Solvay First Quarter 2021 Results - 05.05.2021

Progress beyond

Operator

Ladies and gentlemen, welcome to Solvay first quarter 2021 Results conference call for analysts and investors. Solvay team, the floor is yours.

Jodi Allen

Good afternoon and welcome to our first quarter 2021 earnings call. My name is Jodi Allen. I'm the 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 relations section of our website. I would like to remind all participants that the 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'll begin my remarks today with a health and safety overview shown on slide 3. Today, we have 124 colleagues who are infected with COVID-19, which is a similar level versus last month, and 121 employees in quarantine. We wish them all a quick recovery. At this time, we continue to follow our remote working routine globally to ensure high levels of safety. We are also utilizing our Solvay Solarity Fund to show our support in the communities in which we operate, especially in India and in Brazil, and we sincerely hope that the critical situation starts to improve anytime soon.

Moving to results on slides 4 ... As most of you know, the chemical industry is in fact a good barometer for economic activity and it is logical that our Q1 performance clearly reflects the recovery in many of the markets we serve. For Solvay, it's in fact about some triple R here Resilience, Recovery, and now Reinvestments to prepare for the Rebound in 2022. The more resilient markets that weathered the storm well in 2020 continued to deliver good volume growth in Q1. These markets include home and personal care, coatings, agro & food industries, and healthcare. Other markets that began to recover in the fourth quarter, such as automotive, electronics, and building industries showed an accelerated growth from Q4 into Q1, delivering double-digit growth. Third, we are also encouraged by the beginning of the recovery in other markets, including the mining industry as well as some of our commodities going into industrial markets. So altogether, these improvements in activity levels supported year-on-year top-line growth in almost ~90% of our portfolio, and you won't be surprised that our civil aero, oil & gas, and to a lesser extent a portion of our soda ash business continued to face challenges. However , it's important to note that even these challenged areas began to show improvement in Q1 sequentially versus Q4.

Moving to slide 5, in fact, our group sales excluding composites and oil and gas grew by 8.6% organically year on year, and grew by 7% sequentially vs Q4. And this was despite the Texas winter storm conditions that impacted raw materials availability and logistics resulting in force majeures across the industry. We estimate the total impact from these storms at about 25 million euros of sales in the quarter, and indeed Novecare was most affected. Notwithstanding the improved momentum which saw sales progress to nearly 2% relative to Q1 2020, they were still around 2% below Q1 2019 levels organically. Now regionally, we saw double-digit sales growth in Asia Pacific and Latin America, with China domestic sales growing by 30% year on year and signaling superior growth relative to the general economy. The US is still down by double-digits versus last year, as you can imagine mainly due to higher exposure to civil aero and oil and gas industries for our businesses, but it's up by 4% sequentially. Europe is roughly flat versus Q1 last year, but up 8% sequentially.

But in fact the recovery is only part of the delivery. The broad range of measures tackling costs and cash that we initiated back in 2019 when we launched our GROW strategy were deepened and accelerated in 2020, and this is enabling us to deliver strong bottom line results reflected in the improved quality of earnings.

Our cost actions remain on track, and we delivered an additional €80 million of structural cost savings in the Q1 as we continue to accelerate momentum, and this delivery compares to €45 million of structural savings in Q4. These structural cost actions combined with the recovery in certain markets, supported our delivery of 10% organic EBITDA growth, and a new record EBITDA margin of 24.6%. This is 1.6 percent points higher than Q1 2020, and 2.4 percentage points higher than Q1 2019.

Moving to CASH, the organization has continued its disciplined approach, and we again achieved solid results in Q1, delivering €282 million of free cash flow. This is 40% higher than Q1 last year, and is clear evidence of our progress toward improved & sustainable cash generation.

Moving to slide 6, we are focused on the rebound and we have taken decisive actions to reinvest in several projects, key projects, whilst maintaining strong rigour and discipline. Many of these reinvestments are not new to you and are related to customer partnerships, where we have established firm commitments to supply future growth. These investments are directly aligned with our GROW strategy and growth platforms, and will be key contributors to our organic growth in the years ahead. These include investments in capacity expansions and in research & innovation. Let me share with you some of these investments. First we are again investing in PVDF for EV batteries. By 2022, we will have more than doubled our capacity in France and China. Second we are also expanding our Technoflon fluoroelastomer production in Italy by more than 25%, and by 15% in China; this technology is in strong demand in the automotive and electronics markets. Third, we have various polymers (PVDC and Sulfone polymers) used in healthcare which was proven resilient during the crisis and remain a growth area for us. In France we are expanding by more than 30%, and in India by 5%. We are again expanding our high purity H_2O_2 grades for electronics in China by about 35%, so basically doubling since 2 years ago. Last, we are investing in our bio based ingredients used in hair and skin care products in France by more than 15%, and we have more than doubled our capacity of bio-based products in Brazil for consumer and food industries.

Another type of investment is our investments in Solvay One Planet. And today is a big day for us and our soda ash team. We're announcing the full phase-out of coal at our Rheinberg plant, in Germany, which will be the first soda ash plant in the world to be powered primarily by renewable energy, using biomass or scrap waste wood chips. This will reduce Solvay's greenhouse gas emissions by 4% and will establish a new reference as the lowest emitting soda ash plant in the world. It's also an important moment to celebrate today. Three of our businesses, namely specialty polymers, Novecare and Aroma businesses, are now 100% sourced by solar electricity in the US.

Let me now move to Innovations. Today we are also celebrating the official launch of our non-fluorosurfactant technologies which will be in full production at our West Deptford, NJ site by June. At that point, Solvay will no longer use fluorosurfactant processing aids in West Deptford or anywhere in the US. I'm very proud of our research team who fast-tracked this important innovation. I'm also very proud of our sales team for collaborating closely with our customers to qualify the new products in a record time. It's a powerful example of our innovation at work, and aligned with our sustainability drivers. I'll share one more example of innovation, this one related to the composite material business. I like this one very much because this business has faced significant headwinds in the civil market as everyone knows, yet the defense and space markets have remained resilient and a source of innovations for us. Two examples of this are the Vega rocket and the Vulcan launcher, which both utilize critical composite materials from Solvay. In fact, we don't often speak about the space industry, but it's part of our rich history. I bet you may know or didn't know that Solvay materials were on board the Apollo 11 mission that sent humans to the Moon for the first time in 1969. And we continue to provide innovative solutions to solve the future needs of space exploration.

