1 and $2 in the US. While, indeed, you're right, there were prices increase and, you know, pressure in Middle East, Africa, Latin America and Asia due to increased availability of the product.

Now, on the coronavirus is another thing. Soda ash in China will be clearly impacted by the COVID-19 outbreak, but we have almost no business over there. Our business exposure to China is through the export of Chinese soda ash to the rest of the world. Is it good news or not? I don't want to answer to that debate. But since mid-2017, and under the combined effects of the increasingly stringent enforcements of the environmental regulation in China, Chinese exports have been decreasing in a way if you recall.

So, all in all, it's different year 2020. It's a very different year for soda ash than 2019. But we are confident that we can have a solid delivery, resilience in pricing, volume. And we have the mitigation plan already in place in 1st Jan in soda ash business and outside soda ash business to be able to deliver against our promise.

Alex Stewart
Okay. Thank you so much.

Operator
Thank you. We have a next question from Mutlu Gundogan from ABN AMRO. Sir, please go ahead.

Mutlu Gundogan
Yes, thank you for taking the question. A question on import costs. It seems that you had a tailwind of €48 million from lower raw material and energy prices. Can you tell us how you see this line developing in the coming quarters and how important is this driver in your outlook to mitigate the headwinds you are facing?

Karim Hajjar
Essentially, what we've done is taken these factors into our outlook, but I can't comment on any specific assumptions beyond that. And again, if you remember, a lot of our business is specialities, and we're not a cost-plus business, we're value-based pricing, and that's where we really try to raise the bar. Pricing is a key lever we're after.

Ilham Kadri
Yeah. And in the commodities, semi-commoditised business or less specialities, I would say, of course, we look always at our input costs, don't put me wrong. But you know, we look at supply demand, we look at pricing elasticity. And as I told you earlier, I like to look at pricing in any company because it's an opportunity, there are leakages. And if where we are a leader, we should be able to improve our margins. So, last year, you've seen us, we consistently deliver stable margins across the board, across the corporate at 23%. So, that's one of a key elements and key data points showing that we can manage input and output and we can continue delivering by focusing on value pricing wherever we can.

Jodi Allen
I think we have time for one more question. Next question please.

Operator
Yes, thank you. We have a next question from Markus Mayer from Baader Bank. Sir, please go ahead.

Markus Mayer
Yes, good afternoon Ilham and Karim. One question remaining. It's basically on your order book visibility, and this also linked how you see, basically – or how you assess if the economic environment would worsen with this, also your economic assumptions for your guidance would worsen. As you are in the middle of your cost-cutting programme, could you also then accelerate this to come to a guidance and also how you see your order book visibility in the different kind of business lens?

Ilham Kadri
The environment, I mean, I've seen different episodes in my life and my career of 30 years in the industry. Obviously, this is not the worst one at all. And frankly, it's as volatile as it can be. We've been extremely open and transparent whenever we have facts and we are building some credibility together with the managements team and I – we went to

you guys either with profits warnings, write-offs and also guidance which I'm very glad and happy that the team would deliver against I last year.

This year is just another year. And frankly, I feel comfortable and confident that we are ready. As I said, if it "rains cats and dogs", Solvay will be ready and that's important. And I think about Boeing, we talked about that. They talked about returning service mid-year. We took 200. To put it in perspective, it was 600 last year. So, we didn't take half of it, we took just one-third of it this year, right?

Coronavirus, we gave you a very clear indication in Q1, right. And beyond that, frankly, nobody knows, right? And I mean, if someone knows and, just call me. We don't know. So, our operations are up and running. Our employees are safe, and this is extremely important that we do that.

And then, the end markets, as Karim states, auto, you see the numbers in LMC are second-half weighted. We'll see the impacts from China, from the – I think it's going to impact a bit the global auto but, we believe that there will be a recovery. For Oil and Gas and Mining, the comparable to the second half of last year will be also easier as we go through the 2020, from H1 to H2.

And obviously, your question on cost reduction, yes. And we've done it last year. I mean, when we came in, I promised that we're going to accelerate the former cost saving programme, which we just did that. And now we have a new programme, but with respect to consultations, we need to go through our social consultations. We have a good history of good social dialogue and constructive one and we hope that as soon as we close that, we finish it, we can accelerate it to reach our run rate by end of 2021. Whatever we can accelerate, we will do so.

Jodi Allen

Thank you. That concludes today's call. But please, I invite you to reach out and contact anyone on the investor relations team if you have further questions. And we also look forward to continuing our dialogue as we will be out on the road in the coming weeks, so we might be able to see many of you. Thank you so much for your time.

Ilham Kadri

Thank you.

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.