Solvay Q2 2023 results

Analysts call transcript

3 August 2023

Jodi Allen - Solvay, Head of Investor Relations

Hello everyone and welcome to Solvay's second quarter 2023 earnings call. I am Jodi Allen, Head of Investor Relations, and I am joined today by our CEO, Ilham Kadri, and our CFO, Karim Hajjar. Today's call is being recorded and will be accessible for replay on the investor relations section of our website later today. I would like to remind you all that the presentation includes forward-looking statements that are subject to risks and uncertainties. You may refer to the slides related to today's broadcast, which are available on our website.

And with that, I'll turn the call over to Ilham.

Ilham Kadri - Solvay - CEO

Thank you Jodi and good afternoon everyone.

Our results this quarter – and for the first half – were aligned with our expectations. In early May, we shared our view that volumes would remain down, and we expressed confidence in our ability to maintain strong margins. Despite the continued challenging macro environment, we continue to deliver on our forecasts.

Navigating this environment is not easy, and I'm proud of our teams who are staying the course, focusing on all actions that are within our control and staying close to our customers. When you look at the details of our results, you will see the tangible impacts of their efforts on our pricing and costs.

Sales were down 9% organically versus second quarter 2022 contributing to a 13% decline in volumes, while pricing was 4% higher. We remain confident in the sustainability of our performance resulting from multiple actions over the past few years as we improved the portfolio mix, and provided differentiated, highly-valued technologies to our customers, AND held onto strong margins while we strictly controlled costs. In fact, we have just surpassed €500 million of structural cost savings since we launched the target in November 2019. All of these actions enabled us to consistently deliver best in class results, and this quarter translated into €790 million of Ebitda, down only 2.6% versus Q2 2022 versus a 9% fall in revenue. The quality of our earnings continues to improve thanks to these concerted actions, and this is evidenced in the EBITDA margin of 25.6%, which is +0.7 percentage points higher than Q2 last year.

Now let me give you some color on the lower volumes. In food, flavors, and fragrances, which impacts our Aroma business, lower demand was driven by customer destocking and strong competition from China. In the agro market, the speed and size of destocking by our Ag customers was notable; from what we read and hear, it has been a common experience across the industry. Construction markets remained soft and this impact was noticed in the technologies we supply to the coatings industry, and to a lesser extent in soda ash. In Chemicals, the most noticeable volume decline was in Coatis, as we anticipated, as the business returns to its normal cycle from its previous highpoints. And finally, in batteries the customer destocking continued in Q2 though we believe that this trend has run its course .

On a regional level, iIn our main markets, Europe sales were flat versus Q2 last year, while US sales were down 6%. China sales were down 23% year on year. The decline was related to batteries and consumer markets.

Moving to cash, this is our 17th consecutive quarter of positive free cash flow. We laid the groundwork for improving our cash generation when I joined the company in 2019. As a reminder, we put in new incentive structures and enforced disciplined processes across the organization. You may recall that we used the Covid crisis to accelerate our delivery and truly change the culture and here we are four years later, the practices we introduced have become habits and the cash culture we built is now deeply embedded, delivering €556 million in the second quarter. And, we have consistently delivered our commitment of a FCF conversion ratio above 30%. This is something we are all very proud of, not least because it further reinforces our financial foundations and our credit strength ahead of our Power of Two project.

Before I turn to Karim, as usual I'd like to share some recent updates as we continue to bring new innovations to the market and strengthen our customer partnerships.

While we were busy delivering this performance, the teams were also busy making progress with our innovations; These investments enable us to further reinforce customer intimacy and indeed help us to sustain our profitability and leading market positions.

Just to name a few, we launched new biobased polymers for hair and skin in personal care, we launched a New PEEK compound for electric-motors, and announced a plan to produce Green Hydrogen at our site in Rosignano, Italy through a partnership with Sapio. We also announced a Strategic collaboration with Spirit focused on advancing production rate and cost of future aircraft processes and a Polymer collaboration with Zoatfoams to extend the reach of our polymers into the aero market. Finally, we're helping to enable the EU energy transition by providing a large-scale clean energy storage solution for compressed air or hydrogen in the form of salt caverns.

These innovations and partnerships are directly aligned with the respective focus of our two future companies.

Since we last spoke, we had several other important announcements. I'm really pleased we reached a settlement with the New Jersey Department of Environmental Protection on Pfas. This marks an important milestone in de-risking our operations and follows the successful innovation of non-fluorosurfactant polymers in New Jersey, which was the first step in our journey to become fluorosurfactant free.

In June, we also published important information in relation to the capital structures. From the very outset, we explained that we would be creating two leaders, two champions. We worked closely with the rating agencies and helped them to understand the sustainability of our strong performance. The conclusion of the exercise is that our shareholders will own two investment grade rated companies with capital structures that enable each company to pursue their distinct strategies, delivering superior sustainable growth on one hand; and high margin, resilient results on the other.

