Solvay Q3 2023 results

Analysts call transcript

3 November 2023

Jodi Allen - Solvay - Head of Investor Relations

Hello everyone and welcome to Solvay's third 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. For today's call we are slightly adjusting the format given the amount of news published today.
First, Ilham will begin with an overview of the results and the progress on our separation project; Karim will follow with a high-level financial overview of the quarter and our full year outlook; and Ilham will finish with some closing remarks before taking your questions.
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. Today marks another exciting milestone in Solvay's rich history as, most probably, the final earnings call before our planned separation into two independent companies.
I'll start with a few comments on the third quarter results. As you know, the macro environment remained challenging, yet our teams focused on actions within their control. On a year-to-date basis, we have generated more than 1 billion euros of free cash flow and our underlying EBITDA is only 1% below 2022, despite the 20% decline in revenue growth. This speaks to the ongoing transformation underway and reflects the strength of our differentiated portfolio, our focus on value-based pricing and unrelenting actions to reduce costs. Together, this has enabled us to consistently deliver best in class results.

As we are now in November and have a line of sight to year end, we have confirmed that we remain on track to deliver on our full year guidance.
Perhaps more important has been the ability to manage both the short term headwinds while simultaneously investing to support our long-term growth which will set a strong foundation for both future companies. As I like to say to our teams, we have kept our eyes on the microscope and on the telescope as we are now only a month away from separating into two strong industry leaders. As you know, we have spent the past year and a half preparing for the future, and have successfully accomplished every milestone along the way. Since we spoke last quarter, we completed our liability management process, which Karim will summarize in more detail, and we published first half results for EssentialCo and SpecialtyCo to provide a better view into the 2 companies performance this year. We also received rulings from tax authorities confirming that, subject to certain conditions, the transaction will qualify for favorable tax treatment for Solvay and its Belgian and U.S. shareholders.

We are also making great progress on our strategic initiatives in both future companies; in EssentialCo, we just closed a deal to sell the remaining part of our Energy business, which you may recall provided energy supply to third parties. This was a necessary and voluntary decision ahead of our separation which will help reduce volatility of the corporate costs and balance sheet exposures.

I'm also thrilled to share that we have officially finalized our Joint Venture agreement with our partner Orbia to build a new battery-grade PVDF facility to serve the United States of America market. This is a key milestone in our electrification strategy, emphasizing our commitment to sustainable mobility.

And of course today we announced the executive leaders of the two organizations. The new leadership teams bring unique expertise to their respective organizations, and were carefully selected to match each company's distinct strategy, designed to unleash their full potential.

I know many of you have been patiently waiting for this clarity. Here we are, and I look forward to introducing them to you live on November 13th, when the new leaders will host a Capital Markets Day to share their respective strategies and mid-term targets for SOLVAY and SYENSQO. We hope you will join us in Brussels for this event. Of course it will be webcasted as well, but those attending in person will also have an opportunity to see some next generation innovations presented by our experts in their fields. I look forward to meeting many of you at our event to share more about these exciting companies.

And now I will turn to Karim who will review the highlights of our third quarter performance. Karim ?

Karim Hajjar - Solvay - CFO

Thank you Ilham. Good morning and good afternoon everyone. In order to be most helpful and to allow time for our usual Q&A session, I will focus my financial overview of the quarter at a somewhat higher level than usual, highlighting the more critical elements, before providing an update on the progress we have made in the liability management process since it was announced at the beginning of August. I will then close with some comments intended to help you with your models as it relates to our two future companies.

Starting with our Q3 financial performance, I will present figures on an organic basis, which means at constant scope and currency unless I state otherwise.

As expected, sales were down 20% organically in Q3 versus a record Q3 2022 which, if you recall, saw a 30% year-on-year organic growth last year. The decline in Q3 sales was driven by lower volumes, and to a lesser extent, by lower pricing given lower raw material costs and energy prices. That said, and I know that many of you are particularly attentive to that, we are pleased that our net pricing power continued its positive trajectory with a €36m positive contribution in the quarter.

Turning to slide 7, and looking at Materials, what do you see: volumes were 7% down against a tough comparable quarter of Q3 last year that I mentioned; and this was driven by weak demand across most markets, including auto, electronics, and healthcare, and that impacted the sales of our Specialty Polymers business. Pricing was minimally impacted, which was very much what we expected. In batteries, we are seeing some signs of recovery following the end of customer destocking, although year-on-year volumes continued to decline in the quarter.
Sales in Composite Materials were higher thanks to the continuing recovery of the aerospace industry, although higher growth was impacted by supply chain issues which limited some deliveries. Despite the lower volumes, the EBITDA margin in composites was sustained.
Segment EBITDA was 12% lower versus Q3 2022 due to the lower polymers volumes, while EBITDA margins remained strong at 33.8%, modestly lower than last year showing the strength of our Materials portfolio.

