Solvay first quarter 2024 results

Analysts call transcript
May 7, 2024

Geoffroy d'Oultremont, Head of Investor Relations

Good afternoon, everyone and welcome to Solvay's first quarter 2024 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 presented in today's call 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.

We start with safety; as you know safety is a top priority for myself and for Solvay's management team. Safe companies are successful companies.

The beginning of the year has seen a continuing downward trend in accidents, with 8 recorded in Q1 2024 compared to 10 in the last quarter. While this is encouraging, it is still not enough for me. This is why we recently took further actions. These included ongoing work to fully comply with the Solvay Life Saving Rules and to better address critical risks.

We see clear evidence of safety messages flowing down the organization and one of our major targets for 2024 is to increase the amount of time spent on the shop-floor by all levels of management.

Our target is very clear; it is zero accidents.

Safety isn't just one person's responsibility; it's a shared commitment. Our people can count on us, and we can count on them as well, to keep focusing on safety every day.

Solvay now has its first quarter as a standalone company behind it and, I am personally proud of the progress we have made so far in 2024:

- we stabilized both our operations and our organization after the split;
- we delivered solid results in the first quarter; and
- we refinanced the bridge loan inherited from the separation process.

Looking ahead, Solvay is now fully focused on implementing its new operating model with the senior management team putting in place key measures necessary to rapidly deliver this new model which will bring significant efficiency benefits.

Alex will come back on the detailed Q1 financial performance, but let me first give you some market context. We clearly continue to experience uncertain macroeconomic conditions. There is no firm market trend, while the future recovery everyone is expecting has not yet materialized.

Yes, we have seen evidence of green shoots in Q1 2024 across different businesses, but not yet enough for Solvay to be confident in signaling a structural recovery at this point in time. It is too early and we still have low visibility on the second half of the year.

In this context, as management, we naturally look to ensure our teams continue to focus on our operations and, more specifically, focus on core elements of the business that are under our control: customers, costs and cash!

The customer intimacy we have built over the decades gives us a significantly better understanding of market conditions and serving our customers remains our top strategic priority. In the essential chemicals market, nurturing close and strategic relationships with our customers is critical to Solvay's future success.

Cash and costs are also hugely important. Our €265 million of underlying EBITDA and €123 million of Free Cash Flow delivered in the first quarter are precisely the result of controlling these two elements: don't miss any opportunity on the top line, and optimize the costs of today without jeopardizing tomorrow.

Despite my previous comments, it does not mean that Solvay is not planting seeds to reinforce its growth potential. Look at what we achieved in Q1:

- We expanded the capacity in France and Italy to meet the rising demand for our bicarbonate flue gas treatment solution SOLVAir® and enhanced the use of circular raw material across Solvay's facilities in Dombasle and Rosignano.
- We expanded our capacity of hydrogen peroxide in China to meet the growing demand of photovoltaic-grade hydrogen peroxide.
- Coatis launched its innovative bio-based, carbon neutral Augeo® cleaning products for US and South American markets.
- We signed a Memorandum of Understanding in La Rochelle, reinforcing our strategy to establish a significant manufacturing footprint for the rare earth permanent magnets value chain in Europe.
- And two weeks ago, we inaugurated, in our plant of Rosignano, a production unit for Alve-One®, an eco-friendly chemical blowing agent designed to support the thermoplastic foaming industry to increase its health and safety standards, for the benefits of the people and the environment.

A theme that will quickly become usual in our calls is the transformation of the company.

Recently, we started a thorough exercise to redefine the culture of the new Solvay. Solvay today is simpler than before the demerger-it is an industrial company with its 45 production plants and their workers at the heart of its ecosystem. So it is key to associate our employees in that journey. Indeed, we hear every day that they are supportive of the direction we are giving to the new Solvay. We want them to embrace the strategic changes, and be an integral part of our transformation.

Also, part of the transformation is the cost saving plan.

We didn't wait to start implementing cost savings measures, and 19 millions euros have already been delivered in the Q1 earnings. Our transformation office is now fully staffed with reallocated resources, and ready to support our cost savings initiatives. Let me give you some concrete examples of savings in Q1:

- In soda ash, we have seen yield improvements. We also improved, in Green River, the collection of the mine gas to use it in the dryers instead of venting or sending to incineration
- We acquired a first set of 200 IoT devices that are being installed in the plants, and will contribute to improve the efficiency of our processes
- We have a simpler and leaner corporate organization, with less layers of management than in the past
- Now that we have a more consistent portfolio of activities, we launched a Spend Review Challenge to review and improve external costs such as maintenance

These are all examples of savings in variable and fixed costs. I could share many more examples, but we will use our Q2 earnings call to deep dive into our various initiatives and explain how we will reach the 300 million euros target by 2028.

