Solvay fourth quarter and full-year 2023 results

Analysts call transcript
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Geoffroy d’Oultremont, Head of Investor Relations

Good afternoon, everyone and welcome to Solvay’s fourth quarter and full year 2023 earnings call. My name is Geoffroy d’Oultremont, Head of Investor Relations, and I am joined here today on the call by our CEO, Philippe Kehren, and our CFO, Alexandre Blum.

This call is being recorded and will be accessible for replay on the Investor Relations section of Solvay’s website later today.

I would like to remind you that the presentation includes forward-looking statements that are subject to risks and uncertainties. The slides related to today's broadcast are also available on our website.

And with that, I’ll turn the call over to Philippe.

Philippe Kehren, CEO

Thank you Geoffroy and good afternoon everyone.

It is my pleasure to be with you today for my first earnings call as the CEO of Solvay. It is already more than 3 months now since the spinoff of Syensqo and I would like to begin the call by sharing with you a few personal observations. As leader of this great business, these first 100 days confirmed a lot of things I already knew, such as the reputation of Solvay with our customers, and they also reinforced my conviction that we are even better positioned as a simplified and focused organization, to reach greater heights for our customers, employees and investors.

But first, a word on safety: At Solvay, ensuring Solvay’s employees wellbeing is a daily priority for me and the Executive Leadership Team. It is at the heart of everything we do.

So, while our performance in this area over 2023 was satisfactory, we must remain vigilant and continuously strive for improvement in our safety standards. Although we see less and less “near misses with high severity potential”, the global number of reported injuries and illnesses has not improved in 2023. You can count on me, as CEO, to keep focusing on safety every day.

Since January, I have traveled to many sites, along with my colleagues of the executive leadership team. Most of our people work at one of our 45 industrial sites around the world, and we have made it a priority to meet as many of them as possible. Solvay’s employees are our main assets, they are essential to our future success.

And now, more than ever, we realize how much they are committed and engaged in their roles. As CEO, it is wonderful to feel that energy within our company.

I’m not alone in this journey; I have a very strong leadership team around me, completely focused on Solvay’s transformation. Our leaders are all seasoned professionals, and we have a great balance between people who grew up in Solvay, and people bringing new and fresh views from other global organizations.

Next, let’s discuss our clients and suppliers. During my first 100 days, I had the opportunity to meet customers and suppliers, and I’m happy to see that they are really supportive of our roadmap: they want security of supply, including regional supply, they also want low carbon products. We can’t do that alone without their support.

Also I could realize how the name of Solvay is on top of their mind when they think about reliability or process innovation. Very encouraging and energizing !

We will capitalize on this employee engagement, customer loyalty and Solvay's reputation to continue deploying our strategy and deliver our goals for the benefit of all our stakeholders.

Finally, some observations on our financial markets perception. We met many investors during the post-CMD roadshows in November, and these interactions were extremely valuable to us.

I believe that our story today is simple and straightforward. But we also understand that we are a new company, and that we need to continue explaining who we are, what we stand for, and continue delivering quarter after quarter to be fully understood and trusted.

I'm more convinced than ever that we are all set to deliver on our transformation which will benefit shareholders, employees and customers.

Now, turning to slide 5, let me remind you who we are.

We are Solvay ! We are mastering the elements that are essential to our world. Our products are made with molecules that already existed decades ago and that will still be needed decades from now.

We possess an unmatched and focused portfolio of world-leading assets:

We have 5 global leading technologies (soda ash, peroxide, silica, fluorine and rare earth) and one very strong regional business with Coatis in Latin America.

We like this portfolio because of the quality of the assets and the people operating them, but also because there is some very interesting potential in it, such as the electronic grade H2O2 for semiconductors, or the rare earths hub in France for permanent magnets.

With these technologies, we serve a wide range of end-markets. None of our markets make up more than 22%. This enables us to be more resilient to market challenges than many of our peers.

As a result of our leadership positions and end-market exposure, our businesses are very resilient; probably more resilient and less cyclical than many of you might think. Over the last 10 years, we have been able to deliver strong EBITDA performance, while keeping our cash conversion ratio between 60 and 70%, thanks to the way we actively manage our investments.

Our strategy post-separation (slide 6) is both much simplified and clearer, and is based on 4 pillars:

The first one is about our portfolio and consolidating our leadership positions in every market in which we operate; this is what I explained earlier

Secondly, to drive excellence and competitiveness through process leadership and cost savings: this will be an important driver of our EBITDA growth over the next 5 years. Savings have already been identified and we started to deploy initiatives to deliver them; we are confident we will be able to reach our €300 million per year savings by 2028. And you can count on us to push the teams to accelerate and deliver as much as possible, already in 2024.

Our third pillar is our commitment to realize our energy transition and deliver carbon neutrality by 2050. We know what we need to do to achieve it. And let's be clear: this is critical, not only for the planet, but also for the competitiveness of our sites, especially in Europe. We want to be a lead actor in the transformation of our industry. This is what drives me and this is what drives all of us at Solvay !