Next, I'm going to move to the Solutions segment, because as you recall, these two segments Materials and Solutions make up most of what will become SYENSQO. In Solutions, the markets in which we operate remain challenged, volumes were down by about 19% in Q3, while pricing was down about 6%. The solutions we supply into Agro, Coatings, Home and Personal Care, and Food & Fragrance markets experienced weak demand. Our priority is being twofold; one, protect our margins, two, adapt our costs to the lower demand. These actions have supported a 1% improvement in EBITDA margins to 18.6% on a sequential basis, and they're only slightly down year on year. So we're really pleased with that.

Turning to slide 9 and Chemicals, which represents a significant part of the future Solvay perimeter. In that segment, volumes were down 18%, while pricing was down 8%. Weak demand continues to impact our major markets, including construction, electronics, textiles and tires. All of the businesses in the Chemicals segment have been very diligent in managing their fixed costs, and together in the context of lower variable costs that we benefited from, not only did we protect our margin but we actually grew our EBITDA margins by 5 percentage points year-on-year to 30.2% in the third quarter.

We will continue to manage costs in a very disciplined way, especially given the current demand and uncertain macro environment. Year to date, we delivered €63 million of additional structural costs, and it takes the tally to €530 million on a cumulative basis.

On slide 11, you can see that as you bring this together, the Group EBITDA came to €702 million, down 18% year-on-year, again versus a record quarter last year, which did see 40% growth. As you can see in the bridge on slide 11, our EBITDA performance in Q3 was primarily driven by lower volumes, partially offset by positive net pricing and fixed cost reductions. From an EBITDA margin perspective, we were up slightly year-on-year and sequentially at 25.6%, and that's despite lower volumes. There you have a good example of resilience.

Now moving to Cash, on slide 12. You know that cash has been a major area of focus, ever since Ilham came here four years ago. So you're not surprised by the fact that we have continued to make strong progress. Our strong cash flow performance and enhanced balance sheet, which we have sustained over an extended period of time, has given us the flexibility to invest to meet future growth expectations, to continue on our journey to meet our energy transition goals and to generate return to shareholders and to deleverage. That's what we have been doing.

Coming back to the third quarter, we delivered our 18th consecutive quarter of positive Free Cash Flow generating €346 millions, which benefited from strong working capital discipline. It may appear a bit stronger than expected at this stage of the year, but keep in mind this is also a result of CapEx phasing. On a year-to-date basis, capex totaled €765 million, and we still expect to invest a further €350-400 million in Q4 to reach a FY total of around €1.1bn .

As Ilham referenced earlier, our Free Cash Flow generation has exceeded 1 billion EURO during the first 9 months of the year. That's an increase of 11% year-on-year and that's despite higher capex, over €200 million more than this time last year. And that's why we're so keen and so determined to invest in the future growth. In addition, the strong Free Cash Flow generation has already surpassed our full year commitment to deliver more than €900 million, and we expect Q4 to be largely neutral, largely as the result of the phasing of the CapEx I referred to.

On slide 13, you see a detailed overview on our major debt following the successful completion of the liability management. I am not going to go through all the details of it, but one of my takeaways is that debt investors understand and appreciate the strategic merits of our Power of 2 project, but, more importantly, they also see the logic of the distinct capital structures and appreciate the credit strengths of each company.

Regarding net debt, we reported €2.8 billion at the end of September. We still have one time cash outs and pension deleveraging of around €0.4 billion before year end, so we expect the aggregated net debt at the time of the split to be below the €3.4-3.5 billion we indicated to you in June. The point that matters here the most is that we will make sure that the two companies have distinct and optimized capital structures. Also, as you know, keep in mind that both of them will be investment grade, with Specialtyco or SYENSQO having a credit strength a couple of notches stronger than Essentialco.

Finally, I'll make a few comments on our full year outlook on slide 14. First, and as mentioned in this morning's press release, we reconfirm our full year guidance, with EBITDA at the lower end of the prior guidance range, or approximately €2.9 billion at the current exchange rates. This is aligned with what we have shared since last quarter given the lack of volume recovery. So this shouldn't be a surprise.