I will now hand it over to Alex for the financial review.

Alexandre Blum, CFO

Good afternoon everyone.

Before I present the Q1 financials, I would like to take a moment to thank our finance teams for their accomplishments over the past few months. They have done an outstanding job managing at the same time

- the operational split of the company
- Solvay's refinancing through the bond issuance; and
- preparing our annual report and Q1 earnings. A big thanks to our people !

Moving to financials, let me start by repeating two important elements:

- First, 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.
- Second, there were some APM and scope changes starting this quarter that we already announced earlier; and on April 15, we issued a press release with some historical & comparable data, which is available on our website.

With that out of the way, let's now review our Q1 financials. And to aid comparison, I will comment on the organic evolution, meaning at constant scope and currency, unless otherwise stated .

Let's start with Q1 sales. They were down 12% versus a high Q1 2023, mainly due to lower prices in soda ash, but also to a lesser extent in other businesses but solely reflecting lower energy & input costs. Volumes were slightly up in both segments, turning positive for the first time in seven quarters. You heard Philippe saying that the environment remains challenging. This improvement in volume which I do not see as structural yet is coming from the green shoots and restocking we mentioned, including bicarbonate, Peroxides in Europe or Silica.

Moving to EBITDA, it amounted to €265 millions in Q1. This is 14% below Q1 last year, but it is up 7% sequentially (versus the restated Q4 of €247 million). There are several drivers of this :

- as expected, the margin of our soda ash business reduced due to lower prices

but on the other side:

- our savings plan is starting to yield benefits
- the volumes were slightly higher
- And the corporate costs were very low in Q1, only 16 million euros reported EBITDA, thanks to discretionary costs that were particularly contained during the quarter. We don't expect it to repeat when the macro and business environment will normalize, and we confirm that the annual run rate for the corporate costs is still expected to be between 80 million and 100 million euros.

Looking at the segments now, and Basic chemicals on slide 10.

Once again, Soda Ash & Derivatives 18% lower sales year on year were entirely driven by lower prices. Soda ash volumes were essentially flat as increasing deliveries to the seaborne market offset the lower demand in container glass applications in Europe and North America. Bicarbonate volumes were slightly positive year on year, driven by food and pharma applications.

Peroxides sales in Q1 increased 13% year on year mainly from the consolidation of the sales of Peroxidos do Brasil, as previously announced. Organically, sales decreased 7% from pricing linked to lower energy cost, which was partly offset by some volume recovery in most end markets, especially in Europe.

The Q1 2024 EBITDA of Basic Chemicals is down 22% year on year, but only slightly down sequentially (versus the restated base of 207 million) due to lower Soda Ash Net Pricing partly offset by slightly positive volume impact and stable fixed costs. The EBITDA margin remained at a high level of 28%.

Performance chemicals on slide 11

Silica sales for the quarter were down 12% organically from lower prices due to formula indexations, while volumes were higher in both tire and “consumer & industrial goods” markets.

Coatis sales were also down 12%, from slightly lower volumes year on year but improving sequentially especially in solvents.

Special Chem: as we have phased out our Thermal insulation, sales are 18% lower year on year, however organically they are broadly flat. Volumes were positive in automotive and healthcare, while they were lower in electronics and other end markets.

The EBITDA of the segment is down 16% organically, with essentially stable volumes and fixed costs, but with a decreasing Net pricing compared to a high Q1 2023, which was positively impacted by lag in formula indexations.

Moving to the free cash flow on slide 12.

This is clearly one of the key achievements of Q1. With €123 million of FCF generated in three months, we demonstrated how we can quickly react and adjust our cash spending, and particularly our discretionary capex.

A couple of additional comments:

- Almost all of the capex in Q1 were dedicated to essential capex
- half of the €45 million provision cash out is related to restructuring plans that were launched before the split, and other small litigations settlements.
- Our tax cash out was low in Q1, due to phasing of tax payments

Finally, a word on the seasonality: It is also important to keep in mind that in Q2, we will have, as usual, the payment of variable remunerations, negatively impacting the free cash flow. So all in all, we expect the free cash flow in Q2 to be only slightly positive.

Turning to net debt on slide 13.

