Solvay Nine-Months 2020 Results

Operator
Ladies and gentlemen, welcome to Solvay's first Nine-Months 2020 Results conference call for analysts and investors. Jodi, the floor is yours.

Jodi Allen
Good afternoon and welcome to our third quarter 2020 earnings all. My name is Jodi Allen, Head of Investor Relations and I'm joined virtually by our CEO Ilham Kadri and our CFO, Karim Hajjar. Today's call is being recorded and will be made available for replay on the investor relation section of our website. I would like to remind all participants that the presentation includes forward-looking statements, which are subject to risk and uncertainties. You may refer to the slides related to today's broadcast, which are available on our website. With that, I'll turn the call over to Ilham.

Ilham Kadri
Thank, Jodi and hello everyone. I hope you and your families are staying healthy during these continuing challenging times. At Solvay, health, safety and security of employees remain our number one priority. As you know, the number of COVID cases particularly in Europe has been increasing in recent weeks. At Solvay today, we have 90 colleagues who are infected with COVID-19 and 18 employees in quarantine and we continue to take a disciplined approach to protect our employees.

We also maintained our disciplined approach across the business, prioritizing cash management and cost control again in the third quarter as we have done all over the year and I'm very pleased with the results of these efforts. We delivered again a strong free cash flow of EUR 801 million across nine months in 2020, a new record, and the sixth consecutive quarter of robust free cash flow. We have more than mitigated the effects of reduced profit in large part due to effective working capital practices and also due to deleveraging pension liabilities. Many of the improvements are structural in nature and will bear fruits in the years to come.

In addition, we've continued our focus on our self-help measures and have made significant progress executing on our cost savings programmes. As you know, we accelerated these efforts this year in light of the crisis. This enabled us to deliver EUR 260 million in savings in nine months of this year. Half of this amount, or EUR 130 million, is permanent structural savings.

Moving to the topline, sales in the third quarter were down 14% on an organic basis versus the third quarter 2019. Demand remained low throughout July and August and we saw improvements in September in a few select areas, which I will highlight when I comment on some key markets. Regionally, we continued to see modest growth in China up about 2% year to date. Other regions are still declining.

Moving to the markets, I will comment on a few key areas specific to third quarter trends. I'll begin with AERO. You are all aware of the significant reduction in build rates for civil aircrafts, which represents 7% of the group sales. We experienced a step down in our sales in the third quarter aligned with the lower build rates. Sales to composites were down by 44% reflecting the drop in civil production as the defence sector remained stable. And we are pleased with our contract extensions with Lockheed Martin and with Boeing that we recently announced. The business is doing a good job managing the situation and by the way, still making profit.

Moving to auto, as you know, multiple businesses supply products in the auto market and our technologies are used in many different applications. Overall, sales to auto across the Group were down by 20% in quarter three year on year but improved by 28% versus the second quarter. However, the dynamics across product lines differed from one end use to another. For example, our specialty polymers that replaced various metal parts in under-the-hood applications remained in low demand in July and August and in September, however, orders increased from the summer lows. Q3 sales to these applications were 15% lower year on year, so slightly better than the global markets and that end-use we believe is around -17. Yes, our solutions use especially for EV batteries showed significant improvements with sales up 35% sequentially versus the second quarter. In special chems, sales to auto also increased in September following very low July and August but still 20% below last year. And sequentially, sales improved by 17% versus quarter two. Whereas demand for silica used in tyres has consistently increased throughout the third quarter with sales up 48% versus quarter two.

So the phase of recovery in auto is quite different depending on the product line and application, though the pickup in momentum in September is encouraging.

Moving to our more resilient market, starting with healthcare: we have seen mid-single digit growth through the first-line month of the year, slightly better than the overall market. We sell, as you know, many different polymers into various medical applications, each showing stable demand.

One product that I would like to highlight here is PEEK or polyetherketone, which of course is used in healthcare, among other markets. And it's down only modestly year to date versus 2019 single digit numbers. And this is in large part due to extending our leadership positions in the various markets we serve. In fact, when you look at our sales of PEEK since January 2019 to quarter three 2020, our sales are up 40% in the 18 months period just in this product line thanks to the great value proposition and commercial effort.

Moving to home and personal care: here sales have been growing at a modest pace since last year consistent with the overall market. I want to point out that September has been a record sales month. Our team has been focused on introducing more bio friendly solutions to our customers in this space. And I mentioned to you last quarter that we had just launched a new blockbuster innovation which we call Actizone, a disinfectant technology that can protect surfaces from viruses and can kill up to 99.9% germs for up to 24 hours, much longer than any product on the market today. Our customers are thrilled and are taking great interest in the solution, the product with multiple qualifications underway.

Another resilient market I want to highlight today is electronics. This market is supported through various businesses, including specialty polymers and special chem. We continue to show modest growth into electronics in both businesses, driven by semiconductor. Growth in China is particularly strong thanks to our recent capacity increases in electronic grade H_2O_2 for semiconductors. We also see good demand in other electronic components, including smart devices and displays.

So to wrap up, we delivered an EBITDA of EUR 473 million in the quarter, which is up 7.7% versus quarter two and on a lower sales. And although we cannot defy the gravity of the lower demands, we have improved the quality of our earnings, demonstrating that our cost mitigation efforts are having a real impact. This together with sustained pricing has enabled us to preserve our industry-leading EBITDA margin of 22.5% in the quarter. I'll now turn it over to Karim to review the business results and financials. Karim.

