



Progress beyond

## Solvay Full Year 2020 Results - 24.02.2021

### Operator

Ladies and gentlemen, welcome to Solvay 2020 Results conference call for analysts and investors. Solvay team, the floor is yours.

### Jodi Allen

Good afternoon and welcome to our Fourth Quarter 2020 Earnings Call. My name is Jodi Allen, I'm the Head of Investor Relations and I'm joined virtually today 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 relations section of our website. I would like to remind all participants that this presentation includes forward-looking statements which are subject to risks 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 you, Jodi and hello everyone. I hope you are all staying healthy in this continuing challenging environment. As you know, health, safety and security of our employees remain our number one priority. And consistent with our desire to keep our people safe, we continue to have 10,000 people working remotely, maintaining the safety measures that we put in place nearly one year ago. Let me give you a brief update on our Covid status. Today we have 78 colleagues who are infected with Covid-19, about 40% down versus last month, and 88 employees in quarantine. And we wish them all a prompt recovery. And while I'm on the subject of safety, I am pleased to share that we concluded 2020 with no fatality and no irreversible injuries. This marks three consecutive years without a fatality; something extremely important to us.

Moving to the full year results, the crisis presented some challenging headwinds this past year. Yet our portfolio was fairly resilient with sales down by 10% on an organic basis for the full year. If you exclude our most challenged markets of Civil Aerospace and Oil & Gas, sales were down by 5% for the year, thanks to resilient markets including Healthcare, Home & Personal Care, Consumer Goods and Agro. We've provided a view of our key markets and recent trends on slide four, and Karim will share more colour when he reviews business performance.

In the fourth quarter, sales improved in a number of key markets, driven by strong demand in Auto and Electronics, driving Group sales up by 5% sequentially versus the third quarter. Regionally, fourth quarter sales in China were up by 5%, while Europe was down by 2% and the US down by 10% year-on-year. I'm truly proud of our teams because they stayed the course in the face of the challenge in macro and maintained an unrelenting focus on the areas within our control including costs, cash and of course our customers. In each of these areas, we can recognise great results today.

On cost we delivered €330 million of savings in 2020. Of this amount €175 million were structural savings, of which €156 million are fixed costs. That's more than half of the original mid-term commitment we made weeks before the crisis began. You may remember 15 short months ago we committed to €300 million cost reduction. We raised that to €410 million in

mid-2020, and today's announcement of an additional restructuring plan impacting a further 500 functional support roles takes the new cumulative commitment to €500 million by 2024. The decisive cost action we delivered in 2020 together with pricing power allowed us to contain the EBITDA decline to 14% in 2020. Though more importantly we achieved a 22% EBITDA margin.

Our cash delivery is equally noteworthy. We laid the groundwork for this back in 2019 with the new incentive structure, clear programmes and a disciplined process. And we used the crisis to accelerate our delivery. If you would have asked me a year ago if we were capable of delivering almost €1 billion in cash in 2020, I would not have thought it was possible. But the Solvay team did it, and I'd like to congratulate all of our employees for this record achievement at such a critical time.

Moving to slide six, we continued to win with our customers by developing new innovations that address their challenges and unmet needs. Much of this work is directly aligned to our sustainability efforts and we are very proud of our success with many key partners. I'd like for the sake of time to highlight just a few of them today.

First, together with Bridgestone, a key customer of our silica business, and together with ARLANXEO, we co-developed a new tyre platform called TECHSYN which has 30% better wear efficiency and reduces rolling resistance by 6%. This not only reduces CO2 emissions but also extends the life of tyres. We are very proud of this partnership and innovation developed in only 24 months, around half the typical innovation cycle of 3 to 5 years.

The second customer news I'll highlight comes from Henkel, a key customer of Novacare's Home & Personal Care business who launched new products based on two of Solvay's recent innovations. You may remember Actizone, our brand new hygiene and cleaning technology which we launched this year or 2020, that protects surfaces against viruses, including Covid-19, and is unique as it lasts for 24 hours. Another one, Rhodasurf NAT, our new bio-based surfactant, which is 100% renewable and part of a newly-launched liquid laundry detergent by Henkel. It brings them a sustainable innovation which reduces CO2 emissions by 20%.

And the last one, I'll highlight a new partnership with Vertical Aerospace which you may have seen in the news where we are developing composite structures for air taxis. They will be electrically powered, therefore there is zero emissions, and we'll have its first test flight later this year. This is really cool to be at the frontline of innovation. Our innovation pipeline is becoming more aligned with our growth strategic trends, including lightweighting, electrification, biofriendly chemicals and resources efficiency. To be clear, this will not only support the planet but also the bottom line. And these sustainable driven innovations are what customers are asking for and what will create value for both Solvay and our customers.

Which brings me to the One Planet programme which is an integral part of our strategy launched one year ago. And here, in only our first full year of a ten-year plan, we have also made very good progress in 2020 despite facing an unprecedented crisis. I'd like to highlight a few points in reference to slide seven. Our sustainability metrics are embedded into our operational and strategic decision making. And progress impacts 10% of our short-term incentive for the Group. You may have heard me saying you impact behaviours when you impact the pocket. It's about walking the talk and being coherent. As you have seen, we have highlighted our progress against ten metrics. While progress is broad and deep, in the interests of time I will only cover our carbon emissions.

Reducing our carbon emissions is a top priority for Solvay and if you may remember we joined the Paris Agreement in February 2020. In October 2020, you may remember that we have committed to set Science-Based targets (or SCOPE 3) and have begun working with customers and engaged already with more than 500 suppliers in quarter four 2020. You can see that we have progressed by 20% in 2020 versus our baseline 2018. About 60% of the improvement results from the reduction in activity levels due to COVID, and 40% is structural and reflects the impact of our projects. We launched 28 emission reduction projects since 2018 baseline. Delivering on them represents an annual reduction of 1.8 million tonnes of CO<sub>2</sub> per annum; and to give you an idea, this is the equivalent of taking 1 million cars off the road. Nineteen of these projects were already operational in 2020, and the remaining nine projects will be implemented within the next three years. We have included a map of the projects on slide eight to give you an idea of the magnitude of our scope, and I'm pleased to confirm that the COVID crisis did not derail us nor detract us from our commitment to one planet. In fact, we came a long way.