Last, but not least: we are focused on cash generation. We have a very clear cash usage prioritization: out of the €4 billion of free cash flow before capex we expect to generate over the next 5 years, we will spend on average one third in what we call essential capex, one third for dividends, and the remaining third, when available, will go in growth investments and other value creation initiatives.

This strategy is not just words; let me be more concrete and give you 5 recent examples of how we put this strategy into action (slide 7):

You may have seen our announcement from just last week , on our future investment in the rare earth value chain in La Rochelle. This agreement further confirms our strategy to establish a significant manufacturing footprint for the rare earth permanent magnets value chain in Europe. This will be a clear driver for accelerating growth in our rare earth business.

You heard us speaking of “Star Factory” at our CMD; this is our ambitious program to transform all our plants and build the plants of the future. Our plants will become “THE benchmark” in the industry. This is key to maintaining our competitiveness and leadership. I have seen how digitalisation is already used extensively in our rare earth business in La Rochelle, as an advanced control tool. And there is clearly much more to do.

Recently, and I’m particularly proud of this, we announced the complete coal phase-out at our US soda ash plant in Green River, Wyoming. By 2025, overall emissions from Green River will have decreased by 20% compared to 2021, despite a 25% increase in production. And let me also remind you that, by the end of 2024, Solvay’s Rheinberg site in Germany will become the first soda ash plant in the world to be powered primarily with renewable energy.

Another example that covers many of our strategic priorities is our projected soda ash plant in Neom, in Saudi Arabia. First, it confirms that, when demanding people think about these kinds of ambitious projects, they think about Solvay first. Second, that plant will be the first one based on the new e.Solvay process, more cost effective and, in this case even carbon neutral!

Finally, about our cash usage, let’s say that 2024 gives us immediately the opportunity to demonstrate our agility. We will start the year with prudent investments, as we are committed to protect the dividend payment in a low demand environment.

With that, it is a great pleasure to turn the call over to Alexandre who will first comment on some of our ESG progress, before moving to financials. As part of his financial review Alex will also give you some more context on the way we present the numbers, and then review the highlights of our 2023 performance.

Alexandre Blum, CFO

Thank you, Philippe. Good morning and good afternoon to everyone on the call.

I will start with an update on our ESG roadmap and targets, on slide 8, and highlight the progress we made in 2023.

As you know, we are committed to reducing our carbon footprint, as fast as we can. We've already achieved a -19% reduction of our scope 1 and 2 emissions versus 2021. We recognize this was mainly driven by lower volumes. However all our sustainability projects that will structurally contribute in 2024 and 2025 will be able to offset any increase of the GHG emissions due to the recovery in demand to come. Indeed we have taken significant steps towards switching to renewable energy, be it through biomass, wind power, or solar, to make that happen.

And beyond our own emissions, we also target to reduce emissions along the value chain by -20% by 2030. To date, we’ve already achieved an impressive -16% reduction.

We also acknowledge the positive trend on safety but we will never be satisfied and will continue to raise the bar to reach the zero accident target.

As you can see, bringing gender parity at mid- and senior-level management is a challenging goal. With the spinoff, the starting point has been reset but this doesn’t change our parity ambition. While we still have a long way to go, our teams are taking initiatives to progressively narrow the gap.

Lastly, we initiated our first pilot program to evaluate our adherence to living wage standards in the US, UK, and China. This is in line with our pledge to provide a living wage for all employees by 2026, as part of the UN Forward Faster initiative. Our findings demonstrate complete alignment, which reflects our position as a responsible and ethical employer.

We are well advanced in our plans and this further reinforces our commercial competitiveness and our attractivity as an employer.

Moving to financials, on slide 9, let me start by stating the obvious; the set of financial statements we published this morning is complex, especially our balance sheet and cashflow statement—obviously an accounting consequence of the recent demerger of Syensqo.

As you know, the Partial Demerger was approved by Solvay's shareholders at the EGM on December 8, 2023 and became effective on December 9.

As a consequence, the Group presents the Specialty Businesses as discontinued operations for the periods prior to the Partial Demerger in the consolidated 2023 income statement, and the comparable figures for 2022 have been adjusted accordingly.

I won't go into too much detail around this, but let me mention 2 points:

- Our Profitability and FCF is set out in our press release and presentation materials on a like-for-like basis, and this allows for an easy comparison
- Our capital structure at the end of 2023 is consistent with what we announced in our CMD

In the appendix of the presentation, you will find more detail about the structure of the accounts. And if you have more questions on this, the Investor Relations team is available to discuss this with you in the coming days.

We also announced this morning our new operating segments to better align with the new Group's strategy and operating model:

We now have 3 reporting segments:

- Our Basic Chemicals segment hosts chemical intermediate businesses focused on mature and resilient markets. Solvay is a world leader in soda ash, bicarbonate and peroxides. These global businesses serve major markets that include building and construction, depollution, consumer goods and food.
- Performance Chemicals hosts a wider range of products in our Silica, Coatis and Special Chem business units. For the sake of clarity, the Special Chem business unit comprises our rare earth and fluorine technologies mentioned earlier by Philippe. These Performance Chemicals are subject to customization based on unique formulation & application expertise, while remaining "essential products" by nature. These businesses share similar economic characteristics and are also high quality assets with strong positions in their markets.
- The Corporate segment, comprising corporate and other business services, such as our Global Business services, as well as Procurement and Energy expertise.