Financials

Karim Hajjar

Thank you, Ilham. Good morning. Good afternoon everybody. I will start with an overview of the three business segments and as usual, I will refer to figures on an organic basis, meaning at constant scope and currency. Starting with materials, which you can see on slide number 6. Net sales in the nine months were down 15% driven by volume declines in several aero and auto markets. In the third quarter specifically, sales were down 23%. In composites, sales were down 44% in the third quarter, reflecting the significant reduction in aircraft build rates in the civil sector. As you know, we were very quick to adapt to market developments and we acted on reducing our manufacturing footprint. These actions are mitigating a good portion of the volume decline. In fact, and as you know we don't report EBITDA for individual businesses, pleased to confirm that the timely, the decisive cost reduction measures that we took ensures that the business remains profitable. We remain on track to complete the shutdown of the second site within the first quarter of 2021.

Specialty polymers, Ilham gave you an overview of market performance. Now although July and August demand levels were low, they did improve in September, most notably related to electric vehicle batteries. Our broad product offering and the diverse markets that we serve in this business underpinned our resilience during the quarter. Despite the reduced topline of 13.6%, fixed cost reduction and pricing helped to preserve EBITDA at a level slightly below that of Q3 2019.

Overall, materials delivered 131 million of EBITDA in the third quarter, 29% lower than the prior year due to the volume decline. The fixed cost takeout, however, helped to preserve EBITDA margins in the third quarter at 26.6% compared to 28.4% last year.

Moving to the chemicals segment shown on slide number 7, sales in nine months declined 10% year on year but in the third quarter increased 10% sequentially against Q2 2020. This was driven by the rebound in Silica and Coatis following the low points in Q2. Starting with soda ash, demand in the quarter remained stable in line with Q2 with a slight recovery in volumes in September but this really differed by region and by application. The seaborne market was the most impacted by volumes as competitive pressures intensified. Solvay chose to preserve pricing at the expense of some volumes, a strategy that has proven itself to generate value over time.

Looking at end markets, flat glass used in construction showed some improvements in the quarter but the growth was offset by decline in container glass used in restaurants and in hospitality as many countries again faced new lockdown measures. The business continues to deliver on its cost and on its cash targets. Peroxide sales were down 8% in the quarter as the demand for

HPPO increased following a weak Q2 whereas demand in the pulp and paper industry remains pretty soft. Pricing discipline supported by cost control led to solid profits in the quarter.

Our silica business shoed clear signs of recovery since the end of the second quarter and demand for tires remained steady throughout Q3 with Silica sales increasing by 48% in the quarter. A similar trend occurred in Coatis, with 29% sales increase in the third quarter compared to second quarter as demand for solvents using coatings and in other industrial applications rebounded.

EBITDA for the chemical segment was down on 10.4% in Q3 versus last year but up almost 10% sequentially against the second quarter due to the demand improvements I referenced in Silica and Coatis, as well as the accelerated cost measures across our business in that segment. This supported solid EBITDA margins of 27.7%, despite the lower volumes.

The Solutions segment: results are shown on slide number eight. Nine-month sales in the segment were down 10.7%, with third-quarter sales down 11%, again due to volumes. Novecare sales to the home and personal care markets, agro, coating markets continued to show their resilience, with solid growth across the third quarter. Oil and gas remains under significant pressure but has stabilized and the business continues to deliver strongly on its cost actions.

Special Chem sales began to see improvement in September across several markets, yet sales are down 16.5% versus last year in the quarter. Auto showed some signs of recovery late in the quarter but was still down 20%, whereas electronics remained resilient, with growth driven mainly by semiconductors.

In Technology Solutions, some of our key customers have been impacted by COVID and this has impacted demand in mining. Sales in the business were down 16.5% versus last year across copper and alumina customers. Aroma remained resilient, with a slight decline in sales in the third quarter; otherwise very much robust demand with natural vanillin absolutely continued.

Overall, the Solutions segment EBITDA was down 15.3% in the third quarter but up 7% sequentially. EBITDA margin for the segment was maintained at 18.4%, despite the strong fall in sales that I've referred to. And that reflects, quite simply, continued cost control across our businesses.

I will now turn to cash on slide nine. As Ilham remarked, our strong free cash flow performance continued into the third quarter, resulting in nine-month delivery of EUR 801 million, to record more than double that of the nine months of 2019. The improvement in performance can be summarised as follows. First and foremost, we took decisive steps to mitigate declining sales by adapting our investments, accelerating our cost reductions, strengthening our working capital discipline whilst also – and you've seen that now – improving – really working hard to improve the phasing of our cash generation.

Indeed, as we take a step back, you can see that our working capital to sales ratio has continued to improve and now stands at 15.4% compared to 16.7% a year ago. The structural improvement in working capital generated around EUR 140 million of one-time cash benefit this year, principally in relation to receivables and to payables. You remember also that we had one-time benefits of around EUR 90 million, mainly from tax effects related to pension contributions which we referred to in the first quarter of the year. More importantly, we now have substantially reduced our financial and pension cash costs, which already contributed an EUR 85 million improvement this year. In all, we have now made exceptional contributions of EUR 0.6 billion to our pension scheme since December last year and we have plans to do more. We've got plans to invest a further EUR 350 million in the next 18 months.

The combination of our actions and of our plans reduced our pension cash costs by EUR 100 million per year. These are highly value accretive, structural and sustainable into the mid-term. Also, financial charges continue to fall as we continue to delever and reduce the average cost of our debt. The combination of record cash generation, proceeds from the divestment of our polyamide business earlier in the year and despite our pension contributions, we managed to reduce our net debt by EUR 1.1 billion in the first nine months of this year.

The last topic that I will cover today is the progress on our cost savings, which now total EUR 260 million year to date, which more than offsets inflation of EUR 54 million in the first nine months. Of this amount, about half, or EUR 130 million, are structural savings which fall into the following three categories:

- restructuring, EUR 62 million of savings, a very significant contributor to our cost reduction. And as you can expect, this essentially comprises labour costs.
- We also saved EUR 51 million in relation to indirect spend as we drive, relentlessly, our improvement programmes. These savings result from many actions and often have standardisation at their core. For example, we are standardising our bulk packaging. We are recycling and reusing intermediate bulk containers, or IBCs for short. We're standardising the management of spare parts and the list continues.