I'll now pass the floor to Karim to discuss the segment financial performance. Karim?

Karim Hajjar - Solvay - CFO

Thank you Ilham. Good morning and good afternoon everyone. Today, as usual, I will present figures on an organic basis, which means at constant scope and currency unless otherwise stated. In Q2, scope and fx impacts related to the divestment of Rusvinyl and exchange rate changes equated to €53 million or 6%.

Starting with the Materials segment on slide 5, sales increased +7% in the second quarter to €1.1 billion. Once again, 9% higher prices were the driving force behind this growth, more than offsetting a slight reduction in volumes for the segment of -2%.

In Specialty Polymers, sales went up by 4.7%, driven by higher prices. whereas volumes were down 4%. The continued positive pricing momentum in Specialty Polymers demonstrates both the investments in our capability in terms of value pricing and - more importantly - the fact that customers appreciate our differentiated technologies that make them sustainable at a lower total cost of ownership and we share in the value creation.

Specialty Polymers volumes were up in electronics, specifically in semiconductors and industrial applications, and this was offset by continued destocking in EV batteries and impacted PVDF volumes. Take note of the fact that our PVDF business is diversified as we serve markets including EV batteries of course as well as oil & gas, electronics, construction and healthcare and the fact is that no single market dominates in terms of sales. Also, PVDF volumes other than in EV batteries have shown resilience in H1. When you consider the total PVDF view, I can also confirm that we maintain the contribution margin percentage in batteries while we have grown our contribution margin percent in the non-battery markets.

Moving to Composite Materials, this business continued its gradual recovery from the lows of the Covid crisis; Sales were up by 16% this quarter, driven by both increased volumes and prices. The volume increase is driven by increased build rates in both commercial aircrafts and in defense, and this is despite the ongoing supply chain issues across the industry.

As a result of the higher pricing in both businesses and higher volumes in Aero, the Materials segment Ebitda increased by 9.4% in the quarter.

Moving to Chemicals on slide 6, you will want to note the fact that the comparative 2022 numbers included the contribution from Rusvinyl, which was a 10% impact on the segment's EBITDA. This is a good example why we speak about organic growth, as this helps to understand performance on a comparable apples to apples basis, without distortions.

Sales were down 9% in the segment, and all businesses saw lower demand, with some markets or regions being more impacted than others. This led to volumes down 14%, and again pricing was +5% higher.

Soda Ash demand remains subdued across its markets – including the construction and detergent sectors, and we continue to prioritize pricing over volumes, particularly in the seaborne market. As a result, soda ash and silica posted solid profit growth, supported by those higher prices and lower variable costs. Peroxides was resilient although slightly down, as the competitive environment in some markets, especially pulp & paper weighed on the business. Finally, Coatis, while improving sequentially, was comparing with its best quarter of 2022, and therefore was significantly down year on year.

All in all, the Chemicals segment delivered an EBITDA margin of 30.4%, or +2.2 points higher year on year thanks to pricing which offset the lower volumes. This is a solid performance, and is a good indicator of the resilience of the future EssentialCo.

Turning to Solutions on slide 7, you will note that our businesses in this segment are operating in markets that are currently more challenged, due to exposures in end-markets such as agro, consumer, and construction, where demand is significantly lower and customers continued to destock. Our priority here is to protect our margins and our long-term customer relationships; on one hand we continually look for ways to adapt to the fixed cost base as we navigate the challenging environment. On the other hand we balance pricing and market share to optimize our mix and preserve profitability with discipline. This balance helps us to ensure that we remain poised to benefit from an eventual volume recovery, leveraging on the stronger foundations in this segment resulting from portfolio & cost optimization as well as enhanced valuable technologies.

As a result, the current 17% Ebitda margin is lower than previous levels, reflecting the effect of lower volumes on a stable fixed cost base. You may remember that we were at similar levels of profitability in more normal market conditions back in 2019, so 17% in today's challenging markets shows the benefits of the optimisation of previous years, through the divestment of lower margin businesses, the improvement of our product mix toward more specialty solutions and structural cost reductions. This also means that, as volumes recover, the business has the potential to improve EBITDA margins.

On slide 8, we included a bridge for the quarter to show you more clearly the translation of all these elements into the EBITDA for the Group, which amounted to 790 million euros and is only 2.6% down versus Q2 last year; I say only because our teams have worked hard to sustain pricing as well as benefit from a positive portfolio mix effect. EBITDA is 6% down sequentially versus Q1, slightly better than what we said mid June. This reflects that June volumes were better than expected in some of our markets, but Ilham will come back on this when we discuss the outlook.