Also, at the risk of stating the obvious, I also wish to emphasise that our investments generate adequate economic returns whilst also de-risking the operations in a strategic sense. Going forward, we continue to advocate for uniform global corporate reporting standards with respect to ESG matters. This year, we are taking two additional steps. Our 2020 annual integrated report, to be published on 1<sup>st</sup> April, will not only continue to align with the global reporting initiative (or GRI) but also will map to the relevant SASB metrics as part of our 2020 annual report. And we will not stop there. We piloted and signed on, as part of 67 companies globally, and agreed to disclose new elements consistent with the World Economic Forum or IBC in non-financial disclosures. And I invite you to take the time to review these in due course.

And now Karim will review in more detail the group's segment and financial performance. Karim?

## Group Financial Performance

### Karim Hajjar – CFO

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Thank you, Ilham. Good morning, good afternoon, everyone. I'll start with an overview of the three business segments, and I'll refer to figures as usual on an organic basis, by which I mean constant scope, constant currency. Starting with materials that you see on slide number nine, the facts are that net sales in the fourth quarter increased by 2.3% versus the third quarter of this year, driven by strong demand in the automotive industry. Speciality polymers year-on-year sales turned positive for the first time since the start of the crisis; and sequentially they improved by 8% against the third quarter. Strong demand from the auto sector drove that improvement. And this sector, you remember, represents 14% of group sales.

Our polymer sales into the broader auto market in 2020 were down 9% for the year, outpacing – outperforming the general market decline of around 16%. In particular, sales into EV batteries increased by 50% in the fourth quarter 2020 compared to the prior year, and we

expect demand to remain strong, given the latest industry projections for electric vehicles. In fact, we have invested in a PVDF line in Tavaux in France, and full production is already on stream as of January this year, 2021. We also have another new line coming on stream in China in the first quarter of 2022. Together, this will more than double our capacity and will help us to meet significant demand growth in batteries. Solvay's polymer sales also outperformed other major markets, including healthcare and smart devices. Sales of PEEK, specifically, have remained resilient during the crisis, with fourth-quarter sales up 4.4%. Full-year sales across all markets up by double-digits, thanks to further penetrations of polymers and some share gain. In short, you can see that we continue to outgrow markets in a few instances.

You probably won't be surprised that sales of composites in the fourth quarter dropped 10% versus the third quarter as we reached a low point in civil aircraft demand whereas sales into the defence sector continued to grow and in fact are up by double-digits, versus the fourth quarter of 2019. Sales into civil aero represent 5% of group sales in 2020. This is clearly down on the prior year. The business is on track with the closure of its second facility, part of its ongoing manufacturing footprint strategy. I'm pleased to share the news that the annual run-rate of cost-saving related to these actions will reach 70 million as of 2021, this year, 10 million higher than originally anticipated.

Also, the composites business is taking yet another step to deepen, to accelerate its manufacturing efficiency and to improve returns further and align with our customers. And it recently announced plans to close a third site in the US in Orange County California, which will happen in the second quarter of 2022. These closures will concentrate production on fewer, more efficient assets, and they will help us to improve service levels to our customers whilst increasing productivity.

Wrapping up materials, segment EBITDA in the fourth quarter was down 11.4% organically and 18.7% for the year with full-year EBITDA margins at 26.4%, thanks to sustained pricing and robust cost reduction actions. This achievement reflects timely – reflects decisive corrective actions in the face of unprecedented decline in civil aero volumes in 2020.

Turning to the Chemicals segment, on slide 10. Fourth-quarter sales were flat versus Q4 2019 as demand improved in every business. Sales in soda ash, which represents 16% of group sales in about half the segment, increased by 2.7% sequentially against the third quarter of 2020, as demand for flat glass used in construction increased, whereas demand for container glass used in the hospitality sector, remained weak. Soda ash contracts for the 2021 period have concluded, and you have likely seen publicly-available data such as IHS which gives you a good proxy of what to expect for the industry.

Against that backdrop, you can assume that Solvay will again seek to outperform by effectively executing against the cost reduction programme, building on our historic track record, which actually speaks for itself. Our focus will remain on cash generation, on maintaining our leading market position, as well as driving our energy transition plan.

Turning to peroxides, sales are up 4% in the fourth quarter compared to the third quarter, reflecting demand improvement for HPPO, mainly driven by a stronger polymer market based on consumer goods, construction and an improving auto sector. Sales in silica increased sequentially by 11%, showing the robust auto market demand, where our technology is used in high-efficiency tyres. The business outperformed the broader market thanks again to innovation and to our global footprint, as well as to our strengthened position with our key strategic customers.

Coatis sales increased by 11% with a strong rebound in the fourth quarter in Latin America and, in particular, reflecting growing demand for our innovative AUGEO, biodegradable and renewable material. In the past two years, the business has optimised its costs; it has focused on its sustainable technologies. In fact, we've just doubled production capacity less than two years after the product launch, thanks to one thing – strong customer demand. Overall, the Chemicals segment EBITDA rose sequentially by 4.3% in the fourth quarter as a result of the

stepped-up demand that I've described across all those businesses. Full-year EBITDA was, however, down 9.4%, and margins were held at 27.7%, reflecting pricing and the cost initiatives that helped to offset some of the volume declines.

Turning to Solutions segment on slide 11, fourth-quarter sales showed significant sequential improvement against Q3, up 7.6%, driven by strong demand again in auto and electronics, which represents 14% and 7% of group sales respectively. Starting with Novincare, Q4 sales were up modestly in home, and personal care, coatings and agro markets, and they were up double-digits year-on-year.

Speaking of agro, a business which represents about 13% of group sales, we recently just completed an agreement to purchase a seed coating product line, which is a small bolt-on acquisition with revenues of about €30 million. This acquisition represents a natural extension to our bio-based agro solutions within the Novincare business, and it will enable us to generate compelling innovation synergies.

The special chem business had an excellent fourth quarter with sequential sales growth of 19% versus Q3 driven by the rebound in auto, together with share gain in China, as well as strong demand in electronics. In technology solutions, Q4 sales increased 6% sequentially as the mining industry, which represents 4% of group sales, is beginning to recover, driven by the demand for copper and further supported by price. Yet, having said that, some key mining customers remain impacted by COVID and are not yet fully operational as I speak today.