Second, given this is our last reporting quarter under Solvay's current perimeter, I also want to spend a few moments with you to help you establish the baseline for your 2023 models. Note that the intention here is to provide you with the guard rails for both EssentialCo and SpecialtyCo, rather than a precise point estimate, because what we want to do is to give you an appropriate jumping off point as you think about the future growth prospects for both companies.

For EssentialCo, which will remain with the Solvay name, there will be two scope changes.

The first is that we are phasing out the thermal insulation activities that were part of Special Chem. This is aligned with regulatory requirements related to the phase-down of hydrofluorocarbons (or HFCs), a process that began several years ago. The second scope impact relates to the termination and exit from our third party Energy supply business, which Ilham mentioned earlier. This business was reported within our corporate cost and the decision to exit at this time supports the focus of the remaining activities in Solvay and actually will serve to reduce the volatility of our earnings and balance sheet exposures, some of you will recall back in 2021. So that's a really good step. Now, together, these activities generated about €100 million of EBITDA in 2023 and neither will contribute any significantly to EBITDA in 2024.

Next, I would like to give you an estimate on dissynergies. Total dissynergies related to the split are estimated to come to €60-70 million, of which €25 to 30 million for EssentialCo and around €35-40 million for SpecialtyCo. That said, and I can't tell you more today, but you will discover on the 13th of November, these dissynergies will rapidly be mitigated.

As you can see on slide 14 our full year EBITDA outlook for Solvay implies an EBITDA of approximately €2.9 billion. Assuming that day 1 of the separation was at the start of 2023, the slide provides our best estimates for the adjustments you should make for comparability purposes relating to dissynergies. And again, these dissynergies reflect the costs related to new executive teams, to duplicate corporate functions, to public company governance, headquarter costs and the like. And they will be embedded into their respective cost base, as I said, as well as the scope changes I referred to. I hope these estimates will enable you to have a much clearer view of each company's starting point.

Now, I'll transition back to Ilham.

Ilham Kadri - Solvay - CEO

Thank you Karim.
Now I'd like to take a moment to highlight the board appointments that were unveiled today.
The board appointments of the future Solvay will be composed of 10 members, 6 of whom are independent, 3 represent the reference shareholder Solvac, and the CEO. They collectively possess a wealth of expertise in areas such as governance, strategic planning, corporate financial management and business development.
The SYENSQO board will also be composed of 10 members, including 6 independent members, 3 members representing the reference shareholder, Solvac, and the CEO. This board is a testament to diversity and inclusion as well as globalization, representing our customers' footprint - including 7 nationalities, and 60% of women - with decades of complementary experience in governance, finance, industry, innovation, sustainability and talent management.
Together with the announcements on leadership, we've reached yet another important milestone, and with the governance structures in place we are now ready to begin new lives as independent companies.

Before we close the call today, let me take a moment to reflect upon the incredible journey we have undergone over the past four years. One thing that I can say with complete certainty is that we are not the same company today as we were when I became CEO in 2019. We have taken bold steps to transform the company on so many levels, while adapting to the ever-changing business environment that was filled with hardships and crises.
In the past four years, we have made tremendous progress on our One Planet sustainability roadmap, advancing on our climate ambitions, while bringing more sustainable solutions to the market. We were truly pioneers taking a holistic approach to our sustainability ambitions.
We've delivered our GROW strategy two years ahead of plan despite the pandemic, which included delivering on every financial metric – from profitability – to cash – to returns. In many respects, we went from laggards to leaders.

But what I am most proud of is our People. I recognized very early in the journey that we could not accomplish our ambitious goals without the right people in the right roles. So we adapted our organization, and made them our Top priority.
We united around a common Purpose - one in which we created together.
We invested in their success, grooming talent at all levels of the organization
We enabled them to embrace change, model the right behaviors, and collaborate with their colleagues. The cultural change was deep, and very noticeable.
And this brought out the best in them. And it shows in our high engagement levels.
I'm personally convinced this deep cultural change helped us to win.
So I want to wish a heartfelt thank you to all of our people. Thanks to you, we stand stronger and more prepared than ever to take this next step.
I'd like to say a big thank you to all of our stakeholders - not only our employees, but also our customers and business partners, and our shareholders for making these past four years ones that I will always remember…
Thank you for your trust, your dedication, and unwavering support.
Together, we can all be proud of what we accomplished. So let's get ready to create the next amazing chapter…

I would like to finish by thanking Augusto Didonfranceso, our COO, for the great collaboration we have had for the past years; he will stay with SYENSQO as a special advisor, two quarters after the split. His contributions, wisdom and impact have been invaluable and many will remember his discipline, focus, business acumen and now friendship.