But let me tell you; the most important is our investment which goes beyond capacity and innovation---they are also about our best assets - our people. Of course these investments are not nearly the same magnitude but they are included in our plans. Our front lines (sales force, Global Key account managers) are developing winning strategies, we ask them to increase share of wallet, to value price our solutions, and drive innovations that make our customers win, and make us win with them. And we have changed our sales incentives plans to align with this principle. Finally, we are also investing in more digitizing Solvay. I believe digitalization will transform the industry and certainly our company. This is going from customer data mining to Manufacturing to Research and Innovation to back office automation using AI and robotization, or in Cyber security of course making our operations safe and resilient.

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

Karim Hajjar

Thank you Ilham. Good morning and good afternoon everybody.

Before I dive into the segments, I want to remind you that we indicated in February a full year EBITDA impact of scope and currency estimated at €120 million, and you can see today that Q1 includes €41 million of impact mainly from currencies and to a lesser extent scope impact as 5 businesses were divested at the end of Q1 and the last one in fact just closed at the end of April.

Now I'll refer you to slide 7 which provides a view of our market exposures by the Group and each of the segments, as this may help you to better appreciate the significance of some of the commentary. In addition, we have disclosed for the first time the regional sales for each business segment, giving you more insights, helpful insights, into our global businesses.

I'll start with an overview of the 3 business segments and will refer to figures on an organic basis, by which I mean at constant scope and currency.

Starting with Materials on slide 8 , net sales in the first quarter were down only 7.5% organically vs last year, which is quite remarkable given the fact that demand in civil aero was still strong in Q1 2020. The overall achievement reflects strong performance in our Specialty Polymers business, with robust demand across various markets driving 10% organic sales growth in Polymers. This was driven by 19% organic growth in automotive, once again outperforming the market. As you heard Ilham say, we are investing again in this important platform to support rapidly growing demand. As a reminder you can find Solvay's polymers in many areas of a vehicle, in demanding under-the-hood applications and in many applications within and surrounding electric vehicle batteries. Our leadership position supplying PVDF to batteries continues to forge ahead, with sales growth of 80% in Q1, yoy. As a reminder, our polymer solutions for EV are agnostic to the type of battery. The combination of our global infrastructure and local geographic positions is particularly valued by our customers and we continue to win new business.

The electronics market also gained momentum following a strong Q4, with polymer sales growth in electronics of 14%, driven by semiconductor and smart device applications. The team continues to win new customers, a recent example being Atlas Copco where we just won a multi-million euro contract in semicon fabs. And we have more examples of new business wins where we are replacing metal with our polymer solutions to address the most demanding performance requirements.

The Composites team continues to do a great job in our view, mitigating the headwinds in the civil aero market. As I indicated, sales in this business were down 42% on last year but, more importantly, and for the first time since Q2 last year, the business delivered sequential sales growth of 8.6% versus Q4. The signs of modest improvement in single-aisle aircrafts are there, yet the road to full recovery, as we know, is a long one. I will also remind you that composites delivered record EBITDA levels back in Q1 2020, as its cost reduction programmes overcame volume reduction related to the 737MAX. As you know, our swift cost reduction actions helped to improve operating leverage, and resulted in a strong sequential profit increase, which is evident when you compare our results with others in that market. I will also highlight one other achievement, in that the composites business has in the meantime also successfully implemented SAP, continuing to serve customers without fail. These projects are complex, they should never be taken for granted and we are really proud that our team managed to carry out this project on time and on budget with everything else that they had to contend with.

To wrap up materials, segment EBITDA in Q1 was contained to only a 4.7% decline year on year despite a 7.5% decline in sales, and it increased sequentially by 35% thanks to higher volumes, sustained pricing and of course deep cost reductions especially in the Composites business.

Moving to Chemicals. On slide 9, you see that first quarter sales in the segment were up by +6.1%. (organically).

Soda Ash sales continued to improve sequentially, up by +2.2% in the quarter driven by volumes, but they remain 3% lower than Q1 2020 due to lower contract prices, which we had all expected. We see a continuing recovery in building and construction which supported growth in flat glass, while demand for container glass used in the hospitality, restaurant and catering industry remained weak, of course due to continued lockdowns in many countries. We are also encouraged by recent export price increase announcements in the market to restore a more sustainable price level as we capture new volume opportunities.

Sales increased 8% in our bicarbonate product line, which incidentally represents about 25% of the soda ash sales. The growth was driven mainly by our SolvAir technology used as flue gas treatment for cleaner air. This product reduces emissions of gases caused by highly polluting facilities such as power plants, waste incinerators and indeed even ships. In fact, we are making a small investment with attractive returns due to the continuing strong demand and our leadership position.

Peroxide sales were down by 4.7% organically, compared to Q1 2020, reflecting lower volumes in the pulp and paper in North America and Europe, which are down about 20% due to the declining graphic paper market. Market conditions remain strong in HPPO, which is used to produce polyurethane foams for industries including automotive and building and this part of the business delivered strong growth.

Turning to Silica, sales were again strong, up by about 8%, thanks to the continued recovery in the automotive segment and market share gain, including with key customers, driven by interest in our recently launched innovations. Our recent partnership with Bridgestone and Arlanxeo is drawing a lot of attention, as demand for more sustainable solutions is increasing rapidly from tire manufacturers. And these wins and strengthened partnerships are helping us to outperform and to further reinforce our silica's business leading position as a sustainable innovator in the tire industry.

Coatis had a record quarter, with sales up +55% due to strong volume growth and significant progression in prices clearly in favorable market conditions. Volume increase includes both winning new customers and achieving share gains at existing customers. Over the past year, this business has taken strong actions to optimize its cost structure in line with our strategy, and it is a good example of how this helped to support improved margins. Coatis is expected to continue to perform well, but we are mindful about the recent resurgence of covid cases in Brazil. This one to watch.

Overall, the EBITDA of the Chemicals segment was up +8.7% compared to Q1 2020, and increased sequentially by 15%, mainly driven by strong results in Coatis and in Silica, as well as our Russian Rusvinyl joint-venture, driven by strong demand and higher prices of PVC. The combined performance resulted in an underlying EBITDA margin of 30.4% for the segment this quarter.

Next I turn to slide 10 where you can see that the Solutions segment delivered volume driven sales growth of +6.4%. Beginning with Novecare, sales excluding the oil and gas market increased by 13% versus Q1 2020, with continued growth in coatings, in home and personal care and in agro markets. Actually, Novecare results would have been higher had it not been for the loss of around 20 million in sales related to the winter storms in the US and subsequent disruption to supply chains and on the availability of raw materials. We continue to see high demand in the hygiene market, with natural and sustainable ingredients being clear drivers of long-term growth. And we are well positioned. We have also seen activity levels improve in the oil and gas sector, which grew by 11% against the fourth quarter; yet sales were still down 31% year on year.