With that out of the way, allow me to focus on the key highlights from our earnings release. To aid comparison, I will comment on the organic evolution, meaning at constant scope and currency.

On slide 10, you can see that Sales were down 13% year on year in 2023, primarily due to lower volumes as a result of softer demand, while prices were slightly up, in a lower variable cost environment. The softer demand became visible across all our businesses in the second half of the year, and sales were down 19% in Q4.

On slide 11, Underlying EBITDA was €1.2 billion in 2023, essentially flat organically, with lower volumes being offset by increased net pricing and fixed costs discipline. Overall, the EBITDA margin increased by +1.0 percentage point to a record +25.5%.

In our Basic chemicals segment (slide 12), demand was still holding up well in the first half, but it started to deteriorate during the summer, in parallel with energy prices going down as well.

In our Performance chemicals businesses (slide 13), demand has been softer throughout the year for our Special Chem and Coatis businesses, while Silica started to see some improvement around year-end.

Moving to cash on slide 14. The free cash flow to shareholders from continuing operations amounted to €561 million in 2023. This strong performance is driven by two major elements: a solid EBITDA and an exceptionally high contribution from working capital variation. The latter is due to the softer demand around year-end and the effects of the simplification of our portfolio … Indeed, the spinoff of the Specialty activities and the phasing out of our energy and thermal insulation businesses allowed us to improve the working capital, and consequently our debt.

The balance sheet now (slide 15): we ended the year with an underlying net financial debt of €1.5 billion. This is slightly lower than the previously announced €1.7 billion, mainly due to cash phasing around year-end from separation costs.

As I stated earlier, the capital structure of Solvay after the completion of the Partial Demerger is in line with the target capital structure announced in November 2023. This will clearly provide a very strong platform for us to deploy our strategy, while reiterating our commitment to pay stable to increasing dividends.

Provisions were €1.6 billion at the end of the year, and included close to €0.8 billion of provisions relating to employee benefits (primarily pensions) and approximately €0.5 billion of environmental provisions.

Based on these strong financials, the Board of Directors will propose a total gross dividend of €2.43 per share to the General Meeting in May. If this is approved, and taking into account the interim gross dividend of €1.62 per share paid in January, a final gross dividend of €0.81 per share will be paid in June.

So; as I mentioned during CMD our financial policy has 2 red lines: first maintaining an investment grade and second paying a stable to growing dividend. The capital structure and the recommended dividend are well aligned with these.

Before I hand the call back to Philippe, you remember that we provided you in Q3 last year with the 2023 base for the 2024 outlook. The details can be found in the appendix, but let me quickly re-explain it.

Put simply, organic FY24 EBITDA growth implied by our guidance is based on a 2023 restated figure of €1 154m (vs a reported figure of €1 246m). There are 5 reconciling elements that were set out in detail in our press release this morning, so I don't want to repeat the detail here but briefly these elements relate to:

- The phase out of 2 businesses, with approximately 100 million EBITDA impact
- Other adjustments, netting themselves, relating to the dissynergies and joint ventures

Let me also remind you of the transfer of the electronic grade of peroxide, moving from Special Chem to Peroxides as of the first of January. This is now a well established business which benefited from the know-how of Special Chem to develop in electronic markets, and will be more naturally hosted in our Peroxides business unit.

Finally, please note that the 2023 quarterly underlying sales and EBITDA restated figures will be published in April, ahead of the Q1 2024 publication.

Now, I'll transition back to Philippe for the Full Year 2024 outlook and his closing remarks.

Philippe Kehren, CEO

Thank you, Alexandre.

It's no secret that 2024 is likely to present its share of challenges for our industry.

First on volumes. Generally speaking, the challenging demand environment we observed in Q4 2023 has continued into the first months of 2024. As a result, we take a prudent, but realistic view of H1 2024.

Across our product portfolio we expect current demand levels to continue over the next few months and, as such, we expect H1 2024 volumes to be broadly in line with H2 2023. Although visibility on H2 2024 is low, based on selected customer feedback, our current expectation is for H2 2024 volumes to be at least at H1 2024 levels, and potentially a bit higher.

Now on prices: starting with soda ash - and I remind you that soda ash alone represents only slightly more than 30% of our sales in 2023 - , you all noticed the publications from industry experts, mentioning strong price decreases year on year in 2024. While we don't communicate on specific numbers, it is indeed correct to state that soda ash prices are down by double digits in 2024. But that includes both the part relating to the demand, and the part relating to the decreases of the energy prices. This will weigh on the business margin in 2024. However, pricing trends across Solvay’s other businesses are forecasted to be very resilient year on year.

The lower energy and raw materials prices should positively offset some of the negative pressure on the topline. We also started, and you know how important it is for us, to implement cost savings initiatives that will start to deliver results already in 2024.