Equally I would like to thank Karim who is present here. This may be our last quarterly call together, at least we hope for the outcome of the project. Thank you for your contribution to Solvay Karim. Upon the approval of the spinoff, Karim will leave the Group, after a ten-year tenure as Solvay's CFO. I am very grateful for his contributions - and I wish both Karim and Augusto the very utter best in their future endeavors.

And of course, all of this would not have been possible without our chairman and President of the Board, Mr Nicolas Boël. We have developed some very special bonds over the years. I would like to pause and thank him from the bottom of my heart for having offered me this opportunity 5 years ago. While he came to Charlotte, North Carolina, 5

years ago, to interview and propose the job, no one of us could imagine what the future will bring. We spoke about transformation: we in fact disrupted. We spoke about social dialogue: we progressed even more, we spoke about legacy, founding members: we are publishing today best in class governance rooted in a human centric legacy.
On my side, I wanted freedom to transform this sleeping beauty, and while he promised to allow me to do so. With care. This is exactly what we have done and what he and the current board have allowed me and my team to do. We turned a sleeping beauty, simply, I hope, to a beauty.. Thank you Nicolas for your wisdom, your guidance over the past five years, which were my beacon throughout this fantastic transformation journey.
Nicolas, you will be missed but I know I am gaining a mentor for life, on the top of you being a long lasting shareholder and investor.
So with that, I finish with those emotions, and I go back grounded into your questions and answer session. And 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:

Thank you. As a reminder, if you would like to ask a question or make a contribution on today's call, please press *1 on your telephone keypad. If you change your mind and want to withdraw your question, it's *2. Please ensure your lines are unmuted locally as you'll be prompted when to ask your question. The first question comes from a line of Chetan Udeshi from JP Morgan. Please go ahead.

Chetan Udeshi (JP Morgan):

Hi, thanks. I just wanted to start with slide 14. I'm a bit curious about the scope impact, and I'm sorry I didn't understand what is being phased out exactly because I didn't even know that you guys were in the HFC market. I thought that was something you sold in the past. So what exactly are you phasing out? and is this essentially going to zero, or are you going to sell it to somebody? That's the first question.
The second question I had was, just looking at the sort of Q4 trajectory. You know, I think you guys previously had talked about flat net pricing in the second half of this year, and clearly Q3 has turned out to be positive, which is good, but in a way people are clearly worried about that as well how long can it be positive when the volumes are so bad. So, maybe you can talk about Q4, how are you thinking in terms of dynamics between volume, net pricing and also fixed costs, which were running negative in the first half and have now turned positive in Q3, so, what is the outlook for that as well? Thank you.

Ilham Kadri - Solvay - CEO:

Thank you very much. Karim, you take the discontinued business and then I'll take the Q4.

Karim Hajjar - Solvay - CFO:

Chetan, thanks for your questions. Obviously, as usual, very pertinent. So the thermal insulation activities we have is a small part of the Fluorine business that we've got at Special Chem. It has products like SOLKANE® 365 and associated blends from the hydrofluorocarbon family. Now, despite not having ozone-depleting potential, they have been subject to more stringent regulations and they're being phased out. It's referenced as the F-GAS regulation 2014, if you want the technical requirements. So it's natural, and frankly we've been working towards that sunset for quite a while. We just wanted to ensure that at this juncture you were made aware of that, and we anticipated this and production was completely stopped during the course of August or early September of this year. So that's why we really want to give you that heads up. Your second question I think was on Q4 and the trajectory?

Ilham Kadri - Solvay - CEO:

Well, historically speaking, Chetan, the fourth quarter is usually, as you know, the weakest quarter of the year. Looking at the lower end of our guidance around €2.9 billion, as Karim stated, and at our nine months actuals and doing the math indicates that Quarter four is expected to come below €600 million, obviously taking into account the continuation of a weak global macroeconomic environment. Nothing that we didn't expect. We were one of the first companies, or the only company, you remember in our sector earlier in the year that still showed growth in the first quarter and then we said how second half will evolve. And it happened like it is. So, we'll experience lower volume and flattish net pricing. I think it was positive in quarter three. We will continue defending value pricing, continue letting volumes go which are not profitable, and we are looking for quality market share wherever it makes sense. The raw materials (the variable costs) and energy prices were down. But this is not going to happen anymore, we believe, in quarter four. So, and as you expect, we will continue maintaining our cost and working capital discipline.