In Aroma, performance was slightly down versus Q3 following significant volume increases, maintaining the strong momentum of the first nine months. Given the exceptionally strong customer demand for our natural vanilla and from the food and flavour industry, the Aroma business has decided to expand its production of natural vanilla. In fact, we're doubling capacity for the second time since 2017. The additional capacity will become operational by the end of 2021. And by the way, this is a prime example of what is referred to as circular economy. Solvay's natural product is derived from rice bran oil, and this is used to produce natural vanilla.

Overall, the solution segment EBITDA was down 2.8% versus Q4 2019 and 11.8% for the full year, with EBITDA margins relatively stable at 17.1%, reflecting disciplined cost management. It further demonstrates the resilience of this segment despite the major headwinds in oil and gas that we've seen throughout 2020, and it also shows the growth that is being achieved, thanks to our innovation.

Moving to costs, which we detail on slide number 12. You can see that we have made significant progress against our targets in 2020, and we have delivered €332 million in savings for the year, which more than offsets inflation of €75 million. Temporary cost savings totalled €157 million in 2020, and these will not repeat in 2021. Our structural savings were €175 million, of which €156 million are fixed costs, €19 million variable costs. Those cost savings fall into the three categories that hopefully you're familiar with. One, Restructuring. This is the largest contributor. It essentially comprises labour cost reductions, representing about €90 million or half – about half the structural savings that we've delivered. Indirect spend represents about 35% of the savings, around €60 million, involves many, many actions and initiatives, too many examples to cite. But for example, we use recycled containers. We standardised packaging across a number of our businesses, and the drive continues. And of course, we continue to drive productivity efficiencies, including yield improvements in several businesses such as in speciality polymers, in soda ash, in Novincare, and that represents about 15% of the structural savings at around €25 million.

The strength of this delivery actually brings to life the notion that there is no such thing as fixed costs; that indeed, all costs can be variabilized and the only legitimate question we ask ourselves is how fast will it take to variabilize costs? That's how we tackle them.

I will now turn my review to how the group's performance has evolved overall. And by way of general context, if you look at our portfolio, it has delivered value during the crisis. And I say

that because 60% of our portfolio proved resilient and I'm reflecting here markets such as healthcare, home and personal care, consumer goods, food, agro. About 25% of the portfolio is related to markets where we see a progressive recovery underway, and by that I include auto and mining. The remaining 15% will take a bit longer. We're talking markets here such as aero and oil and gas. Based on current economic forecasts, we currently expect our portfolio to be back to 2019 levels in 2022.

I now invite you to turn to slide 13. By way of context, many of you told us that you really valued the previous EBITDA bridges that show the evolution of volumes, costs. And you asked us to reconsider putting them back in – to reinstate them. Now, even though very few companies actually do that, we listened to you, and we have decided to bring back those EBITDA bridges as a supplement on an annual basis. What you can see from this view is how it all comes together. Volumes were down €568 million in large part due to civil aero, oil and gas and about half a year of reduced demand in auto. Net pricing up €50 million, in many ways reflecting the premium value-added nature of many of our technologies in the market. Total cost savings €175 million structural, €157 million temporary, less €32 million in relation other factors, many other factors such as de-stocking impact, less, of course, inflation of €71 million, for a net positive effect in 2020 of €228 million. This performance evidences both the quality of our portfolio and the strength of our delivery in 2020, notwithstanding the very significant volume headwinds.

I'll turn now to slide 14 and talk about cash. €161 million is the cash we generated in the fourth quarter, bringing the total for the year to a record €963 million. That's about 60% more than in 2019. The improvement in performance can be summarised as follows. First, we took decisive steps, as you know, as you've seen, as the crisis unfolded to adapt our investments to accelerate and deepen our cost reductions and to strengthen our working capital discipline. So, to start off with, our cost mitigation contained the EBITDA drop to €377 million although this drop was more than offset by lower cash taxes of €144 million, by reduced working capital of €190 million and by lower CapEx of €215 million. Against that, we also invested €31 million more into restructuring charges in 2020 related to 2019 to reach a total of €90 million. That's more than you've seen historically.

You'll also recall saying that we've been optimising our debt and working to deleverage our pensions in the last two years. Indeed, we've deployed €0.6 billion of funds towards our pension schemes, and we actually plan to do a further €0.2 billion in the next 12 to 24 months. We indicated to you that these steps help to both de-risk our balance sheet and to improve our cash flow, and the facts before you today actually demonstrate that. In 2020, our pension cash service costs were €77 million lower than in 2019. Our financial charges were €27 million lower than in 2019, and the good news is that we will have further reductions to look forward to in 2021.

That said, and without detracting in any way from the strength of that cash flow delivery, we also indicated during the year that we had a number of non-repeat one-time items. In that context, we have around €140 million of structural improvements in relation to working capital. And in Q4, we were surprised that a few customers even prepaid invoices to us to the tune of €40 million. Now this will obviously reverse in 2021. And you will recall we had around €80 million in relation to taxes early in 2020. These one-time elements come to €260 million.

Now, as you look ahead to 2021, it's important to also take into account that foreign exchange developments, the anticipated completion of divestments that are currently in the pipeline will also account for a further €50 million in cash that won't be with us in 2021, as we monetise the value of those businesses. What does that mean? It means that as you look at 2021 cash flow, what is – whilst I would love to be able to tell you that the €963 million is sustainable, the reality is that we're going to have to be patient for that because the normalised reference free cash flow for 2020 is nearest to €650 million because of the reasons I've explained. This is what I've suggested – a relevant level against which to consider free cash flow going forward into 2021.

And with that, I'll hand you back to Ilham to review our outlook and some closing remarks.

## Ilham Kadri

Thank you, Karim. And now a few words regarding our portfolio. We began 2020 closing the sales of the polyamide business, if you may remember, end of January 2020. Since then, we began taking steps to prune our portfolio; and to date, we have signed six agreements to divest different non-core business lines, four of which will close in the coming weeks and the balance will close in quarter two. In total, these divestments represent about €50 million of EBITDA.