So, what does this mean for Solvay’s financials for 2024?

First, we expect for 2024 an organic decrease of the underlying EBITDA by -10% to -20% versus a high comparison base in 2023, especially in H1. Based on the new perimeter set out by Alex in his presentation, this translates into an absolute range of €925 million to €1,040 million.

Secondly, Free cash flow to Solvay shareholders from continuing operations is expected to be at least €260 million. This is in line with our cash usage prioritization, and it will be supported by our ability to manage capex and working capital according to the market environment.

As an absolute priority, we will ensure the essential capex and the payment of dividends, while keeping the strength of our balance sheet intact.

Finally, a word on our mid-term targets set out at our November CMD, based on our solid foundations and our clear strategy. We obviously anticipated a softer 2024 year when we gave them to you, and the outlook we announced this morning doesn’t change our view and our convictions on our 2028 targets, which we reiterate today.

As we move forward in 2024, our 2 priorities as management are clear:

- I am hugely excited to look forward to continuing to develop and re-establish the Solvay brand in its new format. We are Solvay, we are 160 years old, but we are entering a new chapter—a re-energized and more agile Solvay. We need to re-explain our activities, our strategy, and our vision, to our employees, our clients and suppliers, and you, the financial community - all of our stakeholders that are on this journey with us.
- As I set out earlier, even in the short time since the demerger, decisive actions have already been made to continue to transform the company and deliver on all our objectives; it is about operating model, energy transition, cost saving initiatives

You can count on me and on the management team of Solvay to work tirelessly to deliver on our targets! Again, for all of our stakeholders.

Thank you for listening… And now, Alexandre and I would be delighted to take your questions.

Questions and answers

Geoffroy d'Oultremont, Head of Investor Relations

Thank you, Philippe and Alexandre.

For the Q&A session, we have two strong recommendations: please ask only one question; this will leave some time for others.

Secondly, we understand you might have very technical questions about the structure of these unique sets of financials. The IR team will be very happy to answer these after this call and in the coming days; so please use this call to ask your important questions.

Moderator, now you may open the line for questions

Operator:

Sure, thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. For those who have raised for questions, I would appreciate if you can requeue for the questions. We will pause for a moment for everyone to queue for questions. Thank you. We will take the first question from line of Frank Claassen from Degroof Petercam. The line is open now. Please go ahead.

Frank Claassen (Degroof Petercam)

My question is on CapEx. I noticed that in 2023 you had quite a high CapEx number, €450 million. So what were the main drivers for this high CapEx number and what can we expect for 2024 and what are the main projects here? Thank you.

Philippe Kehren, CEO:

Indeed, we voluntarily inflated, I would say our CapEx decisions in 2023, and I will let Alex explain a little bit what was the rationale behind and what we plan to do in 2024, where obviously we are starting the year in a very much more prudent mindset.

Alexandre Blum, CFO:

In 2024, as you remember, we started the year with a quite higher demand and we had a result which was quite high, almost at the level of our record 2022. So we've decided to sustain, not only the investment, which are necessary for sustaining our plant, for maintaining our plant and the energy transition, what we call the essential CapEx, but we've also continued to invest for growth. Again, each time we invest, we invest on two criteria, affordability and merit. So 2023, we had projects which met both criteria. So we've invested, to give you example, we've continued to invest in our additional capacity in the US for soda ash, which will come online in 2025.

Obviously, since the middle of 2023, we've seen the demand decreasing. So that's why we've started to really reduce our discretionary investment to the bare minimum with only targeted investment. So that's the logic. Again, as we've told you, we have the ability to manage our investments so that when we can afford, when the cash flow is sufficient, we can invest for growth, while we'll cut on investments when the times are harder.

So now 2024. We said it in the capital market day: we have the first bucket of investment essential CapEx, which are around 260 million euro. The rest we will invest only if we can. So this disinvestment that for the moment we plan to do are really sustenance and CapEx for energy transition. This is how we start the year.

Let's see the second part of the year. If the demand is picking up, there will be a need for capacity increase to follow the growth. So that is why I cannot give you an exact number of CapEx because this is what we're going to decide and manage during the year.

Philippe Kehren, CEO:
This is exactly the flexibility we have in that tool. That's what we explained, and this allows us to secure the dividend payment.

Operator:
Thank you. We will take the next question from line Matthew Yates from Bank of America. The line is open now. Please go ahead.

Matthew Yates (Bank of America):
We would like to follow up broadly around the cashflow guidance. You're saying at least €260 million, you've given us an EBITDA number. Maybe you can help us with a few of the other big moving parts. I guess you're not going to give us an explicit CapEx number, but how about some of the moving items like restructuring charges that may be associated with your efficiency goals, or the working capital unwind you mentioned associated with discontinuing some of those operations. If you can just help us flesh out really that free cash flow guidance so we can make sure we understand the big moving parts, that'd be helpful. Thank you.