- We've also – and that's the third key driver – continued to drive productivity efficiencies across our industrial sites and this includes things like yield improvements and here we've saved EUR 17 million in the nine months.

In parallel, we've continued to drive our temporary cost measures and we've delivered EUR 40 million in the quarter, EUR 130 million year to date. These savings comprise actions such as furloughs and discretionary spending as we continue to work in a virtual capacity and of course business travel costs have been dramatically cut, as you'd expect.

It is important to note that the structural cost savings in the quarter, at EUR 50 million, were higher than the EUR 40 million of temporary measures.

And with that, I'll hand you back to Ilham for her closing remarks.

Ilham Kadri

Thank you Karim. And I wrap up with a few remarks about ESG, a brief portfolio update and our outlook for the remainder of the year.

First, on ESG, some of you may have participated in our webinar, back in October 2, where we shared a bit more information on our Solvay One Planet sustainability objectives, launched earlier in the year. I'll share just two take-aways. We are taking our climate ambition one step further by committing to align our greenhouse gas emissions objective with the Science Based Targets initiative. We shared some recent innovations that not only align with sustainability but also with our growth objectives. Since I discussed Actizone earlier, I will briefly mention two others.

In response to a market need for the replacement of PFAS surfactants, we have developed a non-fluoro surfactant technology which we introduced to our customers in January this year and they are in the process of qualifying the technology. As you may know, we place a priority on the resources needed for this type of solution and it's an excellent example of how the right combination of innovation, industrial expertise and collaboration with our customers can unlock solutions.

We have also been working, for many years, on solutions for green hydrogen production and usage. We now see a significant market opportunity as part of the larger trend towards sustainable mobility and energy solutions, with a very ambitious hydrogen roadmap being adopted in many regions.

Production of green hydrogen via water electrolysis is expected to reach more than 100 gigawatts of global capacity by 2030, while the global fleet of fuel cell electric vehicles, ranging from large passenger cars to heavy duty commercial vehicles, trucks and buses is forecasted to reach several million vehicles by 2030.

Our Aquivion ion-conducting polymers are at the heart of key hydrogen technologies, such as proton exchange membrane electrolysers and fuel cells, serving both as functional materials in the membrane itself and in the electrodes.

Our technology has demonstrated its value proposition. With potential customers, we have multiple qualifications underway, with sizeable sales potential in the next few years. In fact, Solvay has a range of technologies within our Materials segment to address the needs of these markets. Our objective is to be a leading materials solutions provider for the emerging needs of the hydrogen economy, contributing together with our battery solutions to achieve the Paris Agreement climate targets. Therefore, we will create a hydrogen platform at the group level in order to share resources and expertise to better serve customers in these markets.

As you can see, we are very excited about our innovations and hopefully you can see that our sustainability initiatives are already a key part of our business strategy. In fact, future ESG updates will be integrated into our annual reporting and our strategic reviews.

Moving to the portfolio, as you know, improving businesses takes time and we spent the past year optimising many assets before we considered any divestments. We also indicated, in July, that we began the process of exploring options to sell certain business lines. Since then, we have signed agreements to sell our interest in a few business lines, including certain fluorine chemicals and our site in Korea, part of Special Chem; the process materials product line, part of Composites and the sodium chloride business line and related assets in Portugal, part of peroxides.

You will understand that the completion of transactions will be subject to prior consultation with employee representatives and/or approval by the relevant regulatory authorities in each jurisdiction. The enterprise value of these divestments would be about EUR 100 million, equivalent to an average high-single-digit EBITDA multiple. We have also entered into a sales process for our barium and strontium commodity business line within Special Chem and our European sodium percarbonate business within Peroxides.

Altogether, these five business lines represent total sales of around EUR 250 million. Looking ahead, we are exploring strategic options in relation to other businesses, including the commodity amphoteric surfactants and the oil and gas business line, both part of the Solutions segment, which represent a combined total sale of around EUR 400 million.

These developments are in line with the growth strategy to simplify the portfolio and to maximise value creation. Further, we are also exploring the merits of organising certain activities into separate and fully-controlled legal structures in order to increase strategic portfolio flexibility and this is the beginning of the journey and we will share more with you along the way.

Moving to our outlook for the year 2020. On EBITDA, please be aware it's still an uncertain environment, especially with the rise in COVID cases in many parts of the world and we have not taken into account a second wave. Let me share our assumptions:

- First, October sales are similar to September, indicating the improving trend in certain markets. We estimate a slower December, as customers are likely to lower their own inventory levels at year end, not too unlike normal year-end periods, by the way.
- Second, our Composites business will remain challenged in the fourth quarter, before we see the full benefit of their cost actions in 2021. And we still expect earnings in quarter four in positive territory.
- Third, as a reminder, we expect to fully deliver on our previous cost guidance of EUR 300 million for the year, with a particular focus on the structural actions. These assumptions lead us to an estimated full-year underlying EBITDA in a range between EUR 1,890–1,970 million, or down between 16% and 13% on an organic basis for the full year.
- Finally, on cash, we expect full-year free cash flow to be around EUR 900 million, which represents a 50% improvement versus 2019.

To conclude, we have managed very well through this crisis, delivering consistently strong free cash flow and improving our operating leverage through our [inaudible] and accelerated cost actions. This demonstrates our ability to mobilise our organisation and I'd like to thank all of our employees for this delivery and for their continuous engagement, throughout this crisis of a lifetime. It is truly a global collaboration across all teams that has enabled this achievement. I also want to take a moment to thank our shareholders that have generously contributed to the Solvay solidarity fund, which has reached EUR 12 million. We sincerely appreciate your contributions on behalf of our employees and consider this to be a concrete example of truly responsible capitalism.