You also see our net pricing of €209 million in Q2, totalling half a billion in H1. Net pricing peaked in the second half last year, and we are targeting to keep net pricing approximately flat in the second half of this year.

Slide 9 shows you that we have now surpassed the €500 million milestone - remember this was a structural cost savings target that we launched in 2020 and that we achieved 18 months ahead of schedule. This is despite fixed costs being impacted by inflation this quarter. It goes without saying that we won't stop there, and you can count on us to continue to manage our costs in a very disciplined way, especially in this macro environment - though we also have our eye on the growth ball and we will invest selectively to make sure we are positioned for growth when demand recovers.

Slide 10 shows the free cash flow bridge; as a reminder we started the year building inventories in Q1, and we have been working down those inventories in Q2 which lead to strong cash generation. Our strong cash flow has enabled us to continue our planned capex projects. You know we have a lot of projects to increase our capacities to meet future growth expectations and also to continue our energy transition goals. While we are ambitious and are convinced this is the right moment to invest, we will continue to monitor the demand and adapt, if necessary, our ambitions to the reality of our markets. As of today, we still aim at investing around 1.25 billion of capex in 2023.

Cash generation has been a major area of focus since the arrival of Ilham and the momentum you've become accustomed to continues. The bridge on page 11 shows a reduction in leverage reflecting the combination of operational cash generation, proceeds from our timely divestment of our 50% interest in Rusvinyl in Q1 and dividends. Our leverage ratio is now 0.9 times. I took a quick look and couldn't find a time when it was that low.

As Ilham indicated, we've settled with the state of New Jersey in relation to PFAS and so we've updated our analysis of one time costs and investments on slide 12. You will see the investments we are making for attractive returns and notice the fact that our separation costs are below benchmarks

I'll now hand the floor back to Ilham who will review our outlook for the remainder of 2023.

Ilham Kadri - Solvay - CEO

Thank you, Karim. First, let me start by confirming our full year guidance. As a reminder, following our strong start to the year, we raised our EBITDA guidance last quarter to be in a range of +2% which would reflect a recovery in volumes, to -5% which would reflect volumes remaining stable.

We had a strong end to June, yet July sales were soft and demand remains volatile. Our order books for the remainder of Q3 indicate that demand will not recover in the quarter. If volume recovery does not materialize, then the second half will likely be consistent with the current FY official consensus.

The same focus and discipline that sustained our performance in the first half will persist in the second half: staying close to our customers, ensuring we drive the right pricing for our offerings, and maintaining cost and cash discipline internally. We may not be able to control demand, but you have seen what our teams can achieve, even in challenging markets. These are the factors that give us confidence to reconfirm our full year guidance.

On Cash, our disciplined management of cash will continue and we expect to deliver at least €900 million of free cash flow for the full year – and this is despite the current growth investment cycle. Remember, we are investing now to support the future growth plans in SpecialtyCo and EssentialCo. The preparations for the launch of the two new companies continues as planned. In fact, on July 1st our IT cut-over took place which was basically an operational split of our IT systems and this occurred without any major incidents. We must highlight the exemplary mobilization of more than 300 employees, mainly from the IT, SBS, Finance and Human Resources departments, who contributed to the completion of this successful cut-over. We are now about four months away from starting these new chapters which we are confident will unlock significant value for our customers, our shareholders, and our employees.

With that, Karim and I are happy to take your questions.

Jodi Allen - Solvay - Head of IR

Thank you, Ilham. Moderator, can we please start the Q&A session?

QUESTION AND ANSWERS

Operator:

So as a reminder, if you would like to ask a question or make a contribution on today's call, you can press star one on your telephone keypad. To withdraw your question, please press star two. Now we'll take our first question from Jaideep Pandya from On Field Research. You can go ahead now. Your line is open. Thank you.

Jaideep Pandya (On Field Research):

Thank you. The first question is just on net pricing. You guys have done a great job even in difficult volume to achieve net pricing results well above €200 million. So as now volumes sort of drop and go in a negative zone, could you give us some color about how your pricing contracts work? And what is the outlook for net pricing for H2 '23 into 2024?

How much of the pricing will you be able to maintain? And the raw material benefit that you've got this year, will you be able to keep? That's my first question.
The second question is for you, Ilham. I mean, you've done a phenomenal job with Solvay since you've arrived. And you're also splitting the company into two. So I just wanted to know your thoughts about whether you will go to SpecialtyCo? And whether you will be committed on a longer-term basis to this journey? Or is being a CEO of a smaller company then lesser of a challenge for you. And therefore, will you look for a bigger challenge after the first year of putting SpecialtyCo to bed? Thanks a lot.