Special chem had another good quarter, with sales up 8.6% versus the prior year. Both the automotive and electronics sectors, which today represent around 60% of the sales at Special Chem, were very very strong in Q1. While demand from the semiconductor market is expected to stay very strong in the upcoming quarters, we started to see an adverse impact related to the chip shortages around quarter end, and this could result in a temporary sales slow down in the auto market in the second quarter.

In Technology solutions, Q1 marked a strong rebound in the mining industry, with sales up 14.5% in the quarter. Growth was driven by mine re-openings particularly in copper as Covid disruptions were overcome and these were supported also by higher copper prices, leading to robust demand for our business of specialty extractant solutions. The business also enjoyed share gains in Latin America.

In Aroma, sales were down slightly by 1.6% percent in the quarter after a number of quarters of sustained strong growth. The core business, which relates to hydroquinone inhibitors and vanillin, is resilient, while we are developing further our natural vanillin activity.

Wrapping up Solutions, the segment enjoyed EBITDA growth of 21% versus Q1 2020, reflecting the strong and continued recovery across most of the markets we serve. Focused cost reduction measures also supported EBITDA margin expansion, up to 19.4% versus 17% just two years ago. This improvement reflects the combination volume growth and disciplined cost reduction, consistent with the optimisation mandates that we announced with our GROW strategy back in November 2019.

Moving to COSTS, shown on slide 11, we continued to make excellent progress toward our targets, achieving €80 million of new structural savings in the first quarter, nearly doubling the 45 million achieved in Q4. The main areas of delivery included:

- Restructuring: reductions in labour costs contributed €32 million reduction, €20 million in general and administrative functions and €12 million in industrial functions. About half the restructuring savings were driven by the composites business.
- Indirect costs reductions of €40 million were delivered , as our transversal programmes build momentum bear fruit.
- Productivity efficiencies continue to deliver productivity improvements in our sites, and these savings totaled €9 million in the quarter, and these in fact are variable costs.

The €80 million compares with the full year indication of €150 million that you will recall, that we announced at the beginning of the year. Now some of the delivery represents continued acceleration and is thus of a phasing nature, I can advise that we now expect to deliver around €200 million, not €150 million, in structural cost savings this year, bringing the expected delivery across both 2020 and 2021 to €375 million, once we get to the end of the year.

The cost reductions that we achieved in Q1 together with the volume growth supported €583 million of EBITDA, a 10% increase versus Q1 2020. It is also worth noting that EBITDA was around 7% stronger than in Q1 2019 despite the fact that sales were down 3% on an organic basis over that same period.

Next I'll turn to cash shown on slide 12, and we will talk about cash.

Our performance again was strong in Q1, with free cash flow generation of €282 million. As a reminder, Q1 last year benefited from €65 million in one off cash taxes. Taking this into account, we essentially doubled our cash delivery from Q1 2020 to Q1 2021.

Our strong EBITDA performance clearly supported that. But in addition, what we see is a €63 million improvement in working capital. The evolution of our working capital needs reflect the market conditions which continue to improve. From an operational viewpoint, we are setting new internal records. For example overdues, who were record at the end of last year, progressed even further and are now at 1.5%, a significant improvement on prior historical levels, which were indeed mid to high digits. So really really strong, 1.5%. Our working capital to sales ratio stood at 12% at the end of Q1 compared to 16% in Q1 2020. This reflects the structural improvements that we have been sharing with you as we drive, but also the fact that inventory levels are very low. As we look forward, we will maintain the strong discipline that is now fully embedded everywhere but will also not hesitate to invest wisely in inventories, in working capital, to serve our customers, as they grow as well. We also benefited, in Q1, from €63 million simply from the timing of our capital expenditures, which were lower in Q1 mainly to industry delays and disruptions related to weather and logistics. Now projects have begun, spend rates will increase this year as we invest to keep up with the growing demand in some key markets, as Ilham described to you earlier. The other drivers of free cash flow include our pension cash outs, and you can see the benefit from the actions we've been taking in the last 18 months, this quarter, EUR 14 million alone and a lower pension cash cost compared to Q1 2020, which again was lower than prior years.

Just a few comments on our net debt. At the end of March, our net debt was slightly down compared to the end of 2020. Remember, we paid €155 million of interim dividend in January. Take note of the fact that we made an additional voluntary pension contribution of €102 million in our Belgian plans, which brings the cumulative voluntary contributions to pensions to a total of €768 million. You'll recall, this time last year, that Moody's revised its credit rating outlook to negative about a year ago on Solvay. And actually to a large number of companies as well as we were entering this period of uncertainty last year. So we were very appreciative of the fact that on March 7, 2021, Moody's recognized our progress with its announcement that stabilized our rating at BAA2, making us amongst the first companies to return to rating stability. After the wave of sector-wide negative rating actions taken last year.

And with that, I'll hand you back to Ilham, who will provide our outlook for the remainder of the year.

Ilham Kadri

Thank you Karim. As we emerge from the crisis, it is evident that our results denote Resilience, which can be seen in our improved operating leverage, which by the way is in the top quartile of our peer group and by the continued strengthening of our balance sheet, evidenced by strongly reduced leverage levels.

I'll now turn some comments on the outlook for the remainder of 2021, shown on slide 13.

As we look ahead, our outlook assumes the current conditions in our key markets will continue into the second quarter, where we already have good visibility into our order books. Top line trends have continued into April, so we estimate sales performance in Q2 could reach similar levels, though profitability is likely to be impacted by an expected escalation of raw materials, energy and logistics costs. Our current estimate of additional costs is between €150 and €200 million for the full year, after hedging and pass-throughs. To put it in context, this represents about 3 to 5% of the total variable expenses. As you can expect, we have plans to mitigate these inflationary headwinds by raising prices and leveraging our procurement capability. And we have integrated these expectations into our outlook.

Looking further ahead, I've highlighted that there is limited visibility and there is uncertainty notwithstanding the encouraging progress in vaccine rollout in parts of the world. Given these factors, we estimate our full year EBITDA to be in the range of €2.0 billion to €2.2 billion, representing a 10% to 20% growth on an organic basis. To put that range into context, our EBITDA in 2019, on a comparable basis, including exchange rate and scope changes, amounts to €2.1 billion. Infact, this implies that we have a good chance to be back to 2019 EBITDA levels by the end of this year, which would mean that our cumulative structural cost reduction actions will overcome the lag of 10% of our portfolio that will take longer to recover.

We expect our full year free cash flow to be around €650 million, at the top end of our prior range between €600 and €650 million, as this enables us to continue to invest with discipline in capex and working capital and fund higher restructuring costs.