Thank you very much and we'll now take your questions.

Operator

Thank you. Ladies and gentlemen, if you wish to ask a question, you have to press 01 on your telephone keypad, it's zero and one on the telephone keypad. After you are announced, please ask your question. Once again, zero and one on your telephone keypad.

We have a first question from Mubasher Chaudhry from Citi. Please go ahead.

Mubasher Chaudhry

Hi, thank you for taking my questions, hi Ilham, hi Karim. Just two please. Can you provide some timelines around the execution of these disposals that you're talking about today? And linked to the proceeds and given the strong cash generation of the business, are you looking to invest this back into the business through CAPEX, given the low level of CAPEX in 2020, or do you expect to put it towards a further deleveraging of the business? Just some thoughts around capital allocation would be helpful.

And then, secondly, you've made good headway on the cost-cutting plan; I think only EUR 40 million is left over for the fourth quarter. And similarly, on free cash flow guidance, it leaves only EUR 100 million to be achieved in the fourth quarter. Can you just provide some comments around the conservatism around these guidance levels and if there are more chances to the upside on both of these metrics? Thank you.

Ilham Kadri

Yeah, thank you Mubasher. I may start with the portfolio and Karim, you pick up the financials.

Karim Hajjar

Sure, I can pick through the rest, yeah.

Ilham Kadri

Well, listen, Mubasher, I think, since I joined the company, I told you and we, you know, explicitly said it during the growth strategy publication, that we plan to simplify our portfolio. And not only we look at our industrial footprint, we focus on the lower-returns assets, with the desire to improve our cash and returns. We obviously now align also with our Solvay One Planet environmental goals. And you know, much progress has been made operationally in relation to free cash flow generation. I mean it was a bit a nail in the shoe of Solvay when I joined the company and you know, I listened to many of you that all wanted better free cash flow generation and better phasing and quality phasing of it. We are getting there.

And while it's getting stronger and it's more consistent across our businesses, this enables us to be less reliant on some laggards, you know, lower-return businesses or even cash cows. So what we announce, Mubasher, is that we are now reaching an agreement, today, on three areas and the multiples are really good, are high single digit. They are small businesses and we are completing it. It's a matter of weeks, with respect to consultations, obviously. And we are entering into a sales process for two other businesses, namely the barium and strontium commodity business in Special Chem and the sodium percarbonate business, part of peroxide and all of those five businesses, they represent, more or less, EUR 250 million of sales.

And further, we are also announcing that we are exploring strategic options in relation to commodity amphoteric surfactants. That's a product line which is part of Novecare. And obviously the oil and gas, which, as you know, has been a really depressed market since I joined the company. We've done the write-off last year, we have been restructuring this business. In Q1, actually, we completed the turnaround. The market is the market and we are now exploring strategic options and we'll share with you the progress in the coming, quarters. And the amount of those two last businesses represent, more or less, EUR 450 million.

So, listen, you know, we take our time. I mean, we want to create value, there is no rush. We improve the assets when we can while being, you know, more or less a bit patient. And when we believe we are not the right owners, we enter into strategic conversations. And the good news is that during this crisis, there are also opportunities in the M&A sector as well. Karim, you would like to take up the other point?

Karim Hajjar

Let me take up maybe, Mubasher, some of your other questions, and they're very important obviously. Let me start with maybe – you talked about costs. We gave an indication that we expected to deliver EUR 300 million this. Clearly, you see we delivered EUR 260 million so, yes, mechanically it doesn't take much to be confident we will deliver more than the EUR 300 million. And we factored that into our outlook, that's one.

So far as proceeds are concerned, a couple of questions: what will we do with the cash, are we going to all of a sudden start to invest more? What I can say is this. We will give you more clarity for next year, but at this point in time we will maintain our discipline in terms of capex and working capital management. But we do expect to continue to invest to enable us to support the needs of our customers as they rebound. In fact, we've already started it – started to do that. Strategically, we gave an indication that to maintain our growth trajectory requires a reinvestment of the order of one to one versus depreciation. I'm not going to say we'll get there next year, but you can expect us to continue to evolve in that direction over time.

Specifically, the proceeds we'll get, well, we've talked about EUR 100 million of enterprise value, the operation cash flow is very strong. You'll have noticed I mentioned that we're going to put EUR 350 million more cash towards our pension schemes, which will generate a lot of value. So, it's fair to assume that whilst we won't be shy to invest for growth, while we're very clear that the value's there, but deleveraging is part of the agenda. That's really the key point there.

Now, you also said something around the fourth quarter only being EUR 100 million, so I'll give a bit of colour on that. First and foremost, I'll remind you what I said, which is within the EUR 800 million we've delivered so far this year, there's a couple of EUR 100 million – just over EUR 200 million– that were one-off in nature, related to the tax deductions or to the structural improvements in working capital, which you can't repeat year in, year out. Nevertheless, they're there – high quality. We've improved the phasing. We generate more cash now consistently every quarter, and you've seen that throughout the last six quarters now.

One of the impacts of the COVID pandemic is that the normal seasonal variations we've been accustomed to are becoming less pronounced, and we also expect to build some inventories in the fourth quarter to support the resumption of activity of certain customers in very targeted markets, for example, mainly Specialty Polymers.

And finally, I want to highlight restructuring cash costs. Our restructuring cash costs so far this year is about EUR 67 million. That's in the first nine months. Historically, in the last two years, we were at EUR 62 million or EUR 63 million, so we've already spent more in the first nine months than we have done annually. And I expect that run rate to continue to grow. Okay? I expect us to be around EUR 100 million for the full year, so Q4, we'll see more cash. So, this is really the main dynamic. So, I would – I'm not going to say it's cautious. It's a strong performance if we deliver at EUR 100 million, which is very much what we're targeting and indicating to you.