Today, we are taking a next step in our strategy by organising the Soda Ash business unit into a separate and fully-controlled legal structure. This step is in line with its business mandates of optimising cash flow generation and returns, and will further reinforce internal financial and operational transparency and accountability, while increasing future strategic portfolio flexibility.

Now, moving to our outlook for 2021 on slide 15, we continue to remain confident in the areas within our control. I explained earlier that we raised our strategic cost targets to €500 million by 2024 and you know that we've delivered €175 million already, so we are well on the way. In 2021, we estimate delivery of an additional €150 million in 2021, reflecting both the full year effects of last year's action and new measures and will more than offset fixed cost inflation of around €75 million. When you look forward at 2021, you will remember the 2020 EBITDA of €1,945 million, includes €157 million of temporary cost savings, as Karim shared with you earlier.

Moving to business performance, it's clear the momentum from the fourth quarter is continuing into the first quarter this year. We see that most strongly in businesses supplying the automotive and electronics sectors. Yet, whilst we are close to our customers, visibility beyond quarter one is limited and uncertainty remains on the continuing impact of COVID on our businesses. Further, as many other companies have expressed, we too are experiencing logistics and raw materials supply issues that are challenging our ability to meet orders. Further we have experienced some operational outages in relation to the extreme weather in the United States of America. Accordingly, and taking all these factors into account, we estimate first quarter EBITDA between €520-550 million. We will provide you with a better view of the full year once market visibility improves.

On free cash flow, as Karim already explained, some positives in our 2020 free cash flow won't repeat in 2021, as expected. And when we also factor FX and scope effects, it implies a normalised reference 2020 free cash flow of around €650 million.

Turning to 2021, we expect to increase our CAPEX investments, between €700-750 million, and to invest around €150 million in restructuring costs, as we accelerate the transformation. The investments, the CAPEX investments, will focus on our growth platforms, including batteries and hydrogen. In addition, we will have the benefit of the deleveraging of pensions and debts which was started back when I joined the company in 2019 and will contribute an additional €90 million of improvement relative to 2020.

To summarise, we expect to deliver free cash flow of between €600-650 million. Finally, we recommend a stable dividend of €3.75 per share.

Before we begin Q&A, I just want to share that in a few days, it will be my two-year anniversary leading Solvay and what a ride it has been. We've accomplished a lot in this period. We united the organisation around a common purpose. We launched our growth strategy, including our one planet sustainability roadmap. We accelerated our delivery on cost and cash in the midst of a crisis. We focused innovation around three key platforms – batteries, composites and hydrogen, with a multi-billion-sized addressable market and we started our journey to transform and simplify the company.

Indeed, if I were to summarise what we have done and what we will continue to do, it is that we will continue to be resolutely focused on value creation, whilst leveraging fully on our

values. In fact, we are making more changes at the top of the organisation as we speak. We are reducing an organisational layer that will further simplify the structure and combining 17 distinct functions into seven, which will drive accountability and improve decision-making.

These changes are the natural next steps, as we seek to embed and advance the simplification that is already underway. I am sure this year will also have its share of challenges as we emerge from the crisis. Our team has demonstrated our ability to manage through these near-term headwinds, while continuing our transformation. Our high-quality portfolio, coupled with our financial flexibility and structural improvement will enable us to emerge leaner, stronger and well-positioned to unleash our full potential. Thank you very much for listening. Karim and I will now address your questions.

Back to you, Operator.

## Q&A

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### Operator

Thank you. We will now ask your questions. If you have a question, please press 01 on your telephone keypad.

### Jodi Allen

And may I kindly ask that you limit yourselves to two questions per person so that we can give everyone a turn today? Thank you.

### Operator

Thank you. Ladies and gentlemen, if you have a question please press 01 and please limit yourself to two questions. The first question comes from Virginie Boucher-Ferte from Deutsche Bank. Please go ahead.

### Virginie Boucher-Ferte

Yes, good afternoon. Thank you. Can you hear me?

### Karim Hajjar

Yes, good afternoon.

### Virginie Boucher-Ferte

Yes, thank you. Yes. Okay. Yeah, thank you. I've got two questions. The first one is on disposals. So far, the discussion has been centred around businesses that have a negative impact on the company, whether it's margins, returns or the environmental footprint of the group. However, there are some assets in the portfolio, such as Aroma chemicals and surfactants for HPC that have been performing well recently and could attract high multiples, well above the group. Given that they're not as core as other businesses and they're not getting the valuation that they deserve, wouldn't it be a good time to think about selling these assets? So, more generally, what's your thought process with regards to these assets?

And my second question is around the use of cash and deleveraging. So, based on my calculation, you should end up with a leverage ratio below two times in 2021, and that's not even assuming additional disposals proceeds, which could potentially materially lower the ratio. I'm assuming that a large acquisition is not on the agenda currently. So would you consider buying back shares at some point in the interim period? I think you got the approval to do so at the last AGM. Thank you.



Ilham Kadri

Yeah, thank you. Is that Virginie?

Virginie Boucher-Ferte

Yes, yes, that's – it's me.

Ilham Kadri

Hi Virginie. Thank you for your questions. Well, listen, you may remember, Virginie, when I joined the company in – I think by now you know me – in 2019, I said that there is no sacred cow, right? And there will be no stone unturned. So I spend much quality time with the team, including crafting the GROW strategy around different distinct mandates, by global business unit and by segment, to ensure that we differentiate the business mandates, the strategic mandates, and we ask each business to act accordingly and reach its full potential.

So, since then you've seen that almost €2 billion EV has been out. Obviously, there was the big chunk of Polyamide which I inherited, but it was not a done deal in 2019, because we were asked to find a second buyer, right? And we closed it successfully in January 2020. And since then, obviously, we have been busy behind the curtain. And today, we have a total divestiture of six, which represents €300 million of sales, more or less, and €50 million of EBITDA, bottom line. And as I told you, in my prepared remarks, we are going to close it in the first half of 2021, and some of them, actually, in the coming weeks.