Ilham Kadri - Solvay - CEO

Thank you very much, Jaideep, for your questions. Well, on pricing, I mean the net pricing, and I told you back, if you remember, in the fall 2021 that we will be training the muscle core pricing in the company as part of the big growth transformation. And at that time, I told you as well, if you look back at the record that we have been reopening thousands of contracts inside the company.
So if you look at what happened like last year net pricing, and to us, it means pricing net of variable cost, obviously. All three business segments delivered positive net pricing across the Group.
If you look at pure selling prices in the first half, obviously, Material, Chemicals did a great job. Solutions as well delivered positive pricing, although Solutions was slightly down in quarter two. At the business level, most businesses sustained higher selling prices in quarter two, a few exceptions that we told you as well, and this is not a surprise as Coatis, where we anticipated the business to normalize this year. And this is exactly what happened, and it was baked in our forecast. And we had some modest reduction in aroma, some in Novecare less differentiated products and some in oil and gas.
As you know, the variable cost as well. I'm talking about pricing, but you look at the variable cost as well, are down all over the place. Quarter two was the first quarter in memory since two years, and I'm looking at my financial teams in the eyes, probably not in nine quarters where we have a positive variable cost slightly positive one, impacting our P&L. So with the exception, by the way of composites and aroma, they still had a reddish red variable cost. I remain confident in our ability to sustain net pricing. I told you as well as in our portfolio, half of the portfolio is supply-demand driven. Some of the businesses have contracts, and contracts are linked very often to formula prices, which are linked either to raw materials and when the raw materials decrease, the price decreases or we baked in energy since fall 2021, like in the case of Soda Ash.
And the other part of the portfolio is obviously value pricing. And I kept telling you, since now a few years now, that the best is yet to come, specifically in areas like specialty polymers, where I truly believe that we need to better share the value we create to our customers. Customers need performance, a lower total cost of ownership, but not automatically a lower price if they get performance, security of supply, and you have differentiated with IP, etc., like in light-weighting automotive and other applications in electronics. We are starting to really train better and better in this value pricing.
The second question, interesting. I would like you to be a bit patient. But I am humbled to lead this company for 4.5 years, and thanks for the comments on the performance. I'm so proud of our team. And probably this is the fastest and the deepest transformation I've ever run in my career. But I'm also an investor. I have skin in the game in this company, and I'll tell you, it doesn't happen often in a life to really deliver two good companies, which are leaders in their segments in their portfolios, leaders in regions, in sectors, in markets, in pricing, and they also have a beautiful road maps and paths which we will socialize with you during our Capital Market Days during the fall, with the leadership teams in both companies. They are very strong, and we will share the names in due time. So please be patient.
We will say more in the fall and not before. We are focusing now on standing up the two companies. By the way, the two companies are up and running, both separated in the IT perspective, but also internally until N-1. And being the CEO, it's amazing to think that since 1st July, and you can imagine we were managing the quarter, we were doing the capital structure, we were preparing for the rating agencies engagement at the same time, we were splitting the companies internally. So it's just amazing what has happened, and so proud to take the opportunity to thank our team.

Jaideep Pandya:

Thanks a lot. And looking forward.

Operator:

We'll take our next question from Chetan Udeshi from JP Morgan. You can go ahead now. Your line is open. Thank you.

Chetan Udeshi (JP Morgan):

The first question was more a confirmation, because I was a bit confused, Ilham, on your point about the trajectory of volumes. You said June improved or was stronger at the end, and then July weakened, and then you said you are expecting or you're not expecting a recovery in Q3. When you say you're not expecting a recovery in Q3, are you implying that volumes in Q3 will be similar to Q2? Or are you actually saying because July probably was weaker, you are actually expecting Q3 to be weaker in terms of volumes versus Q2?
And I think my core of the question is, today, we see a big step down in consensus in Q3 versus Q4 – sorry, Q3 versus Q2. And I guess that just keeps this concern alive, which is we are seeing a step-by-step normalization at Solvay in terms of pricing. So I'm just curious how you're thinking about that step down from Q2 into Q3 based on consensus, which clearly seems quite steep.
The second question was, I think it was Karim, who mentioned that you expect to keep the net pricing flat in the second half. And if I then back out what that means in terms of volumes for the second half, it implies a sort of mid to high-single-digit volume decline in the second half to deliver the midpoint of that guidance. Given you already had a sort of more benign volume base last year, especially in Q4, I'm just curious at what point do you start to debate whether pricing needs to be flexible enough to make sure you don't end up losing volumes. And I guess it's a fair concern that people have, at what point does this pricing power fade if the volumes don't come back? I mean, clearly, we can see in your specialty polymers business, you are keeping the volumes even with higher pricing, but it's not the case across all the divisions.
And last question, if I may, was in the cash flow line, you are now starting to show the CapEx associated with the separation. Can I confirm that CapEx is part of the separation costs that you had already given, because it's quite a material number as I see in Q2? Or is that going to be an additional leakage on top of the separation cost number that you had given? Thank you.