Mubasher Chaudry -
Thank you very much – very clear.

Karim Hajjar
Thank you.

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

Chetan Udeshi
Thanks for taking questions. First I just wanted to clarify because there was a lot of numbers thrown out on asset sales, and I'm not sure I got all of them. So, can you maybe help us clarify what is the EUR 100 million EV associated with? Is it for the entire EUR 250 million sale that have been landed or agreed already? So, that would be the first question.

The second question: I was just looking on the sequential progression on gross margin, I mean, you know, it feels like that the sales are slightly down quarter on quarter, but the gross margin has gone up significantly from, you know, like 23% last quarter to 26%. So, can you maybe help us understand what is driving that significant increase in gross margins sequentially?

And the last question would be given the strong free cash flow performance this year, some of that may be temporary, do you feel you can do more than 30% cash conversion now already from next year onwards rather than from 2024, which was the original target? Thank you.

Ilham Kadri
Thank you, Chetan. I may take question one and two, and Karim – I didn't get the question on which portfolio product line.

Karim Hajjar
The first question's on the EUR 100 million

Ilham Kadri
No, no, I know. The second one on the product line?

Karim Hajjar
The sequential progression of our gross margin was the question.

Ilham Kadri
Yeah, okay. So, I'll leave it to you. So, here, Chetan, on the portfolio, the EUR 100 million EV is on the three agreements we are, you know, just closing. Right? So, that's on the three businesses, namely the sodium chlorate in Portugal, the Korean business with Fluorine Chemicals and the process materials in France, part of composites. Right? And this is about, you know, high single digits. I hope it's clear now.

And what I was saying is that there are two other businesses coming in, into – we are entering into a sales process. Right? And that's our commodity business, the barium strontium business and the percarbonate busines. I hope it's clear.

Chetan Udeshi
Yeah, that's clear now. Thank you.

Ilham Kadri
Karim?

Karim Hajjar
Yeah. Fundamentally, what we're saying on the sequential progression gross margin, you're right, essentially what we're seeing is continuing strong pricing power. That's one of the main factors, and there's less destocking. These are main drivers for that sequential improvement you're correct in highlighting.

On the cash flow, we'll tell you a bit more early next year what we expect. But absolutely what I can confirm is that the 30% – we have a very clear line of sight towards getting there – much depends on the pace of the rebound we might anticipate for next year. Because as you know, in the same way on the way down to falling sales, our working capital shrinks. As it grows, we'll keep the discipline, you know, absolutely there, but we'll invest to support the growth. So, I'm not going to pronounce myself at this stage that 30% is achievable next year. What I can say is that we're going to get to that 30% sooner than the five-year roadmap we'd indicated a year ago because of all the actions we're taking.

Chetan Udeshi
Thank you.

Karim Hajjar
Does that make sense?

Chetan Udeshi
Yeah.

Karim Hajjar
Thank you. Okay, the next question?

Operator
The next question from Alex Stewart from Barclays. Please go ahead.

Alex Stewart
Hi, there. Good afternoon. Hopefully, three quick questions. You talked about composites still being in positive earnings territory. I think that's what your comment was. Can you just confirm that you're talking about EBITDA there?

And then secondly, the EUR 450 million revenue chunk of disposals, so the other – the last two businesses, can you give some sense of what the margin might be for those assets? Whether it's making money or losing money would be really useful.

And then finally, could I just check, Karim, that you said that there was EUR 140 million structural net working capital inflow this year that won't recur next year? Did I get that right?

Karim Hajjar
Yes, thank you for that. Maybe some of the first question on composites?

Ilham Kadri
Yeah. On composites, yeah, indeed we were talking about EBITDA. Right?

Karim Hajjar
Correct.

Ilham Kadri
Positive EBITDA and obviously positive cash. And I commend the work done by our teams. I mean we have taken – as you know, decisive actions since the beginning the year. And actually last year, we have been preparing with 737 MAX crisis and all of this, to really engage into this year. And more than just restructuring, we have been actually restructuring on people, on headcount, but also restructuring our industrial footprint. As you know, we have already closed one site, Manchester, in the UK in June, and the second site, Tulsa, will be closed in Q1 in the US without losing any volumes, the qualifications of product is underway. And yeah, with that we are removing the lowest return on capital employed assets we have in the composites industrial footprint, so I really commend the work done. And the renewal of our contract with Lockheed Martin and Boeing is testimonial that we are considered as a strong player in that segment, not to talk about again the defence business, which has been extremely resilient if not growing.

Karim Hajjar
Your second question on the front of 50 million, I wasn't too clear on what you're looking to understand. Alex, can you just maybe reframe it?

Alex Stewart
Yeah. Sorry. The last two businesses, EUR 450 million revenue, can you give us some indication of what the profitability of that revenue is, whether it's making – earnings contribution useful?

Karim Hajjar
Maybe I start [inaudible] oil and gas clearly is not profitable because situation going through. And that's the biggest part of it. What I can say, is both those businesses, in fact, even the other three we've already signed agreements for deliver results into the profits, cash and returns, they are significantly below the group average. And that's the thing to note maybe.

Ilham Kadri
And again, Alex, obviously there are times where it's good to sell and there are times where it's good to wait. And we know that Solvay is known in the market to have the high-quality assets. And when I say strategic options doesn't mean automatically divestiture, it can take different – there are different options, right? So, we are ready and we'll see if we can get the type of valuation and multiples we deserve. We'll listen and we'll engage. If not, we'll be patient because we are improving those businesses as we speak.

Alex Stewart
So, you said they're clearly not profitable or you said they were clearly profitable, the oil and gas?

Karim Hajjar
We haven't commented specifically. What we're saying is they are less profitable than the group.

Ilham Kadri
Yeah, definitely.