You will also remember that the company pays employee bonuses and financial charges in the second quarter, and so you can expect the second quarter cash generation to be seasonally impacted.

To finish with, I am very proud of Solvay people achievements, from the mobilization of our teams, to the spirit of solidarity throughout the organization. Also, I know that the 6,500 people who were helped by the Solvay Solidarity Foundation would join me in expressing their appreciation and deep gratitude for the generosity of our shareholders and directors, and for Solvay's top leaders who donated 15% of their salaries last year.

And our results clearly demonstrate that our strategy is also having a real impact, not only culturally, but also on the bottom line. I firmly believe that we are emerging stronger. We are reinvesting in some exciting areas which will fuel our growth for the years ahead. And we will continue our transformation to a simpler, leaner, more specialized organization.

Thank you, and Karim and I will now take your questions.

Jodi Allen

We will now be moving to the Q&A part of the call, and I ask that you kindly limit yourselves to 1 question per person, please, so that we can address as many people as possible today. Moderator, I pass it over to you.

Q&A

Operator

Okay, thank you. Ladies and gentlemen we will now begin our question and answer session. If you wish to ask a question, please dial the zero and one on your telephone keypad and you will enter the queue. After you're announced, please ask your question. Once again, please dial zero and one on your telephone keypad to ask a question. Thank you, Karim, and I will now address your question.

And the first one is from Lisa De Neve from Morgan Stanley. Please go ahead.

Lisa De Neve

Good afternoon everyone. Thank you for taking my question and really congratulations on your very strong performance to date. I just have one question. I mean, could you provide us the granularity on your free cash flow guidance. So you've essentially lifted your free cash flow guidance to the top end of the range while you pointed to €50 million of accelerated structural savings this year, €50 million net working capital saved. So is your free cash flow guidance is conservative or is some of the structural savings offset by your raw material guidance or some of the [inaudible] payments we'll see in the second half, so any granularity on the bridge here this year would be very helpful. Thank you.

Ilham Kadri
Thank you very much, Lisa, for your words, much appreciated. Karim, would you like to take the free cash flow and I can complete if you want?

Karim Hajjar
Of course, a pleasure. So Lisa, you recall that last year, we highlighted a number of non-repeat item in our cash flow, so I'm just going to take you through bit of a reminder.

We delivered €963 million last year. And as a reference, one needs to make a few adjustments. We highlighted non-repeat in relation to working capital and tax, but also recognise that scope and foreign exchange also have their impact. The combination of those two and we said that in February in fact was that, the reference point against which is to look forward at 2021 is €650 million last year.

Now we mentioned if you think, but I'm going to take you through the key building blocks. We also said that we're going to be increasing our restructuring costs. Our cash spend last year we spent €90 million and as we accelerate the momentum we said, we're going to increase that to €150 million, that's a €60 million increase.

We also said that we're going to reinvest for growth, and with the guidance we gave of 700-750, which is not changing, needs an additional investment of €90 million to €140 million 2021 compared to 2020. Now against that, we will absolutely benefit from all the actions on deleveraging, and that's worth a €90 million on the other side.

So if that was all that was happening there's no other activity change, profits whatever, you can do the math. Now, clearly we are in growth mode and you can see the first quarter results. The outlook gives you an indication what that would look like.

The higher profits will require an investment in working capital to support the growth of our customers, but as we said, we will maintain the discipline. These are the key elements that we believe will absolutely get us to what we now believe is at the top end of the range we gave previously of €650 million. I wouldn't call it prudent, I would consider it to be realistic given all the moving parts that I've highlighted.

Ilham Kadri
So in brief, Lisa, it's a rebuilding the working capital and it's a good problem to have, and we are here to take orders build done and if the activity is as strong as we've seen we'll do what it takes. Disciplined Capex, and we've seen us since 2019 centralising the allocation of resources. So we'll be highly disciplined with the right IRR and aligned with our growth strategy. We don't derail from. And number three, you know that we have higher restructuring costs. I think it's €150 million right, Karim with provisions. And this is what €60 million year on year is more than 2020 to give you an idea. So all in all, I think this is realistic. Obviously, we want to do right for the year one eye on the microscope, but one eye on the telescope to ensure that we are reinvesting for the rebound in 2022. Back to you?

Lisa De Neve
Thank you. That's very, very helpful.

Moderator
So we have another question from Alex Stewart from Barclays. Please go ahead. Sorry, it is a question from Martin Roediger from Kepler Cheuvreux. Please go ahead sir.

Martin Roediger

Thank you. Good afternoon. Regarding the additional costs of €150 million to €200 million you guide for 2021 from raw materials and energy, can you talk about the phasing of that figure? I mean, how much was already booked in Q1? How much is expected in Q2 and so on? And is there a time delay in passing on higher input costs to customers? The reason I'm asking is because you mentioned that the earnings level in Q2 would be probably on the same level as in Q1, but normally, there is a seasonality that Q2 should be better than Q1. So it's right to understand that the margin squeeze from raw materials would be the highest in Q2 and then ease them in the quarters to come because then you do the actions and raise the prices and things like that.

Ilham Kadri

Martin right, hi Martin. It's a great question. I'll start high level and then Karim you can deep dive probably.

Well, listen Martin, we may surprise you in our case and we elected to be very transparent with you in term of our estimates and this is all estimates right. In our case, we didn't see much of raw material inflation in Q1. They were in the teens million right, but we do expect because of our good contract etc., so that's good news. And we did expect actually, we entered the year already expecting inflation right, not at the level it is today. So we expect increases to be relevant in Q2, all right. What will happen in H2 frankly, I don't have a crystal ball. And I know that many people are looking at H2 been less inflationary, others more inflationary. I think you know me by now and you know us, we don't put hope in the plan. We plan for the worst and we act on it. So we are as we speak driving price initiatives right to mitigate [inaudible 06:47] for the strong demand. Karim can give you a bit of details around the raw materials, obviously, logistics and energy build.

And let me just tell you the mitigation what we are doing about it is three things. First is pricing and pricing and pricing. You may know that more than half of our business is contracted with mechanical pass-]through, so this has to happen although this year we're going to review our formulas and our contracts for the next year. The rest is there to be negotiated and we are increasing prices as we speak whenever we can. We have a good track record of price power right, in the company. I would like us to become you know really a leader in pricing wherever we have unique specialised products and we bring value to our customers in the value chain.