So we will continue to look for ways to simplify the portfolio. Obviously, on the M&A side – and we'll go to the use of cash – we entertain bolt-on acquisitions. Today we've announced that we've purchased the bolt-on in seeds coating technologies. It's a natural extension to our portfolio and supports the bio-based sustainable agro businesses of Novacare. But again, this is a small bolt-on technology.

On the use of cash, I think you've seen us already. I mean cash is king. When I joined the company in 2019, I said it publicly, I was not happy with the generation of cash, neither the total amount, but also the quality phasing of it. And I invite you to look since quarter one 2019, when we had a negative cash flow. We had seven consecutive quarters of positive free cash flow, including structurally improving it, across the board, in all GBUs (global business units). And we use our cash actually to delever our balance sheet for a total of €1.8 billion, right, Karim? Between deleveraging the debt, but also we funded €0.6 billion in pension, which has been, historically, a nail in the shoe of Solvay. And I'm very proud of the team and what they have been doing in 2019 and 2020, actually giving us more flexibility and decreasing the pension expenses.

On acquisitions, listen, we are really busy. There is much we can do. So prioritisation is important. The allocation of resources is at the top of my agenda. And you may remember, then, one of the first things I have done is to change the allocation and resources from fully decentralised to bring it to the hands of the Executive committee members and I. Because I think this is what we are paid for is to allocate the risk as we have not unlimited available resources – to the best available opportunities, creating shareholder value in the company. So we have hard talks, we look at the business case. Solvay One Planet is part of those. And we will continue, as part of our corporate M&A, to look at the value of bringing in more bolt-on technologies and so on.

Karim Hajjar

Maybe just one other additional comment around your comment around leverage being two times. You're absolutely spot on. I can see how you can get to the maths but I encourage you to also add in pensions. Whilst they were going down from €2.8 billion last year to €2.2 billion, this is still a significant factor to take into account. So I'm not saying you're wrong. You're absolutely correct. I'd just go beyond and our financial firepower, let's say, is going to continue to increase as we generate that cash and increase more optionality, which is good.

Virginie Boucher-Ferte

Okay, thanks for that.

Karim Hajjar

Thank you.

Ilham Kadri

Thank you, Virginie.

Operator

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

Chetan Udeshi

Hi. Just one question. The first question I had was just looking at Q4, it feels like, sequentially, the sales were up, whereas the EBITDA was down. So can you maybe help us understand why that was the case?

And the second question was, actually there are two sub-questions within that: in terms of your strategic flexibility on the Soda Ash business, have you had any informal or formal sort of discussions with any of the interested parties so far, or is that the process which you are just starting in terms considering the strategic aspects of that business?

And also, the associated question is, can you remind us how much of your Soda ash business is earning, apart from the US versus Europe, on an annualised basis? Thank you.

Ilham Kadri

Okay. Hi, Chetan, nice to hear you. Karim, do you want to take the quarter four?

Karim Hajjar

I'll take the Q3-Q4 sequential

Ilham Kadri

And I'll take the second.

Karim Hajjar

You're absolutely right, Chetan, in highlighting that and spotting it. Two factors I'd like to highlight. One is that Q3 benefited from much stronger temporary cost-savings compared to Q4. So, as that diminishes, that has a sequential impact of around €10 million. There's also impact of a phasing nature in terms of variable remuneration of another €10 million to €15 million. If you take those two factors together, it explains what may facially look like a deterioration of the operating leverage, which isn't really the case fundamentally.

Ilham Kadri

Back to me?

Karim Hajjar

Yes.

Ilham Kadri

So, on Soda Ash, I think we mentioned it, Chetan. We're seeking steps to organise it. It's a technical carve-out, it's a legal carve-out, like I have done in my career before into a separate and fully controlled legal structure. And all the options are open, and nothing has been decided beyond initiating the carve-out process, so let be clear there.

What was the other questions from Chetan?

Karim Hajjar

Can you perhaps repeat your question, please, Chetan, on the geographic split?

Chetan Udeshi

How the Soda Ash earnings are distributed, or what is the distribution between your US footprint and European footprint in terms of sales and earnings?

Karim Hajjar

Natural is around 40%.

Ilham Kadri

I mean, we have 11 – or normally we don't share that, but we have 11 production sites around the world; three centres in Europe, North America and Asia. We don't disclose more, but indeed we have the natural parts in the US. It's a global supply chain. You know that in Europe the synthetic has been much now driven by the changes in energy and switch away from coal. We did it already for two plants – Bernburg, Rheinberg – since I joined the company. We're negotiating Dobasle in France, and there is another one in Spain underway. So that's happening in the Soda Ash footprint. But it's a global supply chain network, right, regardless where we bring the products from.

Chetan Udeshi

Thank you.

Karim Hajjar

Thank you.

Ilham Kadri

Back to you?

Operator

Thank you. Next question from Wim Hoste from KBC Securities.

Wim Hoste

Yes, good afternoon. I have a couple of questions also. The first one is can you discuss the outlook for the Composites business, a little bit the phasing quarter per quarter in 2021. I think Boeing will be there with the 737 MAX that is gradually going to ramp up, might be the single biggest element that will change in the course of the year. So, any thoughts on how we should see this business developing in the course of this year would be helpful.

And then the second question is a bit more general. How do you look at inflationary impacts from energy or raw materials for your business? Any quantification or thoughts around that would also be helpful. Thank you.

Ilham Kadri

Who's on the phone, sorry?

Operator

That was Wim Hoste from KBC.

Ilham Kadri

Yeah, hi Wim.

Wim Hoste

Hi.

Ilham Kadri

Well, listen, I'll take aerospace, and Karim will talk about the energy cost and the raw material. Listen, civil aviation represents today 4%-5% of our top line. The defence part is very resilient, as I told you many times during the earnings calls, and doing very well and so even for innovation.

On the civil aviation, this is obviously the hardest hit across the portfolio, with oil and gas. We acted decisively. You've seen us last year, we've already announced 20% headcount reduction, right, and two closure of manufacturing assets that are the least efficient in our industrial portfolio and footprint. We closed Manchester in July, Tulas is underway, and will be completed on time. And a week ago, or a few weeks ago, we announced internally, but now it's public, a third asset in the US, obviously moving the volumes, which are not lost, to other plants. So, you've seen us really, and again, the least efficient plants are out first. So the team has done really a good job in a very, very, very tough environment, to really mitigate the top line decline and variabilize the cost as much as possible. And actually, use it as a way to improve the ROCE, the return on capital employed, of this business.