Ilham Kadri - Solvay - CEO

Thank you, Chetan. Karim, you may take the cash and I would start with probably the guidance. I didn't want to confuse you. What I was trying to say, Chetan, is that demand is volatile. June was a very strong month, you remember, I even guided you guys on quarter two sequentially versus quarter one. And I told you at that time, and I'm looking at my team's eyes, minus 5%, minus 10%, somewhere in my road shows, and we ended up minus 6%.
So – and the quarter, the June month really finished very well, but then July is probably one of the lowest months we've seen in terms of sales since 2021. And the order book so far remains very soft, and that's what our peers, most of our customers, have been telling you. So frankly, I'm extremely comfortable with the guidance we had given you earlier and we confirmed today. I don't have a crystal ball. If the volume starts to recover, we still have a scenario where we can reach the higher end of our range, but if the volumes remain stable, Chetan, I'm talking stable versus as they were in quarter one and quarter two because we had the same decline year-on-year in the volume. I think it was minus 12% and minus 13%. So then we will be at the lower end of minus 5%. So that is why the guidance implies a reduction in the second half versus the first half, demand is still volatile. And I look at it with prudence and cautions but also with great confidence.
You talked about pricing, it's a great question. I think this company and people would appreciate this in the coming years more than now. When we started working on our pricing, and we still unveiled many things in the first half, understanding better the portfolios, we serve – how we serve our customers. And obviously, as I said earlier, we have this supply-demand type of price volume elasticity thing from our contract through formula pricing. I'm not going to get back to this.
And the second one is value pricing. And I told you in the past, it's probably 50-50 or 60-40 to be more precise today. And that 40% of value pricing, we want it to be sticky. It should be sticky because we are sharing the value creation with our customers. And this is what our sales team, the thousands of our colleagues are trying to do and really get sticky. So you will see every quarter will come back. And obviously, as we go to the Capital Markets Days, we'll give you a bit more color on each company, SCo and ECo, type of pricing strategies going forward.
So you're right, I think you talked about, there is a call between volume and pricing. We call it business management, Chetan. And you're right. The margins have never been a problem in this company and definitely not this quarter. So I think the good news for us and for our people is that we want them to stay disciplined, not give away pricing and value where they should not. Specifically that our customers value it, and they can extract their own value.
But at the same time, we can practice some smart pricing strategies, on some limited price concession, because we can afford it if we need to, to get back volumes in selected markets, we are not pushing back on this, if it makes sense. Because I will finish with that example because I'm so proud of them. You remember that the solution pillar had a return on capital employed, which was below WACC when I joined the company.
And our return on capital employed as a company was WACC when I joined the company. We doubled it in 4.5 years. It's amazing. And Solutions started, for example, Novecare to name them, to fill their pots with a better product mix, be it products, be it customers, etc.

So there is an arbitrage we are doing every day. We are doing that, and our people are doing it. And I can count on our strong business leaders. And you will see many of them, by the way, on the road during the Capital Market Days. So we'll be very happy for you to meet those invisible heroes.

Karim Hajjar - Solvay - CFO

Coming to the part of the question on cash flow. I really appreciate you asking the question. And I'd like to take the opportunity to go maybe one step back and we give a bit more context, because I think they've been – in some eyes, not many, some misconceptions and misunderstanding. So the context is this.

We always seek to present our results, our profit and our cash adjusting for distortions. And when it comes to matters that I've got nothing to do with normal operational activities, be it pensions deleveraging you remember. And any effects of portfolio moves, be they divestments, acquisitions, or in our case, as you rightly pointed out, this demerger.

Now you'll also be relieved to see, and I'm really happy you spotted it is that we always make sure that we give you very clear reconciliations to IFRS figures and everything also is both transparent and audited.

Now onto the specifics. Look at this year, what happens to the free cash flow? We've excluded, because this is portfolio, the proceeds of €0.4 billion from divesting RusVinyl. And that's what you'd expect. The flip side of the coin is when we invest for projects associated with the demerger, we also remove it, absolutely consistent.

Now what are we talking about this CapEx? We're talking here actually of the acquisition of a new headquarters for one of the companies, that's it. The advantage from my standpoint is not only are we acquiring an asset, and it's associated with the demerger, let's be clear. But we're also saying this asset, this new HQ will have a better environmental impact and it reduces operating costs by two-thirds compared to our cost today. So I see value coming through from that on both ends. That is why we're doing it.

And finally, what I will say is this is very much within the forecast that we gave. And if you look at slide 12, you'll find a more refined and complete analysis of where we're investing our money, and this is completely as we forecast in June. Does that help?