The second piece is our leveraging the procurements and the relationship with our suppliers. And you may remember in 2019 and I'm not sure it resonated with all of you at that time when we created the W of G.R.O.W. was winning at Solvay one, we created a global procurements group right, which is not led by a new Chief Procurement Officer who joined us a year ago. And leveraging the procurement across Solvay, it's just an amazing opportunity for us to leverage our relationship with our customers. We're doing e-auctions for the first time in our life turning it from anecdotes to really materially impacting the bottom line.

And the last but not the least is innovations. That's what I believe is that innovations are either cannibalising your existing product and bringing higher margin or at the minimum the same, but also and more delivering new businesses at higher margin. Therefore in the long run, we should not only defend to these margins, but although expand them. Maybe Karim, you can give to the audience some colour on the spending?

Karim Hajjar

Yeah, sure. Let me start by confirming that Q1, we only had something like just under €15 million of inflationary spend on these variable costs. And again rather than just talk in very general terms, if I look at logistics not everything's going up. Sea transportation is up little nearer 18%. If we look at current freight rates today, but rail and road are near 2% and 5%. If I look at some of the minerals that we purchase for our products – palladium, silica, we're looking at 5%-10% type of cost increases. And number of the commodities derived from crude oil -- ethylene oxide, phenol, all of these are important to us. We're seeing double digit growth there. So fundamentally, what we are doing exactly as Ilham said, is mitigating on two fronts: pricing and cost mitigation.

So there's a lot of effort going in to doing that. Now the question on phasing is really, really important. Even where we have contractual arrangements that enable us to pass through cost increases, there is a time lag. And it really is almost contract by contract. At minimum, we can expect a month to two months but it can take 4–5 months as well. So it is absolutely reasonable to assume there will be some margin compression in some businesses to some extent, only to the extent that we can't compensate. So we can't really give you more colour beyond that, other than to say that this is what we see today, the environment clearly changes quite fast. It's an inflation environment that everybody is impacted by, no doubt as you're hearing from others in other industries as well, incidentally. And what we intend to do is to overcome.

Ilham Kadri

Yeah, definitely. And to finish with. just to tell you this is not a normal inflationary environment only because there are a lot of *force majeures*. You have seen [inaudible] the Texas winter crisis, etc. and scarcity of logistics. So, you know, when there are special times, you have special measures and that's also what we are adopting as we speak.

Back to you, Operator.

Operator

Yes, thank you. We have another question from Geoff Haire from UBS, please go ahead.

Geoff Haire

Yeah, good afternoon and thank you for the opportunity to ask a question. I think, Karim, you said that, due to the chip shortages, that you would expect some dampening of the sales growth in Special Chem in Q2. Is that the only business where you see the impact of the chip shortages? I was thinking particularly about Speciality Polymers, given the auto exposure and that seems to be a big, obviously, talking point at the moment.

Karim Hajjar

Sure, I'll kick off. You're right to highlight it because we have direct sales into that but the indirect impacts into auto are clearly very significant. Maybe, Ilham, you want to – shall I talk about that or do you want to take it?

Ilham Kadri

Yeah, I'll speak. Who's that? Is that Geoff? Yeah.

Karim Hajjar

It's Geoff, yeah, Geoff Haire.

Ilham Kadri

No, I'm not sure what we say. Do we need to check it? No, we don't see that. I mean, in the semiconductor market, as you know, there are major investments by our customers, right? And I think I mentioned, when investments are a highly purified H2O2, which goes exactly to the electronics segment. And frankly, I'm very excited about that. We have unique technology, we are by far a leader, not only in peroxide but actually downstream into highly purified and we do it with agility and we can localise and customise it for our customers and more to come in the future.

On the auto, obviously, indeed, auto has been very strong, right, quarter four, quarter one and we grew about 20% versus Q1 last year. It's a recovery but, you know, as you can read the press and hear the OEMs, it's impacted by the semiconductor shortages here and there and you've seen many operations and many OEMs' assembly plants closing down because of the semiconductors.

So LMC didn't change their forecast so far. Maybe it's not going to hit the double-digit growth. I think we all believe, including researchers who deviate from LMC, that Q2 will be still stronger, right, in terms of – you know, yeah filling the value chain, which was much depleted, which is the case for our products in summer, last time. Now the H2 next year, I can also see that, you know, some people forecast a slower, maybe, growth rate in the auto industry, right, due to the semiconductor shortages.

Okay but all in all, you know, I think, our order book in April is, you know, a high record, all time, right? So it has been still extremely strong for the next three months. We have three months visibility beyond that. It's a bit far away but we are discussing with our customers. We are close to all our OEMs, more than ever, because they are all switching to to EV, yeah and most of them have announced 100%, even, EV vehicles, hybrid or pure electric, by 2035, so very, very connected with our customers to discuss future investments in batteries and PVDF and I take the opportunity, personally, with our president in Specialty Polymers as well, to discuss about how they see the year and getting more clarity on their order book to ensure that we plan, you know, accordingly. And the last point for Specialty Polymers, which you have seen has done a great job and double-digit growth and I'm so excited to see Specialty Polymers for two quarters in a row growing and you know, really excited about that. That crown jewel is going to continue delivering. And we also lighten a car, so we penetrate in an automobile. We don't just sell what exists but the core competency of our business is to replace metal at lower total cost of ownership. You consume less fuel; you emit less CO2; it means cleaner mobility. Back to you.

Operator
So, we have another question from Matthew Yates from Bank of America. Please go ahead.

Matthew Yates
Hey, afternoon everyone. I'd like to ask about the Soda Ash business. Sorry, there's a few parts here. So, firstly, on the announcement today about the biomass project. Can you just clarify: the 4% group CO2 saving; that's across both the first and the second phase of this project? And then, more broadly, about the business, Karim, can I find anywhere the disclosure on your CO2 position and the hedges you have, looking forward? And also, I see the environmental provisions at the group level – I think it was just over €600 million at the end of the quarter. Can you give any indication how much of that specifically resides to the Soda Ash business?

Ilham Kadri
So, for your first question, this is Matthew, yeah?

Karim Hajjar
Matthew, yeah.

Ilham Kadri
The first question is yes. It's both boilers, right, so one and two. Obviously 4% is a big deal and this project, you know, the emissions are Rheinberg, so the Ash will be less 70 – 65% relative to 2018.
The question about the provisions, right?

Ilham Kadri
And what – was there another question, Karim?

Karim Hajjar
It was around CO2.

Ilham Kadri
CO_2, yeah.

Karim Hajjar
So there is – and I'll ask the team to give me the reference in the annual report as to the disclosures on CO_2, so we'll come back to you on that a bit later on but let me just maybe address one or two things. On the environmental provisions, we haven't disclosed provisions by business or territory or anything else. But what we did do is give more colour. And again, for the benefit of everybody, it's in our annual report and I'll give you the specific reference in a few moments. We've shown you, for example, a regional breakdown. So it's not quite at business but again, our desire is to generally give you much more clarity as to the approach on things like environmental liabilities. So I'll come back to you with specific references on – in our annual report. But I will say to you – I will confirm that we don't disclose specifics, at least on a particular business.