Philippe Kehren, CEO:
I will give the opportunity to give some more color on these different variations. Just to be crystal clear, I mean, this €260 million euro number is the minimum that we commit to in terms of free cash flow to shareholders. So obviously, and this means that whatever happens on the market, whatever happens in the range of EBITDA that we are giving our guidance, we will commit to this free cash flow to shareholders. Now, to come back to your question, some color on the different variations.

Alexandre Blum, CFO:
So what I can give you is what happened in 2023, and we will not repeat in 2024. In 2023, we had three buckets of difference which will lead to 2024.
The first one, the first bucket is around the phased out of businesses. We had indicated that about 100 million of EBITDA was linked to the phase out of energy third party businesses and thermal installation in Special Chem. So that amount obviously will not repeat in 2024.
In 2023, we also had some one-offs from working capital. Things we could optimize as we were starting to simplify the group as we were phasing out those businesses. So that is also a significant amount, which is good that we could deliver it in 2023, as that has helped us to reinvest, but that will not repeat in 2024.
Then we have the decrease in activity, which is impacting EBITDA, which we'll compensate partially by lower CapEx.

Operator:
Thank you. We will take the next question from line of Chetan Udeshi from JP Morgan. The line's open now. Please go ahead.

Chetan Udeshi (JP Morgan):
Thanks for taking my question. I was just wanting to say there is no Q1 guidance, so if you can help us understand how you see Q1 different moving parts, volume, net pricing, etc. But what I'm trying to get to is, if I look at your Q4 EBITDA, I know it's €238 million underlying that you reported. I guess we should be taking out €25 million from that for the run rate, given that you are exiting the businesses that you talked about. So that sort of gives us €215 as a starting point, and then we know the prices have come down in Q1 versus Q4.
So I guess the question is, are you expecting Q1 actually to be below 200 million EBITDA, and if that's the case, isn't there an implied sort of a strong recovery through the year when in reality you were actually talking about

flat volumes or slightly better volumes only in second half versus first half. So maybe you can just help us understand how are you facing the numbers throughout the year from Q1 to the remainder of the year?
And the second question was: we understand Soda Ash seems to be a late business, but can you talk about what you see in the other markets? Some of these markets, like Silica or Hydrogen Peroxide or Coatis, they tend to have a bit of an early cycle feel to them, and we've seen some of the other early cycle chemical companies talk about rebound and demand. Is that something you don't see at all in those businesses?

Philippe Kehren, CEO:
First clearly, I think we're still in a very uncertain environment, and so obviously, it's difficult to give, to make predictions, previsions, I would say in that period of time of the year. But still, what we can say is that indeed, if you look at Q1, I think Q4 is a good reference.
You have on one side a negative impact coming from the soda ash pricing, that's true.
But on the other side, this might be offset by slightly stronger volumes coming in particular from restocking effect. We know that the last months of the year and particularly December, are traditionally quite low. And we've seen some additional volumes at the beginning of this year most probably due to the restarting in the supply chain. So the number that you have in mind is probably a bit pessimistic.

Alexandre Blum, CFO:
If you allow me to, Chetan, on your comment, you mentioned the 100 million: The 100 million is mostly linked to Q1 to Q3 2023. So it seems you've done the calculation today, you were removing 25 million from Q4. We phase out the thermal insulation and the energies of party business during Q3. So these 100 million are mostly concentrated on Q1 to Q3.

Philippe Kehren, CEO:
So, you don't have to take that into account between Q4 and Q1. Q4 is a good basis to calculate Q1. Is it clear, Chetan, on this point before I move to the markets?

Chetan Udeshi (JP Morgan):
I'm a bit confused, but maybe just good to clarify. So are you saying that Q4 €238 million is a good starting point without any adjustment for energy and the exit of the business? And then what about the impact from soda ash? Are you saying soda ash impact, more or less, would be offset by that seasonal volume rebound that you see across the businesses? So it's probably not much different from Q4, maybe plus minus something, but it's not going to be massively different from Q4 in Q1. Is that the message?

Philippe Kehren, CEO:
We're not giving numbers, but directionally, that's the message, yes.
Then in terms of markets I would say again, it's a bit earlier. We are seeing, you're right, some positive signals. I mentioned higher volumes in the beginning of the year, but we know that part of it is probably due to a restocking effect. So we need to wait a little bit to see how the situation evolves in the coming weeks and months.
In terms of volumes, that is in terms of prices, the other businesses don't see the same price evolution as we see in soda ash. They are extremely resilient and it is in line with what we said also during the investment Capital Market Day, it is also due partly to the fact that we have longer term contracts in some of these businesses.

Operator:
Thank you. We will take the next question from line Laurent Favre from BNP Paribas The line's open now. Please go ahead.

Laurent Favre (BNP Paribas):

Good afternoon. I have three questions.

The first one: can you educate us around the structure commercially of your business now that's expecting for this year between, I guess, quarterly contracts and annual contracts? Should we care about those quarterly sort of announcements, for instance, in Europe, or is your business still mostly on an annual basis? And you perhaps also tell us to what extent you are matching energy hedging with the structure of those contracts. In other words I mean, yeah, should we care about those continuous contracts and what's happening on the energy side? That's the first question.