Now, on the outlook, remember there is a large parking lot, I would call it, of 737MAX planes. Boeing is likely to deliver 150 737MAX this year. The rest are phased over several years, as we are hearing. But they are restarting the production. We will not really see the impact yet in 2021 as it will take time to deplete the inventory, right? Yes, you follow their numbers, assume domestic traffic back at 2019 levels only in 2023, which is likely to be a proxy for the single aisle demand. And obviously, Wim, the vaccine rollout would also influence how quickly people will return to travel by air. So, that nobody knows, and we shall see between now and the end of the year. So, international traffic, you know, in general, we believe doesn't recover until '23, '25 in the best case, which would translate into weaker expectations.

So, we've done what we had to do, and we will continue, which is managing costs, the cash situation etc. And we believe that in quarter four, we reached the bottom in Composite Materials. And I salute our team because they've done a tremendous job into really accelerating the restructuring plans.

Karim Hajjar

On commodity price, clearly we're seeing a lot of cost inflation as we understand. We don't disclose specifically how much it is. What I can tell you is that around 55-60% is formula-driven, so that enables us to maintain our margins in an inflationary cost environment. And for the rest, we clearly see margin expansion or compression, and we try hard to maintain our margins as well. But fundamentally, we are pretty well protected across most of our key businesses in that regard. Those that are most protected, for example, from a formula point of view is Silica, and Coatis to a point. Others are typically in the 50-60% range as well.

Wim Hoste

Okay, thank you.

Karim Hajjar

I'm not expecting anything major beyond that at this stage.

Wim Hoste

Okay, thank you.

Karim Hajjar

Thank you.

## Operator

Thank you. Next question from Laurence Alexander from Jefferies. Please go ahead.

## Laurence Alexander

Good morning, hi. How much do you see as the stranded cost if Soda Ash were to separate?

And secondly, could you update us on your thinking around the sort of pace of US PFAS regulatory change? And I guess my impression is there's about 100 chemicals out of the 4,500 that are sort of most under scrutiny. Have you done a kind of a screening of your exposures to make sure you're completely out of the production of those?

## Ilham Kadri

Thank you. You start.

## Karim Hajjar

On your first question, you're talking about what kind of costs?

## Ilham Kadri

Stranded costs.

## Karim Hajjar

Okay, that's a question – it's an interesting question, but doesn't in any way relate or refer to a carve-out where we don't see any stranded costs. Our focus is to ensure that we focus, concentrate resources to maximise the value. That's really all I can say at this point.

## Ilham Kadri

And, you know, a carve-out, having done one in my career, this is where you stand up a company, and a fully independent business unit. So, obviously, there will be costs travelling between the corporation and the newly separated and fully controlled legal structure. So early to say. We are starting it 1<sup>st</sup> March, and obviously it's something which is going to last at least a year. So, we'll tell you more when we have internalised the exercise.

On PFAS, we know this is an issue for the entire industry. For us, actually, the PFAS story in the US is actually one that showcases our innovations. And let me tell you how. I remind you probably the background: Solvay has never manufactured or participated in fire-fighting foams or manufactured PFOA/PFNA process aids. And we completely phased out the use of these chemicals in advance of any legal requirement.

And then we obviously continue to look at non-fluorosurfactants or fluorosurfactant-free technologies. And since I joined the company, I challenged our teams to really look at how we can move away from fluorosurfactant-containing products. Since, you know, the PFOA/PFNA exit in 2013, we were using a limited number of compounds as a replacement. And as we speak, we have innovated with fluorosurfactant-free technologies, which we sampled to our customers in January last year already. And they have been testing them, qualifying them. And this was one of my top priorities since joining the company, to ensure we develop these technologies, and we are ahead of the curve. And these new non-fluorosurfactant technologies will be in full production at our West Deptford facility by mid-2021. And we are in discussion with the authorities since actually two or three weeks to accelerate the change towards these innovations.

## Laurence Alexander

Thank you.

## Operator

Thank you. Next question from Jaideep Pandya from One Field. Please go ahead.

### Jaideep Pandya

Thank you. My first question is on Soda Ash. So, I don't know how easy this is for you, but can you just give us some colour on out of the 10 million tonnes of CO2 Scope 1 / Scope 2 that you have, how much is soda ash? I found a presentation, back in the day, where you sort of said 1 million tonnes of soda ash is 1 million tonnes of CO2 in Europe as per the Solvay process. So, if you can just confirm that.

The second question is really just around your cash flow. So assuming everything goes well, and you separate this business and this business is running great, the new Solvay – if I may use that term – can you actually pay the €400 million dividend from this cash flow outside of Soda Ash, i.e., can current Solvay pay its shareholders a €400 million dividend without Soda Ash's cash flow? Thank you.

### Ilham Kadri

This is Jaideep, right?

### Jaideep Pandya

Jaideep, yeah.

### Ilham Kadri

Hi. Well, listen, on Soda Ash, again we are not announcing a sale of a spinoff of Soda Ash today. We are taking steps again to organise this business unit into a separate and fully controlled legal structure. And I know you probably want to know more, but again I repeat myself: all the options are open, and nothing has been decided beyond initiating the carve-out process. So, let's take it one by one.

What was the second question, because I couldn't hear very well?

### Karim Hajjar

It was predominantly around our capacity to sell in that scenario – Soda Ash – and maintain our dividend cover, essentially.

### Ilham Kadri

Well, again, it's premature. We are not talking about selling it now. When I look at the portfolio, and I told you in 2019 when I joined the company, the free cash flow equation was extremely important, above and beyond the Chemicals business, which are cash cows, and free cash flow generation. And, by the way, we've been, you know, tasking them with the strategic mandate to do more and better. But across the board, the free cash flow generation has improved in the company, not only the total free cash flow as you could see two years in a row, but also it stays in. And the quality of it stays in, including in the Materials segment and in the Solutions segment. So, this is not only, in targeting the one and only Chemicals. So, that's important. And listen, we'll talk to you later and we'll give you a bit more information when we will complete the carve-out. But the first target is to give us more strategic flexibility. And we will advise you if we have more information in the future.