Karim Hajjar - Solvay - CFO:

Maybe I'll take your final question on fixed costs. You're right, we are proud of the fact that our fixed costs decreased €41 million quarter on quarter. There are three areas I'm going to highlight. One, structural cost reduction initiatives. I've talked about the cumulative €530 million where we're continuing to deliver, and that helps to offset inflation. That's the first point. The second point, as you would expect in an environment which is challenging like this, we've also continued to obviously contain/reduce our discretionary spend, and to have that really more than offset inflation. And finally, there is one other factor, which is that we have the impact of lower variable compensation compared to last year, which was a record year as you may recall. So these are the three elements I'd like you to take note of.

Operator:

The next question comes from the line of Alex Stewart from Barclays. Please go ahead.

Alex Stewart (Barclays):

Hi there. Good afternoon. Two questions actually, if that's okay. The first one, I just wanted to check something on Free Cash Flow. You did about a billion in the first nine months. I think you said that Q4 would be roughly neutral, so let's say a billion for the year. But Karim, I think you also said that CapEx would be €1.1 billion compared to your original guidance of €1.25 billion. So a billion minus the difference in CapEx means that you probably come into the end of the year at about €850 million of free cash flow. So the question really is, what happened in the second half in Free Cash Flow that was worse than you expected to come and sort of on an adjusted basis below what you expected?
The second question is, in Solutions, you had 25% revenue decline and 25% EBITDA decline, which is highly unusual for an industrial chemical company. So, I wonder if you could talk about the measures you took there to defend the margin ?
And then finally just to clarify on Chetan's question. Can you just confirm that the two businesses that you are phasing out that there's no disposal value for them, in other words, there's no cash inflow? Just wanted to be clear on that. I think possibly you said it at the beginning of the call, but I missed it. Thank you so much.

Karim Hajjar - Solvay - CFO:

I'll start with the very last comment around. No, we're not expecting major cash inflows from the phase out of those activities.
To your first point on Free Cash Flow, I'm not sure how you did your math, I struggled to follow. We're saying we've delivered a billion. Our guidance was more than €900 million. For us, it was almost stating the obvious to say that we are going to make the guidance now. And so, the math, what I've said is that we expect Q4 Free Cash Flow to be broadly neutral, and that's after taking into account the €350-400 million of CapEx. And as you rightly pointed out, it's a bit below the guidance we gave at the beginning of the year, which kind of makes sense when you think about it. You want the new capacity to come on stream in a period of recovering and growing demand rather than lying idle. There's nothing more to it than that.
On the Solutions business, Ilham, do you want to take that ?

Ilham Kadri - Solvay - CEO:

Alex, I think you've seen obviously that across the industries in the Solutions business remaining very challenging both on the volume and the pricing. I think what we did is exactly what we told you. We'll continue to protect our margins and adapt our costs to the lower demand. That's why you see some margin improvements. Basically, one third of the volume decline was compensated by net pricing and fixed cost discipline. You may remember, Alex, that we have made a lot of structural improvements in the Solutions segment in the recent years. And we have maintained this focus with good operational discipline. I told you that we have contribution margin surveillance almost at a reactor level. So, in some product lines with tough competition, of course, we are making selective pricing concessions and only where it makes sense, such as where we have, for example, lower raw materials and energy prices. But in the rest, I think we are also testing our value pricing like we do in the Materials segment.
And I'm very happy when you see our performance as compared to other peers, either who have recently profit warned or others in the Care segment. You see not only we are doing better on the volume side, and in other cases we're delivering better margins. So really happy with what the team has been doing. I invite you on November 13, if you are joining us, Alex, you will hear more from our GBU President, Michael Radossich, who has transformed the

Novecare business, and now he will be leading the whole Consumer and Resources leg and will share with you more about how we're going to build more differentiation in this segment.

Operator:

The next question comes from a line of Wim Hoste from KBC. Please go ahead.

Kim Hoste (KBC):

Yes, good afternoon. Two questions from my side, please. First one is on one-off and cash out costs for the remainder of the year: I think in June you said separation costs and other restructuring costs would be more than €500 million in total. Can you maybe shed a light on how much we should still expect to fall in Q4?

The second one would be coming back on an earlier question on volume trends in Q4. Do you see, apart from the usual seasonality that there is, do you see further weakening of markets or do you see a stabilization overall? And can you maybe be a bit more explicit by sector or by end markets?