Karim Hajjar
Your final question is around the 140 million working capital one time. Let me give you some colour what exactly what I mean by that. There are three components. One are receivables. We're serving over 11,000 customers. We manage our day sales outstanding, our credit risk profile very, very attentively. But most importantly, where teams are being focused is really making sure we hold people to the terms we've agreed, so really manage and reduce overdues. And we've set a new internal record. Our overdues are 2-3% better than we've had historically. That alone is worth 60 million out of that 140 – 65 to be more precise. We've been negotiating for the past – well, we have a programme to negotiate for the past 15 months with our suppliers. Our DPOs base payable outstanding on average is 4 days better today than it was before. That's worth another 45 million.

Our days of sales outstanding and stock, our inventory metric let's say is improved by two days compared to last year, that's another 30 million. These type of improvements, you can't continue to repeat, there's a limit. And these are already at very, very high-performance levels. It doesn't mean you're not going to continue to look, but the real goal now is to ensure that as we rebound, we hold on to that. But that's where the 140 million comes from. I wish I could say we can repeat it every quarter every year, but that's obviously not realistic.

Alex Stewart
That's really helpful. Thank you.

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

Andreas Heine
Thank you for giving me the opportunity to ask questions. The first is on a specialty polymers, which was sequentially down in sales. Maybe you can elucidate a little bit more to this. It might be that you are lagging in the automotive industry and that you see the rebound in the automotive industry in Q4. But I would like to understand more the same thing which is a little bit different to what we see from other players.

Second question, you mentioned that half of the cost savings are temporary, but maybe not all of them are really coming back. Maybe you can elucidate what you expect of these savings to stay in 2021, even if you have classified them as temporary.

Third, I appreciate that you would like to substitute coal. As far as I know, that's mainly used in the energy you need for soda ash. Now, you obviously use coal because it's the cheapest way. Have you done any analysis how costly will be to change this and whether you have enough reserves at the different locations that you produce this?

And lastly, on Novecare, if oil and gas is taken out and we look on the business and it is around 1 to 1.1 billion, if I did my calculation right, is that still enough as critical mass for this effective business?

Ilham Kadri

Okay. So let me take – remind me with the question. I will take the specialty polymer one. You've seen specialty polymer sales were down 13.6% in the third quarter with growth in healthcare and electronics, partly offset the demand in automotive and other industrial markets. And actually the automotive sales were down 20% versus Q3, but flat if you compare it to Q2, thanks to the growth in EV batteries as I mentioned. So there we see actually an improvement. Specialty polymer is over-performing its market year to date. We consider minus 15% in its market. So we over-performed, we consider its market to be declining by minus 20% year to date. And why it's important to look at it year to date than just the quarter is because there is stock in the value chain, and there may be things struggling between one quarter or another. And we are seeing a phased recovery per region as well, China and APAC leading, right? So that's for specialty polymer. I remind you, this is a business with a strong value proposition on replacing metal, on lightweighting and electrification. So more we penetrate into a vehicle and automobile, cleaner is mobility because it's consumed less fuel and therefore emits less CO2. Also, the growth of EV is real. And this is going to just go higher and higher. And we are preparing for further capacity extension in discussions with our customers, be it in Asia Pacific or in Europe, who is claiming to localize the value chain in EV batteries. Karim?

Karim Hajjar

I think your second question is around your temporary costs. And it's a very good question that you ask. Now some measures like furloughs, etc., of course, they're not a normal, sustainable part of doing business. So now, those costs will come back. However, if you're trying to get a handle on what can you expect from us going forward, maybe a couple of points I'll make. One is we will not stop looking at cost reduction. Secondly, all the structural cost reductions we've been delivering this year, we're going to get the full year impact next year as well. So expect us to continue to drive the cost agenda very hard next year. As Ilham you recall, maybe last year we talked early in Q2, I think we were putting in phase zero based budgeting. So we were taking a number of steps to further reinforce, maybe, say, definitely raise the bar because really [inaudible], but maybe Ilham can say more.

Ilham Kadri

Yeah, no, I mean, you've seen that our cost saving and focus, rigorous focus on costs and cash is real in this company. And we delivered EUR 260 million year to date half structure and half non-structural. By the way, this is the first quarter where the structural savings are overtaking the non-structured. And with our teams, we knew that the temporary cost savings are going to decline at one point of time and that we need to make the temporary to become structural. And that's why we had initiatives. We call it the growth-based budgets. We are unveiling ways. We are looking at how to run leaner, do more with less, be it in our activities, be it in delayering, reorganizing the company, be it in smart spending and smart purchasing. And all of this, like we told you during the GROW strategy, is an important component is our long-term cost savings where we are already delivering a big parts of our 410 of commitment of ten years – of five years, sorry.

Karim Hajjar

Maybe I'll take your question on Novecare. I mean, if you just by separating out the oil and gas business, we're not really impacting the critical mass because we've adapted our business in any case to enable us to do this. So there's no real question for us in terms of sustainability, critical mass. We still have a very, very good surfactant business for home and personal care.

Ilham Kadri

Yeah. And home and personal care, I mean, that was my personal wow during this crisis. You know that during crisis you unveil inefficiencies in any organization. And second, you really stress test the industries you search and the businesses. And here, what we've seen is that the home and personal care and the formulation businesses part of Novecare outside oil and gas are really resilient, right? These formulations for home and personal care for agro feed and somewhat coating and home and personal care, we are so excited that we have accelerated our innovation with Actizone. And that's the blockbuster we are launching. Kills 99.9% germs last 24 hours. It's something the FMCG companies and big brands you know are as we speak accelerating quantification and the launch. So we're very excited with our position and the quality of this business.

I think you talked about coal as well. And I was not sure about the question. Sorry. The line was not good then, but – yeah, please if you can.