Chetan Udeshi:

Yeah, that's helpful. Thank you.

Operator:

We'll now take our next question from Geoff Haire from UBS. You can go ahead now. Your line is open. Thank you.

Geoff Haire (UBS):

Good afternoon, and thank you for the presentation. I just have one question. I appreciate the comment Karim made around the fact that your solutions business is in a better margin position than it has been historically. But it's also probably the most – one of the most volatile parts of the margin story within Solvay. And therefore, is this really, as it stands, a business that you want to take forward to try and boost the rating of the ScienceCo business? Or do you feel like you to slim down or change the structure of the Solutions pillar?

Ilham Kadri - Solvay - CEO

I can take it, Karim. First of all, I remind you that the Solutions business, starting with Novecare, did really a great job improving the portfolio. You may remember that we separated with amphoterics and the low-end solutions/products we were supplying to the market. We've done, frankly, a Herculean job inside the company. And I say it because I know many of our business leaders are listening to this call today. And they've done a great job into really pruning the portfolio and even the customers' portfolio.

So this quarter and in the first half, they did a great job maintaining pricing. It's actually very straightforward, as Karim said. And the 17% margins are actually, if you compare to the best peers, the formidable peers, are more than decent. Having said that, Karim tried to tell you that we worked on our fixed costs. And as soon as the volumes are back, you will see this margin getting back, efficiently back to up 5pp. So that's what we are telling you.

The question of Chetan as well, we will balance pricing and market share to optimize our mix and preserve profitability, obviously, with discipline and good business management. We are doing a lot in that pillar to bring more bio products, which customers are asking us to bring, so there is value for innovation in the biomaterial, with the history back from rationalization of the asset, the portfolio clean up and the best is yet to come.

Now on the portfolio itself, frankly, it's too early to tell you how Syensqo will evolve the beauty of EssentialCo and Syensqo, by the way is diversification. Look at us compared to other peers, I hope and I trust that shareholders and you also like diversification, it's derisking your investments, so we are serving different industries, different sectors, the regions are balanced, one-third, one-third, one-third.

So in my seat, I like such portfolios, which can help between EV batteries, if there are destocking, you have composite material, where volumes are increasing. So 25% of our business in material is Composites. And between civil aviation and defense, it's really doing well. The other side is mainly consumer or resources, driven. And indeed, if that industry is suffering, you will see it. But it's very different from the balance compared to composite material and specialty polymers. Back to you.

Operator:

We'll now take our next question from Wim Hoste from KBCS. You can go ahead now. Your line is open. Thank you.

Wim Hoste (KBC Securities):

Good afternoon. A couple of questions from my side as well, please. First, coming back to the volume discussion. Can you maybe shed some light about, from the minus 13% in volumes you saw in Q2, how much roughly is destocking? And then also, what's your take on destocking going forward? I think you mentioned for the battery, destocking is probably mostly over, but what about, maybe other businesses that were impacted by destocking in previous quarters? So that's the first question. And then second one, would be on the market dynamics and supply-demand situation for both Soda Ash and the Aroma business. Can you maybe elaborate a little bit on those businesses as well? Thank you.

Ilham Kadri - Solvay - CEO

Thank you, Wim, it's a great question between destocking and weaker demand. It's actually very difficult to differentiate. To be honest with you, we have a dashboard by business units, by region, but very tough and to differentiate because there is limited visibility on inventory levels across the value chain. You know that during COVID time, the best thing which happened to us is because we didn't have a compass at that time. We started building a central tower, just trying to not only manage our own inventories in the region, and you've seen how good we are becoming in inventory management quarter-to-quarter, but also across the value chain with our customers.

And I really expect the two new companies later on to build more ERP to ERP, and with all this AI and what's going on, I really believe that the best is yet to come in understanding and having visibility on inventory. But to give you an idea about destocking, two main areas, Wim: EV batteries in China were impacted. Obviously, there was a big destocking in China, which impacted the specialty polymer sales. But frankly, you've seen it as well, Materials did really well, including Specialty Polymers sales of polymers to other auto applications were stable. And we grew volumes actually in areas like industrial markets and electronics, for example. In Agro, it's well known that the major producers have had high inventory buildup due to logistics issues and due to delays in the 2023 corn crop season. This impacted Novecare in the second quarter. Specifically, the crop protection volumes were down in the quarter. But again, this is in line with our peers, you've seen it at our peers, competitors or customers. And that's why at Solvay we did destock aggressively. You remember, in January, we started and I told you at that time in my first quarter remarks that we built inventories because it was an investment, and we had no clue how the year would go. As soon as we had some color, after the first quarter, our whole team started destocking. And frankly, they exceeded my own expectations. So that's good news. Beyond that win, we saw demand softness in other markets. You've seen Aroma low volumes, this is synthetic vanillin. We've seen destocking, but also stronger Chinese competition because the Chinese domestic market is very weak. So obviously, they are taking products outside China, but the natural vanillin volumes remain resilient.