The second one on your comments on stopping growth CapEx for this year. Can you tell us what kind of phasing we should be assuming for Green River between 2025 and 2026, given that you are stopping growth CapEx? Should we assume that most of the incremental capacity for 2026?

And the third question on the NEOM project. I've read up to 1.5 million tons of capacity for this project, which I guess would run into the billions for CapEx. Can you maybe tell us if you do go ahead with the FID, I guess what kind of CapEx we should have in mind for the next few years? Thank you.

Philippe Kehren, CEO:

On soda ash, I would say the structure of our contracts remain more or less the same. And so I would say we have around 30% of our contracts that are long term, 50% that are annual contracts, and you are right, this is mainly for Europe and for our bigger accounts. And so, the remaining is shorter term and mainly on a quarterly basis. And that's mainly seaborne and Asia Pacific, which traditionally is always a little bit more dynamic. And that could potentially, when the market rebounds, bring some upside as well.

In terms of Green River investments, this is ongoing, so whenever the market, the demand will recover, we will be ready to supply those tons. And you might know that those tons are for the seaborne export market, and in particular Asia Pacific and Latin America.

Now on NEOM, it's true that we have just announced our intention to develop the first carbon neutral, soda ash plant based on the new e.Solvay process, in Saudi Arabia. In the framework of this very ambitious NEOM project, the 1.5 million ton is a long term target. The first step will be a 0.5 million ton tranche. And clearly, we are doing this in partnership with the local product developer. And our intent is to have a low CapEx contribution from consulting. So, please don't keep in mind those huge numbers relative to those types of investments. We will have a contribution that will be by construction in terms of project finance, extremely limited.

Laurent Favre (BNP Paribas):

Okay. And if I can just follow up on the point on contracts for soda ash. So when you negotiated those annual contracts, TTF was in the high thirties, and it's obviously now a lot lower. Should we assume that there is upside on that energy deflation piece, or have you hedged, and have you matched your energy requirements to the duration of those contracts?

Philippe Kehren, CEO:

Well, you know that we are trying to put energy adjustment closes as much as we can in our contracts. So the upside is indeed relatively limited. And the downside, if ever energy prices are going up again, is also relatively limited. We don't want to make windfall profits, and we don't want to be squeezed neither when we have huge variations on the energy market. Now that being said, of course, we have a very dynamic way to manage our energy exposure, and we have some upsides that we can generate in the way we manage these energy exposure, but don't expect big swings due to energy market price variations.

Operator:

Thank you. We will take the next question from the line of Wim Host KBCS. The line is open now. Please go ahead.

Wim Host (KBCS):
I have two questions, please.
Can you maybe guide us towards the debt service costs in 2024 now that the whole debt portfolio has been reshuffled and some new deadlines are installed? So that's the first question.
And the second one coming back on soda ash, and not only this short term outlook, but more around the midterm outlook for this market. In light of what is happening, for example, to the Chinese construction market, I know China is a bit shielded in terms of soda ash from the rest of the world, but still sometimes there is a Chinese capacity that starts to show up in seaborne markets, etc. So is what is happening to the current demand trends in China and globally changing your outlook for the medium term, which was, if I recall, well, calling for a gradual tightening of capacity utilization rates for the next three to four years beyond 2024.

Philippe Kehren, CEO:
Thank you very much. So yeah, I will probably start with the question on soda ash and then I will hand over to Alex to address the question on the debt service cost. So on the midterm perspectives on soda ash, I think are very good. Why? Because demand for soda ash is really supported by the big trends. We are serving flat glass, container glass, detergents, production of bicarbonate, so that's feed, food, pharma, depollution. So all these segments are growing with the GDP and sometimes even much faster than the GDP as it is the case for bicarbonate.
So we reiterate our vision that the demand is sustained in these segments. And except for the big capacity that just started up in China end of last year, today, there is no new capacity being built, at least no significant new capacity being built except the one that we were mentioning that we are constructing in Green River, the expansion that will be available in 2025.
There are big projects announced in the US by our competitors, and also, we are working ourselves on this type of project. But today, the construction has not started, and it's true that we can I would say envisage that the market will become tight at some point in the coming months and years because we lack capacity.
So, to come back to your question on China, it is I would say sure that today construction's down in China. If you look at the evolution of the demand, the consumption of soda ash in China between 2022 and 2023, you realize that the decrease coming from the construction has been completely offset by the increase of consumption in other segments such as in particular solar panels. I mean, the soda ash consumed to produce solar panel in China is growing extremely fast. And so all in all, the soda ash consumption in China is not decreasing. On the contrary, it has continued to go up, not as much as in the past because of the situation on construction, but it continues to go up. And we see also, I would say a pressure on some of the least competitive capacities of soda ash in China today, coming from the startup of the new natural capacity. So we have not seen any change, I would say in the export of soda ash coming from China. But that being said, it can have in the short term some disturbance or some ripple effects that we can observe beyond there. So this is what I would say about the soda ash market.
And now maybe I will turn to Alex for the question of debt.