Andreas Haindl
I think the coal is predominantly used in the energy content you need for the soda ash production. And you obviously have used it in that side because it's the cheapest source. So how is the transition time-wise and what does it mean on the cross space for the soda ash?

Ilham Kadri
Yeah, it's a great question. Actually is the first primary energy we used 168 years ago when we started this company. So moving away from coal as you can imagine is a big deal, and we are doing it because Solvay is transforming and raising the bar in term of sustainability. And Solvay One Planet calls us as we are aiming to join the Paris agreements and follow the science-based targets to actually abandon coal. So obviously we can do it whenever there is an alternative renewable energy in the country we produce. That's number one.

For you, question number two, we are not starting from scratch. So last year, just last year, when I joined the company, we had two plants actually migrating from coal to biomass: Bernberg and Reinhberg in Germany actually, where the economics are favourable, actually. So we merged to renewable – recyclable actually will actually is waste, is wood waste, etc. And we've built an ecosystem around these plants, which makes it actually more profitable than with coal. And as we speak, obviously we are also negotiating, for example, Dombasle in France and other areas around the world. And we give ourselves ten years, right, to compete our roadmap, by the way, which is already laid out as part of the Solvay One Planet strategy by 2030 and even beyond. Thank you for the question.

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

Speaker
Yes, sir. Good afternoon, everyone. I have three and one small question if I may. The first question is on cost savings, clearly, you're ahead of schedule. And you did in terms of structural savings, you did 130 million in the first nine months, targeting 150. I think you did 50 in Q3, so that means you only got left 20 million. I mean, is that realistic? Are you going to do 20 or should we expect a higher number? That's the first question.

Then the second question is on the outlook. Your guidance has a wide range. If you solely look at Q4, it's somewhere between 410 and 490. Can you tell us in which scenario you meet the low or the high end of the range, if that's solely stopping in December?

A third question is on divestments. Thank you for giving some numbers on potential divestments that will come. I mean, how should we think about your M&A or divestment strategy after these five businesses, would you continue to shed businesses or perhaps look at larger businesses that don't fit into your portfolio?

And then the final question on green hydrogen, can you put some numbers on that? So what kind of sales or EBITDA could we think about in, let's say, five years' time or so? Thank you.

Ilham Kadri
Thank you. That's four questions. So let Karim start with one and then I do two, three, four.

Karim Hajjar
So, on cost savings. No, it's not going to be 20 million in the fourth quarter. We did 50 in the third quarter. That's a good, a better indication. And that's what I said earlier to an earlier question that I expect our cost savings to exceed the 300 million we indicated. But we haven't given you a specific update, but we certainly have integrated that in our outlook guidance that we've given. Ilham, shall I – do you want to talk about the outlook?

Ilham Kadri
Yeah, the second question was about the guidance, right? And I agree with you, this range is wider than usual, but we wanted to share with you our views and it reflects the increased volatility in order book levels. So you know us by now, we want to deliver against any promise and we've seen volatility in order book, right, including in Q3. So, we've seen improving trends in late Q3. Actually, September was minus 10. And to give you an idea, September was the best month since the beginning of the crisis. And to give you perspective without Composite material, which has been hard with more than 40% decline top line in quarter three, without Composite material in Novecare oil and gas, the decline in September was 3%. So we really saw an improvement in September. And October sales are down around 10%, right, as October is almost closed.

For November it's too early to tell. And let's keep aside the second wave impacts. We have factors in the same here in our range. The trend in December is consistent with usually year and seasonal pattern in this company. Nonetheless, we may face higher variation in stocking and de-stocking pattern in different end markets. Silica, for example, for tyres, as soon as people start driving, they will change their tyres because of seasonal requests, right, and demand versus auto OEM, which may actually have a challenge from sickness, absenteeism, presenteeism, and lockdown in different nations.

And the bigger question between you and me is how deep and long the second COVID wave will influence demand in markets such as auto, building and construction. And we have not yet made any allowance on this eventuality yet. But this is why we have forecasted the range for the full year as uncertainties remain. Having said that, you've seen us delivering six quarters in a row. So free cash flow is going to happen as guided. And second, our cost savings, definitely we are trending into the upper level and we'll continue converting our temporary cost savings into structural.

There was a question about divestiture.

Karim Hajjar
The strategy, what's next. I think more than the specifics.

Ilham Kadri
I say that since I joined the company and I hope you see now that we are serious about that. There is no sacred cow in the company. We evaluate any assets we have. We have, again, high quality assets. And much progress has been done operationally. First of all, I hope that you all notice that the GROW strategy, the GR & O were very, very simple ways into managing businesses, according to their potential and their performances and resumes so far. And obviously the solution pillar has to increase and improve its return, which we've been doing is doing including pruning the portfolio where needed. The R is about increasing cash and delivering more cash. That's our cash cow. And the G, although it's separate in these days because of the COVID-19 and this distress in transportation, we know that sooner or later, all the value proposition and the secular trend around lightweight electrification, digitalization, healthcare are real, are big, and we can win.

And as I said, we are making operationally improvements in free cash flow generation, which is getting stronger and stronger and more consistent across all businesses. This will enable us less reliance on some cash cows as well. So we will create more flexibility to prune our portfolio going forward.

There was a question I believe on hydrogen, right? So to give you an idea, I think we believe at Solvay that the EV battery and green hydrogen technologies will co-exist to make vehicles truly sustainable in the future towards cleaner mobility. I'm very excited with this development. I mean, since I joined the company, we already launched the EV battery, the TPC, both of them represent EUR 0.5 billion opportunity for our company. And we are best in class in the best position to deliver the best solution to the market on both EV and thermoplastic composites.