### Karim Hajjar

Maybe just to add a quick comment on the CO2 intensity.

### Jaideep Pandya

Can I just ask –

### Ilham Kadri

Yeah, CO2.

Karim Hajjar

Sorry, Jaideep. So we're just going to – go ahead, Jaideep, and I'll come back. Go on.

Ilham Kadri

Jaideep?

Karim Hajjar

Please go ahead.

Jaideep Pandya

No, please, please. Please continue.

Ilham Kadri

Well, I was just going to say that Soda Ash represents just over 60% of the Group's CO2 emissions. This is in the annual report, and you'll get an update when we publish the 2020 annual report as well. But clearly, we are continuing to work on reducing that, as we've highlighted quite prominently as well.

Ilham Kadri

Yeah, and the 27 project, Jaideep, on the CO2 emission obviously

Jaideep Pandya

That's great. Thank you so much.

Ilham Kadri

Yes. It's touching the Soda Ash, right, portfolio primarily. And you may remember as part of Solvay One Planet that we have announced that we are abandoning coal, right, which is a primary energy used in the Soda Ash global business unit since 160 years. So we started again in two plants and we continue our conversion to biomass and waste.

Karim Hajjar

Maybe one final comment. You talked about cash and dividend. Let me give you a different answer, which is that we will never put the Group's investment credit rating at risk, in anything that we do. So this is a very clear red line for Solvay, just to state perhaps the obvious.

Ilham Kadri

Thank you.

Jaideep Pandya

Thanks a lot, and well done on all the ESG stuff as well.

Ilham Kadri

Thank you very much.

Operator

Thank you. Next question from Lisa De Neve from Morgan Stanley. Please go ahead.

Lisa De Neve

Hi, good afternoon. Congratulations with the good results. Two questions from me. So first and foremost, I mean, how should we think about the 157 million of temporary cost savings achieved in 2020? How much do you think will unwind in 2021, are there some sticky elements, and are there some of these elements actually included now in the structural cost saving targets? That's the first question.

And then two, I mean, you were so kind to share 2021 CAPEX guidance with us. Could you share some more details on sort of mid-term CAPEX spend, in which levels you see that and where that gross CAPEX element will be directed towards? Thank you.

Ilham Kadri

Thank you. Great questions.

Karim Hajjar

I'd probably start with both questions. So the first question is how'd you look at the 157 million. An easy way to do it is you take the 1,945 billion and deduct that 157 million. That is absolutely by definition temporary. But doesn't mean that we're getting our foot off the pedal. Absolutely not, which is why we've also clarified that we'll be committing to delivering another 150 million this year over and above the 175 million structural delivered in 2020. Now, if you take the combination of both, it comes to 325, simple math. It's more than what we announced when we delivered it, 300 million in November 2019, and it's over 60% of the new higher 500 million target. So that's really what we're looking at. Now clearly, if we can do better because people are traveling less with teleworking, yeah, we'll find a few more, but fundamentally we really battened down the hatches, really nail things down in our internal plans and ways of working. So that's the best thing I can do. So, that's probably the most helpful way to describe it. Your second question was related to CAPEX.

Ilham Kadri

So here in 2021, Lisa, we are planning, as you said, 700 to 750 million euros of CAPEX. And we are redirecting the CAPEX towards growth platforms. You may remember in 2019, when we launched our GROW strategy, we've been very, very bold, and we told you that we are going to redirect not only CAPEX but also resources, including human capital towards growth initiatives, be it in the Material segments or other growth initiatives. And you've seen us since then launching three platforms, namely the EV batteries, the Thermoplastic composites and the new one, the Hydrogen. So there is much we need to reinvest in those growth platforms. And while using digitalization, by the way, to improve the efficiency. We hired recently a Chief Digital Officer as we are investing in digital in industry 4.0. So what's in there for CAPEX is that sometimes and often actually, when we do digitalization, we can debottleneck and increase the capacity in our assets with very, very low CAPEX. Ultimately, I want zero CAPEX and squeeze the lemon and extract any pound of products with the digitalisation and better efficiency.

On the look forward, you were asking beyond 2021. Too early to tell you, but we'll give it to you at one point of time. But listen, we are working on what I call the zero-based budgeting on maintenance. We're an industrial company. We have a large industrial footprint. It's legacy from the different businesses. And there are two things you have to do. First of all, ensure that what's concerning maintenance – and half of our CAPEX can go to maintenance – is zero-based budgets. And that you leverage the scale of Solvay as a company in procurements of services, of spare parts, of everything and doing more with less. So that's number one. And this is very important, and we believe we can save a lot of money there and reinvest it in actually building capacity and debottlenecking.

And the second is really improving our industrial footprint, Lisa. We've seen us closing three manufacturing assets in less than a year in composite material. Obviously, we couldn't defy gravity and the crisis in aerospace has been accelerating our plan. But frankly, we would have done it, just probably over time longer if the crisis was not there. And then obviously we want to expand for growth projects. And without saying it publicly, but by now you know it, we've been investing in our PVDF membrane technologies last year during the crisis. And we are so happy actually, because there is a new line in Tavaux, in France, which started in January 2021 just a month ago. And as we speak, investing in China, and the new line will come on stream in Q1 2022. And in less than two years, we will be doubling our global capacity in PVDF.

Karim said this on Aroma, we doubled the capacity for the second time, and we will be sold out soon. So, we are industrialising our Aquivion hydrogen membrane technology for few sales. Our customers have already validated and qualified this membrane. So now we are



building semi-commercial pilots, etc. So I think it's a nice exercise for an industrial company with our age and complexity to really look at the allocation of resources inside your CAPEX portfolio, do more with less, challenge and restructure the industrial footprint and remove the low ROCE assets and then invest for growth and double down there.

**Lisa De Neve**

Thank you so much. Very helpful.

**Operator**

Thank you. Next question from Laurent from Exane BNP Paribas. Please go ahead.