Karim Hajjar - Solvay - CFO:

So you may recall, I think you did point out, but I'll just clarify the numbers. In our Q2 earnings call, we did say that we expected the separation related one-time cash costs in 2023 of around €250 to 300 million. And that's for the separation itself. To date, we spent €100 million, and I expect us to spend in the fourth quarter a further €200 million. And that's split between taxes, financing, advisory fees, and a few more items. That's for a cumulative total of €300 million this year. Now there will be a few tens and millions of the order of €30, maybe €40 million, related to taxes, where the cash out on those taxes will probably occur next year, and a small amount possibly in 2025.

If I look at all of that in combination, that really means total separation costs in total below 3% of total sales, which I remind you is 3 to 5% in the benchmark so it is well below the benchmark. So, I think that's probably the best I can give you today. We'll turn to volumes, and the trajectory, Ilham ?

Ilham Kadri - Solvay - CEO:

Yes, if you look at the volumes, as I said, we don't see the macro, at least in the short term - in quarter four - improving. We believe that the destocking is now mostly over, Wim. And we see today what is reflected is the real actual weak demand environment, which is pretty broad across many markets and across regions. We are maintaining our leadership positions wherever we want it to be, in Materials, in Soda Ash, etc. In some businesses, we are carefully prioritizing pricing over volume, typically in activities that are less profitable. So, in some areas, we have had modest market share voluntary loss, like in Aroma for example, in some part of the Solutions [segment], or in the solvents in Coatis, for example. And our strategy continues to be focusing on the quality of market share, which generates value. And that's where we really continue maintaining Solvay's profitability, measured in terms of EBITDA margin. We'll continue sustaining it. That's all I can tell you about this. Going forward to 2024, it is really too early. I will invite you again to join us during the CMD day on November 13th with the management teams to see the midterm plans. And basically the two new leadership teams will give you more color in due time about 2024.

Operator:

The next question comes from a line of Peter Clark from Société Générale. Please go ahead.

Peter Clark (Société Générale):

Yes, good afternoon and good luck, Karim, I'll probably see you at the CMD anyway. But effectively the first question is around the sequential pricing, because it looks like it's holding up pretty well, especially considering the energy surcharges coming off the indexation, etc. But Materials of all the three segments seems to be under more pressure. So I just want to be clear what might be going on there.

And then the second question is, it looks like your structural cost savings have picked up a little bit. Again, I know you're doing more restructuring for the demerger, I'm just wondering if you're looking again at the cost base given how the world is. Thank you.

Karim Hajjar - Solvay - CFO:

You have got very sharp eyes. Well, first of all, thank you for your kind words. Your structural cost comment is very sharp, and I agree with you, the pace is picking up, but I hope you're not surprised. And what I will highlight is exactly the following: in Q1, we took a provision of €78 million of cost restructuring provisions, because, clearly, what makes sense in this environment, knowing you've got dissynergies, is to get ahead of the curve. Otherwise, frankly, the dissynergies figures I've given you would've been a good €20-30 million higher. And that's exactly what you can expect us to continue to focus on. So I hope that helps. But there's something more than that. At this point, at least. And on pricing, Ilham, and the comments on sequential strength?

Ilham Kadri - CEO:

Yes, it's absolutely right. As we told you, we expect net pricing to be flat in the second half. That's what we promised as a team, and that's what we are delivering. Obviously, quarter three was positive.

Peter Clark:

Sorry, can I just follow up, Ilham, in terms of the Materials segment specifically, because that's the one that seems to be under more pressure sequentially.

Ilham Kadri - Solvay - CEO:

Well, here I think we are coming from very, very high levels in Materials. You may remember on our battery materials, we told you that there were some concessions here and there as the raw materials were declining. But looking at the Materials specifically, we estimate that the volumes will be only slightly lower in the near future. And if you look at the full year view, we expect the volume in Materials to be flattish versus last year. And we remain confident that over time we'll sustain our profitability levels as you've seen it in the past.

Operator:

The next question comes from a line of Jaideep Pandya from On Field Research. Please go ahead.

Jaideep Pandya (On Field Research):

Thanks. And good luck to Karim as well. We'll definitely miss you. PVDF on your new plans in Tavaux: could you give us some timing in terms of what sort of ramp up schedule are we looking for '24, '25, and do you have already contracted customers in Europe or even for that matter from the US, and so therefore you're going to sell a lot of these volumes, not in the Asian market but in the sort of non-Asian market?