But as all you know, lithium ion batteries have emerged as the preferred solution to make the automotive sector more sustainable. We are embarking, we even have now exciting EV battery consortium with Veolia in recycling, but it's not enough. And to get into decarbonisation to make transportation truly sustainable, and that's why hydrogen has its own chance and play. And this will be one of the most competitive, low carbon solutions for transportation. It goes from forklifts for long distances to batteries, to cars, to tracks, to regional trains and even airplanes. You may have seen the note or the news from Airbus on hydrogen airplane by 2034.

The market opportunity we believe is big. We know that the global hydrogen generation market size is around 117 billion, and today still from the grey origin. So, without giving you the soup of colours now, from grey to green, not to talk about the blue in the middle, we know that there is an opportunity, the CAGR between 19 and 27 is high single digits, and hydrogen in mobility will be even higher. And the EU is investing the green deal. Lots of money is going to go – gigawatts is going to go to hydrogen. And we believe that 2030, our potential, addressable potential, I'm not saying it's accessible, will be about EUR 3 billion between green hydrogen and fuel sale.

And it's exciting for us. We are launching today an ion conducting polymers technology solutions to support this green hydrogen economy. It's key to winning photon exchange electrolysers and fuel cells markets. And we have been relocating resources in the past 12 months to be ready for large commercial programme with our customers. And as we speak, we are qualifying some of these innovations and sooner you will hear more from us about our investments.

Karim Hajjar
We probably have time for one last question. And clearly the investor relations team will remain at your disposal. Thank you.

Operator
The last question from Wim Hoste from KBC Securities. Please go ahead.

Wim Hoste
Yes. Good afternoon. I actually have three. I hope you excuse me for asking them all. The first question is on composites. Revenue was down 44% and I was trying to get a feel to what extent that might have been impacted by destocking and how you see the underlying trends kind of developing now that there seems to be also some progress with regards to the 737 MAX. So that's kind of the first question.

The second one is on the outlook for soda ash. There has been some volatility in the Chinese market. I know you're pretty shielded from that, but with demands relatively weak at the moment, how confident are you entering into discussions for the 2021 pricing ? Could you maybe comment on that?

And then a third question, a bit more housekeeping, is on the corporate line. You posted it really [inaudible] EBITDA level minus 31 million in the quarter. And I was just trying to get a feel to what extent are your savings initiatives structurally low in this line or improving this line, if you will, and can you kind of offer some guidance on that line going forward either quarterly or on a full year basis? Thank you.

Ilham Kadri
Okay. I'll start with the composites, Karim, and maybe just for soda ash, and you can finish with the housekeeping. Listen on composite. Yeah, as you know, we don't defy gravity. Yes, only 7% of our total sales of the group is aviation. Obviously, this is depressed and more than 44% actually of composite material sales were down in the third quarter.

Having said that, you can probably benchmark our performance against peers. The team has done a fabulous job into quickly and decisively act. And this is the results of the past 12 months actions. Not only we had a good value creation plan in this business, we knew which plants are the least efficient. That map was already part of the growth strategy. And when the crisis hits us, we were ready to really know where we need to restructure the footprint, the industrial one. And that's what we've done.

On stocking, I think you mentioned that indeed 737 is in the minds. It has been stopped flying and the EU regulator mentioned that it will grant back authorisation as soon as the US FAA does, keep in mind that there is a backlog, right, of airplanes in inventory, more than 400. And even more of this large – in the value chain which – it will take time to deplete. That's the thing. Boeing has indicated, for example, that they plan to scale up to 31 per month by 2022. So again, it will take some time for us to see that benefit.

Having said that, we are a leader there in resin infusion. The variabilization of our costs and the variabilization of raw material, like carbon fibres, as we speak, is really a strength of ours. And we are, as we speak, and you've seen it Lockheed Martin and Boeing renewal as testimonial that these large clients they see us as an important player in the future. Having said that, aeronautics will have an L-shaped recovery as you know.

On soda ash, you say this, I think, we've experienced resilience pricing in EU and the US this year. We have defended our pricing, I should say. And that's what you can expect from leaders. There was a price pressure in Asia beginning of the year, even if the Chinese pricing were rising since summer time. And those prices, by the way, were unsustainable, right, economically and put in danger of some of the exporters from the US. But China remains small exporters, they do it very opportunistically. And this will only slightly benefit the seaborne market short-term because even if Chinese producers export, it's less than one million tonne, and usually, they do not significantly impact the rest of the world.

So however, I mean, having said that, we are, as we speak, negotiating next year volumes and pricing. It all depends on supply-demand. And we will see if the demand recovers in 2021 in building construction, in glazing, in bottling, glass containers. So as we are now facing a second confinement, specifically in Europe and post the elections in the US, we are observing how those mature economies are going to really develop in term of supply-demand. But we've seen in Chinese glass production, for example, and consumption is doing well so far, good sign of economies trends. Soda ash inventories are moving up again since three weeks due to more production in China. So let's see if there is some stabilisation in the seaborne while Europe and North America we continue to close our contract yearly negotiation with our customers. And we will tell you more when we close the year in February.

And there was another question, housekeeping.

Karim Hajjar

Yeah. Corporate costs. So I think what, it's a very good spot. We've got, we spent EUR 140 million in our corporate line in first nine months. Your question is really, I think, more looking for – now this year, we clearly have the benefit of some of the temporary cost measures, as well as the structural. Things when you have closed offices, you're not traveling as much, etc. We've also had the benefit this year of no insurance claims on our self-insurance policy. So that has had to flatter.

As I look forward, you recall, probably a couple of years ago, I would have indicated that the corporate line is of the order of 200 to 225. You can expect us to be a good 10-15% below that level on a sustainable basis going forward because of the structural programmes we're driving, which is heading everywhere across Solvay, including the corporate.

Jodi Allen

Thank you all. I think we've run out of time. But I want to thank you for your participation today. And certainly if you have additional questions, the whole investor relations team is available to speak with you after this call. 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 your lines.