On the hedging, what we have indicated previously, and I can confirm, is that we are substantially hedged in terms of the group's CO_2 emissions, certainly through to the period of 2025 and a very complete level and we're also extending that to 2030. We don't give the details of the quantum or the value because, as you'll appreciate, this is competitively –

Ilham Kadri
A competitive advantage.

Karim Hajjar
Yeah, it's sensitive.

Ilham Kadri
Yeah. And actually I think it's a good story for us, Matthew because, since 2019, I remember when I joined the company, CO_2 pricing was low €20s; it's now probably more €50, right? And our – I mean we have really pursued very aggressive hedging policies. I always believe that – actually, since 2019, our internal carbon pricing was €50, believe it or not and we stress-test all the projects coming to the executive committee on a high at €75 already. And now, obviously, we are raising the bar internally. At that time we were – some were wondering if you are not just killing some good projects but I think, with time, it has proven to be right because the hedging and being almost fully hedged by 2025 – and we are even doing more post-2025 – is a competitive advantage. Thank you, Matthew.

Matthew Yates
Thank you, both.

Operator
We have another question from Chetan Udeshi from JP Morgan. Please go ahead.

Chetan Udeshi
Yeah, hi. Excuse me. I just had a question on your PVDF there. I think there is a mention in the report about 80% growth in the battery materials market. Can you help us understand how big the business is today on a run-rate basis, in terms of sales? And how is the margin in this business relative to the overall Specialty Polymers or Advanced Materials market? I mean, what I'm trying to get to is: is this a business which comes at high growth but with a lower margin, just because maybe there is a bit more competition in this industry?

Ilham Kadri
Yeah, it's a great question, Chetan. Obviously you've seen, since 2019, we launched the EV battery and I always believed that this is strategic for Solvay and for Materials, not only because of the batteries. I mean, I always ask a business, 'What is your core competency?' And our competency, like I mentioned, that we replace metal for lightweight and we also separate, in general, that's our core competency, technical competency. And we do it in material, in mining, etc. So PVDF is a membrane. You'll find it in several applications. You know, it goes to, obviously, automotive as you know but also to reverse osmosis in water, which was one of my

previous roles in life and other applications. So it's another technology to – haemodialysis in healthcare.

So, yeah, we are double-downing. We believe that the market CAGR till 2030 will be around 30% minimum. We have seen a major growth in the past years and what has been a bit of a hype and a question mark; it's now confirmed, right, that this growth is sticky. Talking to OEMs just earlier this week, because of the shortages, obviously, of PVDF as well, has actually supported my conviction that it's the right thing to do.

On margins, this has higher margins than other products we have. And to give you an example, Chetan, in this very tight supply/demand, because we are almost sold out, in this, we have to prune the portfolio, which we did. So everything below 75% contribution margin in that line is out, so we had to cut it, right, with long-term commitments on businesses.

And I know that you know this value chain, basically and obviously the question is where is the money and obviously we are not assembling batteries and we are not playing in the cathodes, in the anodes, etc. We are really circling the batteries from the ingredient perspective and extracting the right value for our business with the right economics.

The other thing I would like to mention here is that we are agnostic to technology, as much as this can appear a bit surprising. So wherever you talk about, you know, including LFP and there has been a lot of press and news about the lithium iron phosphate, it's a well known cathode material, used primarily in China for vessels and in stationary, you know, and it has these advantages and disadvantages, the advantages being cost and safety and disadvantages, lower energy density. It has been a declining option, maybe even two years ago when I joined the company and now it's surging again as a viable option to produce, maybe, low-cost cars and facilitate customer acceptance.

So we are not impacted like cathode manufacturers at all. We develop binders for all types of cathodes. Moreover, actually, the good news is that the consumption of binders for LFP is higher than for competing cathode chemistry, like NMC, the nickel manganese cobalt. So it's just a good news.

We didn't disclose, Chetan, the numbers, obviously for competitive reasons. But it's growing extremely fast. We doubled our capacity since 2019. Last year we did a line for Tavaux in France which started, you know, January this year. The second line is Changshu, which will start in Q1 2022 and we are steady in the business case, location to be confirmed and determined in Europe and more soon. Back to you.

Karim Hajjar

Before we go to the next question, I'd like to maybe just revert to Matthew Yates' question in terms of CO_2 and environmental disclosures. Just to make it easier, the references to the two questions are shown on pages 119 and 230 of the annual report. 119, you see the beginnings of the extensive disclosures on CO_2 and 230 is also the beginnings of – in relation to our environmental liabilities. Thank you.

Ilham Kadri

Operator, back to you.

Operator

I'm sorry, this is now the question from Alex Stewart from Barclays. Please, you have the floor.

Alex Stewart

Hi there. Good afternoon. Could I just circle back to soda ash again and talk about the pricing a bit? We know that the annual contract price settled down in soda ash this year as reported earlier in the year. Your pricing for the chemical division overall is positive, too. Could you talk about how much impact the prices had on EBITDA in the first quarter? I'm most interested about the ANSAC announcement that they're going to start raising contract prices due to market tightening. To what extent would such a move affect you in terms of your exposure to quarterly pricing or monthly pricing compared to annual? Any sense around the impact of those would be really helpful. Thank you.

Ilham Kadri
Thank you. Great question. Yeah, on soda ash, I'll take it, Karim. You will remember that a big part of our businesses is contracted obviously at soda ash at the fall for the year after. You will remember that a good public proxy is the IHS Price Index. This is an average of the prices available in the market. But you can imagine, and you probably know that Solvay is usually on the high end of this index and far better than average.

For most regions, IHS publishes yearly indexes, and those have not changed. They rarely changes. And there's pretty significant price decrease in '21 versus '20. And this is how we entered the year, right, by memory, €-11 a ton in EU, $-35 in LATAM, $13 in Asia, and $5 in the US. Again, we do not expect those indexes to change. On average, we aim at better than IHS prices in Europe and NAFTA. Most of our prices, not all of them, are locked for the year by contract. We have quarterly or semesterly prices only in APAC, LATAM, limited in other regions.