And then the second question. I know Philippe maybe can't answer this right now, but the famous Soda ash pricing, any color on 2024 contracts, given there's a lot of moving parts? You've done a fantastic job in defending pricing for the last two years. So what should we now expect for 2024 given demand? It's probably not as strong as it was at the beginning of this year. Thanks a lot.

Ilham Kadri - Solvay- CEO:

Thank you, Jaideep. I'll start with Tavaux. The starting point for the new capacity will be around early 2025. And this is basically for the European markets. We don't usually transport products over the ocean. We have enough Chinese capacity for our suspension grade for China. You know the US story: we signed a joint venture agreement with Orbia yesterday, I think we did another press release on that, and capacity will be on stream in 2026. And in Europe, we have already existing capacities, and we've been debottlenecking and adding capacities as we know that the battery value chain is going to intensify. There are major customers who are building new capacities, and early 2025, will have more products to support the high-end battery segments.

Regarding your second question on Soda Ash pricing next year, we are in the season of the pricing campaign and discussions. So, we just started to close a few contracts in the United States, and now we are taking care of the European contracts. It's too early to tell you how it's going to go. Obviously, we are doing what it takes to maintain our margin. Our customers are very close to us. They support our decarbonisation efforts. They support actually the landed cost of local products for their own business and their own growth. Soda ash doesn't travel very well between regions. I think back in 2022, when the pricing of soda ash was at its highest peak, you may have seen that the publicly available information on Chinese imports didn't grow much. So, we are very confident, and Philippe Kehren, the incoming new CEO of Solvay, is the GBU president of Soda Ash, and with his team as we speak is actually engaging and closing the pricing campaign. Be a bit patient, the new leadership will share with you the news anytime soon.

Operator:

The next question comes from a line of Geoff Haire from UBS. Please go ahead.

Geoff Hair (UBS):

Good afternoon and thank you for the presentation. And Karim, thank you for all your help over the years. I just had two questions, slightly related. First of all, just looking at Soda Ash in Q3, obviously you commented that prices were down. Could you say whether or not the price decrease came in the contracted prices that you had? So, your customers have come to ask for lower prices to the contract you agreed last year, or was it on the merchant portion of soda ash that you've got?

And then secondly, on Specialty Polymers, could you just comment what the sort of volume development versus price development was in the 18% decline in Q3?

Ilham Kadri - Solvay- CEO:

On Soda Ash, as I mentioned, we have two things. We have formula pricing, and you may remember that we baked not only raw materials but also energy prices in our pricing in Soda Ash back in the fall of 2021, which was very helpful in 2022. And obviously when energy prices are down, we correct it and we pass it through to our customers. You are right, the merchant market is down as well, specifically in the seaborne. Obviously, we play in a very opportunistic way in that market and we take the volumes when it makes sense for us. We didn't participate a few quarters ago in that market because we've seen a lot of domestic soda ash from China being dumped into the seaborne, even some Russian volumes were coming in. So, we let those volumes run in the seaborne. But this is wherever we participate, there was some volume decline.

Karim Hajjar - Solvay - CFO:

I think your question on Specialty Polymers, as you know, we don't normally get into the specific details by business, as it gets a bit sensitive. What I can say is that the majority of the revenue decline you've seen is predominantly about volumes. Our pricing is really holding up well.

Ilham Kadri - Solvay- CEO:

And this is where, as we told you, value pricing is valued by our customers. It is the name of the game.

Geoff Haire:

Sorry, can I just come back to Soda Ash? I appreciate that you had the energy surcharge for 2022, but my understanding, maybe it was my error, that at the end of 2022 that you combined the energy surcharge with a base price increase. So all of that was taken into 2023 ?

Ilham Kadri - Solvay- CEO:

No, let me explain. I think part of it, we put it in our floor pricing, but we still had an energy surcharge above and below. So we changed our base pricing, we increased it in 2023. But we still had a mechanism to correct for energy prices at the extreme ends: high and low, like a corridor, essentially.

Operator:

The next question comes from the line of Sebastian Bray from Berenberg. Please go ahead.