Novecare demand in construction impacted their coatings business. This is dependent on coatings, the decorative paint given the high interest rates and the slowdown of investments in construction, lower sales in home and personal care as well linked to consumer spend. Special Chem volume declined due to the weak demand in electronics, mainly, but they did do very well overall. In oil and gas, lower drilling activity in the US as you've seen the strong decrease of the natural gas prices.

You talked about Soda Ash. The global demand in Soda Ash was soft in flat glass, construction and detergent in some aspects and bicar, this is the depolluting product for air in maritime application in North America and in Asia were down. Coatis, we told you, was weak in Europe, US and you remember, we anticipated that normalization. It was part of our forecast from day one. Peroxides, we have soft demand across all markets, including emulsions. So Karim talked about pulp and paper. Silica, I think despite the softened demand, we continue to see good performance, and you've seen the tire industry and their forecast most probably, and we benefit from indexation and base prices increases.

So all in all – and the exception, again, the volumes were positive in Composites - driven by the continuing recovery in the aerospace market. So aside from the volume decline specific to EV batteries, as I mentioned, there were some bright spots here and there. We have grown polymers in other areas such as electronics. And I'm so proud of what also the Specialty Polymers team has been doing with the destocking.

And Karim, I hope explained our PVDF story. We've got many questions online and offline. So very happy to see the contribution margin of our PVDF technology business, expanding actually, expanding in non-battery applications and actually remain stable in the batteries business. Back to you.

Operator:

We'll now take our next question from Peter Clark from Société Générale. You can go ahead now. Your line is open. Thank you.

Peter Clark (Société Générale):

Good afternoon, everyone. I've got three little questions, I hope. Talking about the balancing, obviously, of the pricing strategy against the volume side. On the solutions, I know year-on-year, you were down, but when I do the cumulative to 2020, it looks like you were pretty flat on the first quarter, which implies sequentially, you had a lot of pricing where you kept your pricing. And obviously, the volumes were hit very hard. I'm just wondering, was that at some of those businesses where you're losing your little share? You talk about the Chinese being very aggressive in aroma performance, of course, and the volumes were hit very hard there. That's the first one. The other one, obviously, we know most of the other charges now with the PFAS agreement. But you did mention that there would be a little bit more restructuring a bit of pension deleveraging. I presume we have to wait for that. But – any light on that would be great. And then the final one, just to clarify, obviously, you've given us a net pricing number, but you haven't given us the split between the variable costs and the pricing this time. Were the variable costs up or down on the second quarter? Thank you.

Ilham Kadri - Solvay - CEO

Thank you. On pricing, the margins are holding up very, very well. As you mentioned, your math is really good. So year-on-year, it is what it is. But back if you compare to 2020 and before, obviously, we are holding on pricing and our mix is much better than years before.

We look at Novecare, specifically what we did since 2020, when they start restructuring their assets, we have a view on contribution margin per reactor even. So this is just amazing because now we have that visibility and granular monitoring of our product mix, of our portfolio management at the product GBU level, which allows us to take the right arbitrage, as you mentioned. Because in some areas where we are less differentiated, we have to make that call between price and volume. But the margins are holding – contribution margins are holding up, and the fixed cost, we already pruned it. And as Karim said, when the volumes are back, you will see the EBITDA margins also back. There was another question?

Peter Clark: The other charges. Obviously, you've given us the bulk of the other charges with the demerger, the €300 million, €400 million with the PFAS but you did say when this – that there would be some more restructuring and some more pension deleveraging. I'm just wondering if you can get in light on any of that or do we have to wait for that?

Karim Hajjar - Solvay - CFO

Happy to do that. And in fact, you may want to look at slide 12, which I alluded to, but I didn't go into detail precisely because when we gave you that information on the 16th June, we hadn't settled with the state of New Jersey. So, we were kind of limited in what we could say.

Now you find there's a lot more information that I think you'll find helpful. Let me just go through it with you step by step. First and foremost, there are, I would say, normal typical separation costs. And they're like taxes, IT, professional fees. And here, we're looking at €250 million to €300 million. That is absolutely below benchmarks, because typically, these ranges, and obviously I've done the homework, you look at 3-5% of sales.