Alexandre Blum, CFO:
The annual cost for the data for the total net debt is about 100 million, easy to remember.

Operator:
Thank you. We will take the next question from the line of Jaideep Pandya from On Field Research. The line is open now. Please go ahead.

Jaideep Pandya (On Field Research):
Thank you so much. The first question is on your cost bucket. Appreciate you probably disclosed this in your annual report, but could you just give us some color of what were the energy costs/raw material cost last year? And based on your hedges that you have in place this year, what is the year your delta that you expect in the energy costs/raw material cost bucket? That's my first question.
Second question sort of goes back to the CMD where you presented the historical EBITDA progression. If I just average that and remove the 100 million, I get to around 900 million as an average, which for the lack of better understanding, I would sort of say mid cycle, which is what you are sort of low end you are guiding to.But then flip side, you're saying €260 million is sort of the cash flow that you generate from that. So God forbid if you enter these low cycle conditions, what will happen to that €260 million? How much flexibility do you have to actually reduce your CapEx below €250 million to sustain the €260 million ticket size if EBITDA actually goes down?
And then the final question really is when you look at the capacity increase of the natural soda ash coming in China, and you put that in context with the last time we saw capacity increase from Turkey what impact do you feel this time it's going to happen? Is this going to be a game changer like the Turkish capacity or is this not, because it's purely geared towards the Chinese market? Thanks a lot.

Alexandre Blum, CFO:
On the cost of energy and raw material, I think we will not comment. This is quite a technical question. The annual report will be available soon and you will have the details.

Philippe Kehren, CEO:
So the second question, I mean, again, the €260 million is a number that we can deliver whatever happens. So whatever the situation on the market is, even if we are in a scenario that does not provide any recovery, the economy during the year, we are organized with what we control, which is our costs, our CapEx, our discretionary CapEx, we are organized to deliver those 260 million euro. Alex, I don't know if you want to complement that.

Alexandre Blum, CFO:
Yes, maybe because we see this question coming quite often. *I have not calculated the last 10 years … we have invested in the past 10 years ... So I would say 900 …*
But the low end of our guidance, take it more at the trough, more than the mid cycle, or at least with the existing Solvay.
I think what matters is that we want to improve our return on capital employed. We will invest when it creates values and the free cash flow generation gives us that ability. So first, when we have a trough like we will face in 2024, we have CapEx and all the other levers that we manage in order to secure the cash and secure the dividend. And when things come back, we will invest for value. I mean, strategically, our long term intent is to improve the return on capital employed.

Philippe Kehren, CEO:
Absolutely. Maybe just one point, I think you mentioned at some point that €900 million is the mid cycle. In reality, what we see, and as I said, we are probably at the trough in particular in some of our businesses like soda ash. We see the low range of our guidance, which is €925 million euros, as the low point of the cycle.
And I don't like the word cycle because, and this is why I think we need to continue to explain what type of businesses we're operating, they are less cyclical that you might think. We're talking about macro cycles, about the impact coming from the macro-economic situation, it's not really like the cyclicality that you can see in some of the traditional chemical commodities, it's nothing compared to that.
Now to get back to your question on the soda ash capacity in China, so this is nothing compared to, I mean, what happened in Turkey because the Turkish capacities were clearly implemented to export volumes everywhere in

the world. And the new capacities currently starting up in inner Mongolia in the northern part of China are for the domestic market. So again, we're not saying that in the short term you cannot have some impacts on the balance between import and export. But the intent and the destiny of those capacities is really to supply the Chinese market. So the situation is really completely different.

Jaideep Pandya (On Field Research):
Sorry, if I may just come back to my first question and ask it slightly differently: what is the hedging policy you have for natural gas power and coal? Are you hedging still in the traditional old way of Solvay, which was to take hedges to blank out the delta between soda ash price differences? Or have you changed your hedging policy meaningfully ? just for our modeling purpose. Like how should we think about a delta of change for these cost items?

Alexandre Blum, CFO:
I don't think you should be that precise in your modeling, but I think there are three levels. Again, we have not changed our hedging policy. We have probably improved it. That's part of the simplification that we have with the new Solvay. It's simpler, more standardized type of hedging, but we have strategically is we need to reduce our dependency on the fossil fuels.
So energy transition is our main hedging policy. Then we have pushed since 2022 towards what I would call natural hedging. Which means that our customer prices are indexed in a way that covers most of the risk we have on the supply because the variability in the fuel prices is not something we can fully protect against.
And then on the short term tactical basis for the remaining exposure, we are doing something very similar to what you would do for FX. It means progressive regime of the coming year, of the coming exposure. And we are trying to do that as systematically as possible. You will have more details in the new report, but I think that gives you the greater visibility.

Operator:
Thank you. We take the next question from line Sebastian Bray from Barenberg. The line is open now. Please go ahead.