**Laurent**

Thank you for squeezing me. Ilham, you mentioned, when talking about Q1 – Ilham or Karim I think – when you talked about Q1, you mentioned a series of headwinds. And in terms of the positives, auto and electronics. I was wondering if you could tell us a little bit more about the areas where you're seeing that improvement in electronics, and in particular in rare earths. Can you talk about the impact of the headlines we're seeing? And I just remember that, I guess, ten years ago when the last headlines on rare earths, it was a driver of meaningful EBITDA growth for Solvay. I think with [inaudible] accounting, I was wondering if this is happening again. Thank you.

**Ilham Kadri**

Thank you, Laurent. Would you like to start with the cost in Q1, logistics, and I'll take rare earths?

**Karim Hajjar**

Sure. So a few things. One is supply chain is impacting operations at a number of different levels. This is not new news.

**Laurent**

Sorry, Karim. I was actually more focused on the positives as I think you've already talked quite a bit about the negatives. And I know it's quite late already, but just thinking about electronics. And my question was really on how much of an improvement you're seeing, if you can dimensionalise that. And in particular, talk about rare earths. Thank you.

**Karim Hajjar**

Okay.

**Ilham Kadri**

I can take it, frankly. Laurent, listen, I mean, we ended up Q4 with a stronger order book. And you've seen the improvement sequentially. We entered quarter one with a very strong order book, both in automotive and electronics. I cannot deny that some of it is probably building the inventory, specifically in the automotive side. How much we don't know and we shall see by quarter two. I spare your time on some logistics problems here and there and surcharges which we're pushing with our customers and we'll defend our margins. Plus, the weather storms in the US with few Force Majeure, etc. But we have given you a guidance and we feel very comfortable with our quarter on the bottom line.

Now, on the rare earths, it's probably a different story. And there are lots of geopolitical potential issues which can likely impact rare earths business. First of all, we don't operate in magnets. There are different rare earths, there's the light and the heavy. Our main business, and you remember well, it's mixed oxides rare earths, primarily for automotive catalysts, and to the semiconductor industry. This is a sort of a chemical mechanical polishing. We have separation capabilities, only in France, LaRoche, which we use as a base for our most downstream products. We don't have upstream integration, meaning that our separation units rely on concentrated third parties. And as of today, we are not active in the business of rare earths magnets, as I said, so we would need to develop or acquire capabilities to move in this direction. And this is not on the agenda. So all in all, we buy in China for Chinese and for

European and the French separation units, we buy from Australia. So this is not impacting us. Does it answer your question, Laurent?

Laurent

Yes. And there's no [inaudible] or impact, so where you may have a book gain impacting Q1 positively from the fact that your contract, what you're buying – prices may [inaudible] as much as what we're saying.

Karim Hajjar

Nothing of any significance at all.

Ilham Kadri

Yeah, and we know it's buzzing and it. Nothing yet confirmed but we'll share with you if it's the case.

Karim Hajjar

Go ahead.

Jodi Allen

Yes. I know we're running a bit over, but we'll make time for two more. So if you could each ask one question, we'll go to two more people.

Operator

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

Sebastian Bray

Good afternoon. And thank you for taking my question. I just have one on Coatis. Given the magnitude of the depreciation of the BRL over the last few quarters, I was a bit surprised to see full-year sales for this business only down by 12% and quite a nice sequential increase into Q4. Given that this is one of the businesses which could arguably be potentially up for divestment at some stage, has something been done there to hedge out the FX exposure or reduce its volatility based on the BRL, or has something changed on an underlying basis in the operating performance? Thank you.

Karim Hajjar

Thank you, Sebastian. I'll take that. One is, I don't know why people might say that. I think I heard the word divestment in the same question. I wouldn't. On the foreign exchange and the BRL, fundamentally what we do is merely apply the group wide policy of hedging our net transaction exposure to the tune of approximately 80% on a nine-month rolling basis. And nothing in particular has happened beyond that on that business. And what you see therefore reflects the momentum of the business which we already alluded to.

Ilham Kadri

Our teams, and I want to salute them if they are listening, right, have done a great job. We have a strong leadership position in Latin America. I think Karim in his prepared remarks as well talked about Augeo, and this is 100% renewable raw material, which is sold out by the way, being used in different markets, including fragrances and others. So yes, the team is really doing well into extracting the value they create with the customers as well for Solvay. Thank you.

Sebastian Bray

Thank you for taking my question.

Operator

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

### Mubasher Chaudhry

Hi. Thank you for squeezing me in. Just one, I guess. When you talk about your Soda Ash division being put to a separate legal structure, did this come out as a part of the initial strategic review, or has something changed since then to make this happen? I'm just interested in the timing of the announcement as to why it wasn't done at the initial strategic review.

And then looking forward, you talked about the various different options available and you will give us a bit more information and those become clear. Could you just give us some thoughts on the timing as to when we should expect that? That'd be very helpful.

### Ilham Kadri

Okay. Is that Mubasher?

### Mubasher Chaudhry

Yes.

### Ilham Kadri

Hi, Mubasher. Well, listen, you remember I joined the company in March 2019, and at the fall just shy of nine months, we delivered the GROW strategy to ensure that we are very transparent with the markets as soon as we start with something and actually 2020, despite the crisis, has shown that our growth strategy is more than ever valid. So that's number one. We went very quickly. And as we continue fine tuning, clarifying our intent, we will come to you and we share with a high level of transparency, like we did in our cost savings. We started with 300 million. We are now at half a billion. When we have a plan, we declare and we inform the Street, when the plan is there, and we know that we're going after.

On Soda Ash and the carve-out, we would have done it earlier, beginning of 2020, we were ready, but the crisis called COVID-19 of a lifetime came in. And we believe that we had to focus on the crisis, and a look at the microscope. But at the telescope, we knew that we wanted to start the carve-out. And it's material to the market. So legally we are obliged and we do so to inform the market about such carve-out. So that's how it happened. Thank you for the question.

### Jodi Allen

Thank you all so much. We really appreciate your great questions today. And we recognize there's still some people that we did not get to. So we invite you to please contact the Investor Relations team, and we're happy to address remaining questions.

### Ilham Kadri

Thank you very much.

### Jodi Allen

Thank you, everyone.

### Operator

Thank you, ladies and gentlemen. This concludes today's conference call. Thank you all for your participation. You may disconnect your lines.