Obviously, you talked about ANSAC, and we read the same thing. They announced in March $25 I believe per ton price or 10% increase on their open volume. Note as well that the sea freight cost increases are mostly in the EU outbound flows. And ANSAC is probably less impacted because they operate their own vessel fleet. So we are encouraged by those price announcements. Our business will continue to strive for better performance, and you know that we have a great track record of outperforming the industry. Obviously, the price decrease year on year has impacted the bottom line of soda ash. But at the same time, soda ash is a great business run by top-notch leaders who know how to manage commodities and supply demand. And you've seen it probably when the Turkish capacity came on stream before my time, and I saw it first-hand since two years. And we started the year already with our cost-saving program which is well underway, and they are doing what it takes. And thanks to those prices increase and us – like we did last year, we applied the same strategy. There are some volumes we didn't take. We did it in 2020, and I think I was very public about that. We took the same stance. We have obviously our key customers, strategic, etc. But we have, you know, some volumes very open which now we are negotiating at higher prices. Those are the open volumes. And we are very picky, but we continue driving and striving for excellence in cost and productivity. And obviously you see it in energy transition not only cutting the CO2 but being competitive. Because the thing that you will see in the PR is that Rheinberg not only is the lowest CO2 emitter in the world and is building precedence and global benchmark including versus natural, but it will be competitive versus landed natural in Europe.

So that's I call it in our old jargon la Renaissance in Europe, and it's something I'm very proud of the team who works very hard on this. So yeah, we have the same observations, and we are working on that on managing our pricing and pushing them. Back to you.

Alex Stewart
Can I push you to give some idea or some sense of what the earnings in power was in the first quarter? Any sort of indication on that would be really helpful.

Ilham Kadri
On the bottom line on soda ash?

Alex Stewart
Yeah.

Karim Hajjar
That would represent a new precedent, which we don't want to go there. I did say that the impact on the segment was I think minus 3% from memory. I have to revisit my notes. And that is predominantly soda ash. But as you also know, we have a little exposure to the spot

market, so the announcement that you quote correctly will give us a tiny bit of tailwind. But we are well positioned as leaders in this business.

Alex Stewart

Really helpful, thank you.

Ilham Kadri

Thank you very much.

Operator

So we have another question from Sebastian Bray from Berenberg. Please, go ahead.

Sebastian Bray

Yes. Hello. Good afternoon and thank you for taking my question. It comes back to the theme that Chetan mentioned earlier on electric vehicle exposure at Solvay. Ilham, I believe you've gone on the record or at least mentioned in the past that the PVDF sales were approaching €100 million back in 2020. I'm trying to understand where this is located because the press release and the presentation of Solvay both make reference to strong sales of electric vehicle related products within specialty polymers. But I thought originally that PVDF is primarily focused around the special around the special chem segment. Can you give an idea of the main products from both of these that flow into electric vehicles, an idea of magnitude which is the bigger absolute exposure in sales, special chem or specialty polymers, and how exactly these products differ from each other? Thank you.

Ilham Kadri

Thank you, Sebastian. And if I say, my apologies to Chetan, actually it is much higher than that. So anyway, moving to where it is, no, the PVDF is part of Materials, Sebastian. So it has never been part of Special Chem. Special chem is more on the catalysis part of ICE, by the way, internal combustion engines, and rare earth, type of separation. It's a membrane. It's part of our customers, they produce the membrane, but it's part of the Materials segment, part of Specialty Polymers. Where we produce – this is great new – we produce in all country now, right. We are capable of producing in Europe, in the US, and in China for Asia.

So and this is extremely key for our customers. It's extremely key. And you know that Europe is putting a lot of money and stimulus into building the value chain after the areas of batteries. And they are keen to have the value chain and more than just having the batteries assembly. So we are working with all the battery players. I mean, these are traditional customers. You know them, from the Ag-Chem, Samsung, the Chinese CATL, and Panasonic, and you name them, but also the emerging Europeans from the Nordics to the French to the Germans, etc. And we've seen the Koreans investing in Eastern Europe heavily, Germany as well. It's a big investment. France went for a national alliance called Saft, and we are working with them. So all of this, you know, it's real. Obviously, if you look at quarter one, Sebastian, you will see that if you look at hybrids and even electric, you see that China production is leading the world production followed by Western Europe, and the last one is the US approaching 100% quarter to quarter. So we are at that, right. We are really following the market and even outperforming as we can bundle several technologies and sell it together to the same OEMs for lightweight and electrification.And by the way, both go together because, you know, if you may remember a few years back, half of the costs – more than a few years, probably six, seven years - half of the cost of the EV car was battery, and now it's probably 20%-30%.

And, you know, talking to the OEM, they wanted smaller, safer, cheaper, right, and better technology. So this is our generation two which we produce all over the world. We are working on generation three to five, five being the solid. Now the solid is 20-25 plus. But solid will be a fabulous technology breakthrough because it's pure safety and the most condensed battery you can imagine technology-wise.

So we are working on all of those and we have now three hubs in the world. The Biden administration is investing in charging, you know, stations which is extremely important because that's often the problem. It's not technology, OEMs' willingness, there are not enough charging stations along the roads and Biden has announced a bill or a plan to do so. So we expect that they will be also probably lesser than in Europe or China, an increase in EV or so in the United States.

Sebastian Bray
Just to clarify on this Ilham, could I just make sure I get the points here that are currently confirmed by Solvay. So my understanding is that the sales within the Specialty Polymers segment largely of PVDF to electric vehicles are substantially over €100 million per annum and the main applications are cathode binders and using membranes. Is that correct or have I got it wrong?

Ilham Kadri
Again the number is much more than that, right. It represents a significant amount of Specialty Polymer growth. We are in the separators, right Sebastian, so between the cathode and the anode you had also PVDF into the compartiment. And then we are in other things from Specialty Polymers or thermoplastic composites. Yt's a Specialty product. Does that answer your question, Sebastian?

Sebastian Bray
Would you feel more – yes. Would you feel more comfortable with a figure of €200 million or am I pushing my luck with that guess?

Ilham Kadri
Well I say no to Chetan and Sebastian I don't want to create issues here. We'll share in due time and I think we are growing nicely. It is a competitive advantage. There is much capacity being discussed. It's really unique and differentiating because it's not only about making PVDF by the way. It's the vertical integration on raw material to produce PVDF. So that's something which is also very unique to Solvay and we are very excited about this. But our ability to innovate again with lower cost technology, to lower total cost of ownership and agnostic technology to the type of batteries which I think it's a remarkable way of innovating in this segment. Thank you.

Sebastian Bray
Thank you for taking my question.

Ilham Kadri
Operator, I think we have time for at least one more question, maybe two, depending on if there's no follow-up.

Operator
Okay, no problem. We have – so the next question is from Laurent Favre from Exane BNP Paribas. Please go ahead.