Beyond that, we're looking at investments with returns. What does that mean? It means €150 million as to what I would describe as transformational costs. Now these are value accretive in their own right and they would stay through the project. I mentioned the new asset we bought, the new headquarters, that's part of it. Another one is restructuring costs. There's about €70 million of restructuring costs. Now this is essentially trying to get ahead of the curve, anticipate and reduce future normal dissynergies. That's what you can see. If I go further, I'll go back to your point, spot on. We are looking at making more deleveraging of pensions in the UK and France. And we're looking at €100 million to €200 million there. Now frankly, we would do that no matter what.

But what this means is, it will be on top of the €1 billion of deleveraging of that nature we've done in the last three years. Frankly, the extra €100 million to €200 million will bring that particular programme to an end, and we're just really motivated to get that done before the split. And that's why you see it there, but it's really attractive.

Finally, and to bring you back to where you started the question, and that's around the settlement to the state of New Jersey. We're anticipating a payment of $175 million to PFAS. Now I think, frankly, at the time you thought it might be before year-end, more likely to be early next year. Nevertheless, we'll have the resources available to make that happen. Hope that helps.

Peter Clark:
Yeah. There's more color there.

Ilham Kadri - Solvay - CEO
And I think you also asked, Peter, on the variable costs. And as I said in the second quarter was lower than second quarter last year, for the first time since probably COVID times.

Peter Clark:
So they are down. Yeah, okay.

Ilham Kadri - Solvay - CEO
So two years obviously, exactly.

Operator:
We'll now take our last question from Andreas Heine from Stifel. You can go ahead now. Your line is open. Thank you.

Andreas Heine (Stifel):
I actually have three questions. Thanks for squeezing me in. The first one is on Novecare, which had quite a steep decline in the second quarter. Was that continuing for Q3, so when you talk about July being weak, is that particularly also true for Novecare? That's the first one. And secondly, in Specialty Polymers, only a clarification. Is it right that sequentially, prices in Specialty Polymers were still up? And then the last one is on the provisions. Provisions were up €450 million in your bridge. Half of that is the PFAS settlement. What is the other half of that? Thank you.

Ilham Kadri - Solvay - CEO
As I mentioned, Novecare suffered from a few things. You've seen the agro customers, again, outlook reflecting a weaker-than-expected demand and destocking, which will continue, in my view, in the third quarter.

I mentioned that we have 3 pillars, agro, and then coatings materials (this is interior decorative paints, waterborne paints) that also suffered from the construction indexes, which have been falling short globally. It's not only here in Europe but also in the US, etc. We expect the same downward trend on the upcoming results, in the third quarter as well. And then the last one is home and personal care. And you've seen the consumer spending except the luxury segments for some people who have defined gravity. The rest has also been in decline. And many of our peers and customers have even issued profit warnings for the second quarter, so nothing here which is different from the markets.

The underlying preference is actually keeping our net pricing, really keeping our value pricing, where we can and making the right arbitrage as mentioned in several questions. And I do agree in the arbitrage between price and volume, which we call smart pricing inside the company. I think we'll continue doing that, ensuring that there is no cost creep, continue innovating and changing the mix and the portfolio to ensure that Novecare not only built on the cleanup of the assets and the portfolio, which they have been doing very well and improving their return on capital employed, which you can see on the company returns but also will continue now bring in new innovation, which will allow them, to further grow their business profitably. Next question, Karim?

Karim Hajjar - Solvay - CFO
So I think, Andres, you had a question on provisions. You're absolutely right that the PFAS settlement is the bulk of that provision increase of €450 million in the first half. But there are a couple of other big ones that I think are significant, I guess, that you could worth highlighting. One is the normal update to provisions, with environmental provisions to max €30 million - €40 million, but nothing particularly significant, pretty much normal. But I would say you've got some bigger impact on the restructuring I talked about. In respect of the cost reductions, we're going to try and accelerate as well. We saw that provision being made predominantly in the first quarter, as you recall, as well as a few legal and other small provisions. There's also a relatively modest non-cash impact in relation to small changes in employee benefit charges. So that's really the combination.

Ilham Kadri - Solvay - CEO
And there is one more question I didn't answer, Andreas, is on Specialty Polymers pricing. We had strong pricing maintained. And sequentially, second quarter prices are slightly above first quarter ones. So again, I need to see it to believe it, as you guys probably. But also internally with the teams. They have been practicing their value pricing. And where they couldn't, like in EV batteries, the contribution margin was nevertheless maintained. It declined along with

raw mats decline, for those who know the 142b story. So I'm really glad that Specialty Polymers maintained strong pricing. Thank you.

Andreas Heine:

Thanks a lot.

Jodi Allen:

Thank you. I think that brings us to the end of today's call. So thank you for your participation. And as always, the Investor Relations team is available for any follow-up questions. Thank you very much.

Ilham Kadri - Solvay - CEO

Thank you.

Karim Hajjar - Solvay - CFO

Thank you.

Operator:

Thank you for joining today's call. You may now disconnect. Thank you.