Sebastian Bray (Berenberg):

Hello, good afternoon, and thank you for taking my questions. I'd have two please. The first is on the divested businesses. What stops Solvay from giving a sales impact on thermal insulation? And the reason that I ask this is that I assume given that this business was being wound down, the associated CapEx was quite minimal. And another way of putting this question is, did that €100 million of EBITDA drop through at close to a 100% to cash flow, as in is 100 million the right number to think about cash flow drag year on year to EssentialCo for '24? And just to clarify this second Energy trading business that's being divested for what seems to be a rather negligible sum, but didn't generate sales, it just meant that the corporate cost line was less negative than would have otherwise been the case.
My second question is on just energy cost outlook for '24. If energy costs remain the same as they are today, including the impact of hedges, is roughly flat year-on-year a reasonable assumption for the group for '24? Thank you.

Karim Hajjar - Solvay - CFO:

So fundamentally, I'd say on the phase out of the HFC business, I think that this business is coming to an end. You are right, most of the profits that we made were basically straight to the bottom line. There was little, limited CapEx. The impact I gave you was for both businesses, by the way. Now what I will highlight is on the Energy business, we really focused hard on stabilizing and restructuring the business. And what we've done this year is mainly to reverse some of the prudent provisions we took last year. So we didn't get a cash benefit this year from that. It's a bit of two different things here. So strong cash on a business that's coming to an end, and we closed it down to stop production in August-September, and the Energy business which is predominantly one of reversal of provisions and it's not really a major cash generator at all, but it's reduced volatility that we really appreciate there.
We don't have a crystal ball on the energy costs for next year, but I think it is fair to state that given that we will maintain our prudent hedging approach for energy related elements, I don't expect there to be a major positive or negative impact in 2024 compared to 2023. Given today's market, we expect it to be stable.

Ilham Kadri - Solvay - CEO:
Exactly. That's a good assumption.

Sebastian Bray:
That's helpful. Just to clarify that Energy business had no sales, it was just EBITDA or it did have sales?

Karim Hajjar - Solvay - CFO:
It was predominantly EBITDA. There was quite a lot of sales in the non-core elements. So, gross sales, yes. Net sales, no. Net sales is one we've always focused on, because of the IFRS results.

Ilham Kadri - Solvay - CEO:
And by the way, we are very happy to get rid of this business because we're not the right owner. You know it and it's decreasing the volatility and our exposure. So, I can tell you this is something which was in my to-do list before the split. I'm very happy with the team that we could do it.

Operator:
Before we proceed to the next question, a final reminder. If you'd like to ask a question, please press *1. The next question comes from a line of Martin Rodiger from Kepler Cheuvreux. Please go ahead.

Martin Rodiger (Kepler Cheuvreux):
Yes. Good afternoon, I have two questions. First of all, Karim, all the best to you for the future. Coming back to the Energy business, I understood that this is the lion share of this €100 million EBITDA contribution of the two assets you are phasing out. Why was it not possible to keep it, because I don't see the reason why you want to phase that business out?
And secondly on the tax rate, which is 22%, would that be different when we look at the two successor companies, this 22%? And what is your best guess, assuming the geographically split phase as it is, how that will evolve for the two successor companies in next year? Thank you.

Karim Hajjar - Solvay - CFO:
Thank you for both questions. Let me start with the Energy business. Fundamentally, we're really phasing out the third-party activity, which is really essentially as we see it now it's non-core. To your point, EssentialCo (the new Solvay) does still have quite a lot of energy intensity. So we're keeping the key capability, the expertise, which really is top notch, and that's really important. But we simply are not going to start meeting the needs of other third-party customers. That's where we had a lot of the volatility that Ilham mentioned.

Ilham Kadri - Solvay - CEO:
[And on the insulation business], it's regulatory driven by the way. So, I would like everybody to understand that. It was a normal sunsetting and we would rather do it before the split happens.

Karim Hajjar - Solvay - CFO:
As for your question on the tax rate, I'm going to ask you to be a bit patient. And the answers are very straightforward there. I'd like to begin in the context of the future profit trajectory. And as you can expect, the location of the profit pools, US, Europe etc. has an impact on that. So, let's say that question, we'd like to keep it open for now. Great one to save for the capital markets day 13th of November.

Karim Hajjar - Solvay - CFO:
And I'll make sure teams are ready to help you.

Jodi Allen - Solvay - Head of Investor Relations:
Well, I believe we have no further questions. So that ends our session for today. As usual, thank you for your participation. And the Investor Relations team will be here to answer any remaining questions. So thank you very much and have a great day.

Ilham Kadri - Solvay - CEO:
Thank you very much.

Karim Hajjar - Solvay - CFO:
Thank you all. Bye-Bye.

Operator:
Thank you for joining today's call. You may now disconnect your lines.