Sebastian Bray (Berenberg):
Hello, everybody. Good afternoon and thank you for taking my questions.
My first one is on labor cost. Can you just give us an idea of how you would expect the bonus provisions at the company to vary year on year in 2024? If we do see a down cycle, is there something that gets flexed?
And related to that, the commitment on living wage I hadn't heard before. Just out of interest, when exactly was this expected to be hit, and how much is this going to cost in total?
Just as a separate question, I appreciate, I'll keep it brief. How much of the inner Mongolia capacity do you think is currently actually available? There is a problem when assessing the soda ash market in that nominal rates of utilization can differ quite markedly from what we see in price data. It looks as if Chinese prices are heading downwards. Is this capacity now ramped up properly? Thank you.

Philippe Kehren, CEO:
So maybe I will start with number two and number three, and I will let Alex comment on how we expect to see the cost of the remuneration evolve.
So first, on the living wage, very clearly, I mean, you can expect very, very minimal impact on us as we are already very much at the right level. So the impact will be almost non-existent. We'll confirm this obviously.
On soda ash in China, there is not a direct link between the Chinese, the domestic Chinese price that you can see in particular on their domestic market and the seaborne price on the export market. So as I said earlier, there can be some volumes available on a spot basis, but this will not impact significantly the soda ash market in the mid

to long term. So this is why we don't expect those big volumes to disturb the global balance and anyway historically, and even in the projections that we see, Chinese exports are always, in the range of one to two million tons per year net.
So maybe Alex, on the labor cost part.

Alexandre Blum, CFO:
Just to put first that on the living wage, because you are asking about the spend at the implementation. So 2026 is our commitment on the time on the full rollout. And again, financially, it's not a huge cohort, so it is not a big impact. But I think as an employer, this is critical.
On the first question, the variable remediation in 2023 at the end for the full year basis was not extremely material. So don't expect 2023 to 2024 to have a big impact.

Operator:
Thank you. We will take two more questions from the queue. We will take the next question from Alex Stewart from Barclays. The line is open now. Please go ahead.

Alex Stewart (Barclays):
Hi there. Good afternoon. I wanted to come back to something that Jaideep said because the rating agencies gave Solvay BBB- rating based on a level of EBITDA of about 1.1 billion, and I think that was closer to reported than adjusted. This year, your guidance is somewhere around 900 to one billion, but in 2022, you took 390 million euros of net pricing. In 2023, you took 310 million euros of net pricing.
Now I understand that 2021 wasn't a great year for soda ash, but that's 700 million euros of net pricing over two years. And the guidance of this year of 900 to a billion. If I take a really brutal assessment and deduct 700 million off that, you're not left with a huge amount. So can you please explain to us why you think that 950, a billion, whatever the number is the new run rate when you've taken hundreds of millions of euros of net pricing over two years? Thank you.

Alexandre Blum, CFO:
Starting on the rating, as we said, the macro are not favorable. There is a combination of geopolitical and macroeconomic factors, which is creating decreasing demand in 2023, early 2024, at least. But fundamentally the basics of our businesses are unchanged.
The discussion we had with the rating agencies, and this is an ongoing discussion, and you've seen they have confirmed our rating when we had the separation. This was known, this is integrated, the current environment is integrated in our midterm guidance. So, we'll continue the dialogue, but I don't see a major issue there.

Philippe Kehren, CEO:
And on soda ash, when we look at even the past numbers, we don't see soda ash going further down. And if that would be the case, it would mean a different situation compared to what we are seeing even in 2021. And if that would materialize, which is really, really, unlikely, then we would have to act and to change our cost basis.

Alexandre Blum, CFO:
t2021 was a very low baseline. I mean, this is, the pressure on price at the time was just after the COVID. So yes, you're right in the pricing, but some of that was a pricing recovery from a very depressed point.

Philippe Kehren, CEO:
Ifever those prices would come back. Well, first the cost basis was not the same. So, I don't think it's realistic to see those level of prices coming back. And then obviously, we also have our cost saving program. That will contribute to also support the business.

Operator:

Thank you. We will take the last question from Martin Roediger from Kepler Cheuvreux. The line is open now. Please go ahead.

Martin Roediger (Kepler Cheuvreux):

Thank you. Again, on your guidance, can you provide the parameters for the low end as well as for the high end of your guidance range?

Philippe Kehren, CEO:

In a nutshell, the low end corresponds to the situation not getting better versus Q4 2023. So we continue on the same trend for the whole year. And frankly speaking, I think if this would materialize, we would probably accelerate our cost savings and cash measures. And so, this is really, I would say, the lowest point that we can ever imagine to reach.

The midpoint is the situation as we see today. And so, we have efficient cost measures and at the same time potentially a situation that would likely improve in second part of the year.

And the upper limit, the high end of the range would be a recovery in the second part of the year that is a little bit more impactful.

Operator:

Thank you. No further questions. I'm handing back over to your host for closing remarks.

Geoffroy d'Oultremont, Head of Investor relations:

So thank you very much for being with us in the call today. We will be on the road in the next couple of days in London, Paris, Brussels, for example. So feel free and feel free obviously to call us and take contact with the investor relation teams if you have any follow up questions. Thank you very much.