Laurent Favre
Yes, hi everybody and thanks for squeezing me in. Karim, I'm going back to the – your comments on cost savings, on permanent cost savings of €80 million in Q1. Given the run rate over the quarters last year, it doesn't seem that the comps are getting tougher for that number so I'm a bit surprised that from €80 million you would assume that we come down to €200 million. So are you factoring in the reversal of the temporary savings or should we assume that there are more costs coming in, including resources, R&D, etc?

Karim Hajjar
No, it's an interesting comment that you make. No, fundamentally what we're saying is this. We delivered €175 million last year and you can see the build-up of that momentum coming in €45 million delivered last year. And all I really said is we've got about temporary cost savings, etc., which I'll get to in a minute. And what we really said is this: we've delivered

structural incremental additional cost savings of €80 million. Now if I compare to what we were expecting in our budgets, it is higher. There's an element of acceleration and that's why I referred to the phasing component. But it's also deeper than what we were expecting, which is one of the reasons we said we can do more. We will repeat, let's raise the bar and go from €150 million to €200 million. Now, if I take your question differently and just look at 2021, clearly we're battling against inflation and that is there to erode some of the savings but that's tiny in relation to the €80 million delivered. We're looking at nearer to €10-15 million of inflationary cost impact, fixed costs impact, at this point. Last year, where you're absolutely correct is that we had just over €150 million of temporary cost savings which we're not going to be repeated. And in fact, the philosophy has also changed because what we're saying is that every single thing that has been delivered will be continued, will be sustained. And that's almost like the step-change in gear that was happening right now on the cost agenda. But what I did say is that you can't just extrapolate to multiply by four the €80 million precisely for the reasons I've explained. And also to your point, the comparables will get tougher because clearly the programmes have built momentum during the course of last year. And you can't maintain the same rate of momentum growth as you go forward, as you'd expect.

Laurent Favre
Excellent, thanks Karim. And if I push my luck, on Rusvinyl, Ilham can you remind us whether this for you is a stake that you intend to keep or whether you're looking for the right moment to get out? And I'm just wondering why you called – why you took the call option on the EBRD stake. Thank you.

Ilham Kadri
Thank you. A good question. Well listen, the call option, exercised by the European Bank for Reconstruction and Development called EBRD, you saw it in Q1, it's related to the €52 million capital investment with Solvay in the JV. This happened in 2011. We also had in place a put and a call option arrangement with EBRD. As a consequence the contribution to the capital was accounted for as a debt in the Group's accounts and this is in line with IFRS obviously rather than equity or minority interest. So first of all, at the end of the day, the rationale for doing it now, that's your question. One is the option value is close to the floor now and is expected to increase in the future with the de-leveraging of Rusvinyl. And we like it, right? I mean, financially you've seen that frankly we didn't extract much dividend from this for many, many years. And I was lucky when I joined the company, you know, we started really collecting some fruits. The second is that the EBRD, and you know their mission, support and influence in Russia is not considered as essential anymore. So that's it. I think that's the only reason why we did it now. It makes sense economically.

Laurent Favre
Okay, thank you.

Operator
We have a last question.

Ilham Kadri
Yeah, okay.

Operator
Yeah? From Andreas Heine from Stifel. Please go ahead.

Andreas Heine
Hi, I'll keep it very briefly. The one is, as you have said you have closed all the divestment, maybe you can share what the net proceeds were for all of them. And secondly, Coatis is looking into Q2 after this outstanding Q1, will Q2 be as good as Q1 before it might start to normalise?

Ilham Kadri
Sorry, what was the second question?

Andreas Heine
The question was on Coatis which had an outstanding quarter in Q1.

Ilham Kadri
Karim, would you like to talk about divestments and I'll take Coatis?

Karim Hajjar
Sure. So we will absolutely not hesitate to give you colour and quantum on significant divestments. But tiny, small divestments or for that matter acquisitions we typically, as is normal practice, we won't quite do so. What I can highlight is that the total revenues we expect to be divesting is of the order of €0.3 billion on an annualised basis. You're not going to necessarily see all of that in this year. Annualised that is exactly what you'd expect to see and that is also one of the reasons we said scope and FX. We are talking about those half a dozen small divestments. Your second question on Coatis was around our expectation for the evolution of that business into the second quarter. Is that correct?

Andreas Heine
That's correct, yeah.

Karim Hajjar
That's correct, okay.

Ilham Kadri
Okay. Well, you've seen and I'm very proud of the Coatis team, you know. We've done +55% in quarter one and it's mainly driven by obviously volumes and pricing, right. And they did really a great job. Really proud of them. They leveraged on short market market opportunities as other competitors were on force majeure basically including the Texas weather, you know, challenges. Meanwhile the raw material cost was still low and fixed costs under control. By the way, Coatis since last year, we completely turned it around in terms of cost structure. This is behind us. It's not part of the new programme. And I think, you know, our President Daniela did a great job with her team. So we had a very positive – first of all very positive dynamic, a tailwind from the Texas freeze. Ports still need to resume operation. Raw materials shortages, low inventories, they face high freight impacted, you know, passed directly on our customers. I think the freight cost between China and Brazil was just insane. So we just played what a good businessman and woman can do. Woman by the way, in this case. But also strong performance beyond the good market dynamics and the team had a good ability to respond promptly to demand while leveraging the price power.

And the last before I answer the sustainability. It's about the innovation and the strength of it because we have bio-sourced ingredients. This is our line called Augeo products which is sold out, by the way. We are – we are, as I mentioned in my speaking notes that, you know, we are – we are investing and double-downing because it goes to consumer goods and food applications and it's coming from glycerine. So it's highly wanted by our customers. Listen, the situation is still tight so far, you know, so we'll continue enjoying what we'll enjoy. Meanwhile we are not really sleeping on our laurels. I think the team is not only sweating the assets but it's also improving the cost position. And wherever we can we also negotiate longer-term contracts, right, in this favourable environment. So we will share with you in the coming quarter, right, how things evolve for Coatis but very proud of them and happy that they are under the lights during this quarter. Thank you.

Thank you very much. Maybe the right time to close the call if there are no more questions. Well, listen thank you very much. I think I say this probably we would like you to remember from us is the resilience and we've proven it last year and we still continue. And we are at the rendezvous of the recovery and we are focused and obsessed by our customers. And one eye on the telescope and we are reinvesting as we prepare the rebound for 2022. And that's what we are doing. And thank you for your attention and questions. Thank you, have a good evening. Bye, bye.

Speaker
Thank you everyone for joining our call today and as a reminder, you can always reach out to the IR team with questions but we hope spending some extra time with you today was worthwhile. Thank you so much.

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