Instead of going through the figures that should not present any surprise, I would like to come back to the refinancing of the €1.5 billion bridge loan we inherited from the split.

We took advantage of the favorable market conditions at the end of March to issue a dual tranche bond, with a 4-year tranche of €750 million, and the other €750 million with a 7.5-year maturity.

This key transaction strengthens our capital structure and gives us the financial stability to execute our strategy in this new phase of our journey. We are particularly pleased with the exceptional participation of more than 250 investors in each bond, which contributed to a transaction nearly 6 times oversubscribed; This is a clear testimony of the continuous support and confidence from institutional investors in Solvay's vision and strategy.

For modeling purposes, you can take into account that the cash out on these bonds coupons will take place in Q2 and Q4, respectively. For 2024, there will be only half of the coupon of the 7.5 years tranche paid in October.

A secured long term investment grade financing is critical for all our stakeholders, in particular our customers as it contributes to security of supply, for our suppliers and for Solvay’s partners in our energy transition journey.

Philippe, back to you for the outlook and concluding remarks.

Philippe Kehren, CEO

Thank you Alex, and indeed, well done with the refinancing. Our business and operational teams are grateful to the Finance teams; we have the solid foundations that we need to execute on our strategy.

And well done to all the teams for this quarter. It is a first important milestone for the new company, and it is a success. We delivered on our promises.

What can you expect moving forward ?

We told you that, in the first quarter of 2024, we benefited from slight volume pick-up in some of our businesses. We maintained a strong focus on costs and cash, and we are confident that we can keep our fixed costs under control.

But we also explained that the macro and geopolitical environments remain volatile and uncertain, and that, on the demand side, there is not enough consistency in our order book to include the green shoots we saw in Q1 in our baseline for the year.

Consequently, we prefer to remain prudent and our view now on the rest of the year is relatively unchanged from what we shared during the FY23 results. This means that we still expect H1 2024 volumes to be broadly in line with H2 2023, and that we still have very low visibility on the second half of 2024.

We therefore confirm our FY guidance of an underlying organic EBITDA growth of -10% to -20% (translating into a range of €925 million to €1,040 million).

We also confirm that we expect Free cash flow to Solvay shareholders from continuing operations to be greater than €260 million. This needs to be put in perspective of the strong cash delivery in Q1, but also the willingness to see more discretionary investments starting in the second half due to the transformation of the company and the initiation of certain growth projects.

To conclude, let me tell you that we are very proud to have delivered such a solid quarter in a complex and challenging environment. This shows the strong commitment of our teams, and how resilient and agile we are.

We have a clear view of what we want to achieve for Solvay, its employees and all our other stakeholders.

We started to transform the company to make it a simpler and more focused organization.

We know it will take time. But it doesn't matter; Solvay is here to stay !

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, may we ask you to ask one question, to leave some time to everyone.

Moderator, now you may open the line for questions

Martin Roediger (Kepler Chevreux):

I have 3 questions, the first one is on the €20 million benefit from fixed cost. Philippe, you talked about €19 million cost savings in your speech. That might be a rounding difference, but where do I find the adverse impact from cost inflation in this chart? And staying with that chart, the €8 million contribution from others, are these temporary savings or is that a net figure after deducting these cost inflation effects?
The second question is on the near term outlook. Assuming the macro environment is unchanged in the second quarter versus the first quarter, how do you see the chance that EBITDA in Q2 will be higher than the €265 million EBITDA you achieved in Q1 due to a) the normal seasonality, and b) the ongoing cost savings?
And the third question is on capital employed. It dropped from €4.5 billion in Q4 to now €4.1 billion in Q1, down by €360 million quarter-on-quarter. And the main driver seems to be investments in associates and joint ventures, which decreased by roughly €300 million quarter-on-quarter. Can you elaborate on that please?

Philippe Kehren, CEO:

So I will start with your first one, so indeed, to be accurate, we are talking about €19 million of structural cost savings in Q1. That is half coming from variable cost savings and half coming from fixed cost savings. And I insist those are really structural cost savings. We also benefited in Q1 from some non-necessarily repeatable savings on our corporate costs, but the €19 million that we are referring to are really structural savings that will repeat.
On your second point, Q2, we do not see today a big difference on our markets in terms of demand in Q2 versus Q1. We have seen some restocking effects in Q1. We will check how this evolves over the year, but we do not see any major change or any major recovery in Q2 versus Q1. However, we will continue to control our costs and our cash as we did in Q1, for Q2. So, this is more or less how Q2 should look like.
Alex, if you want to complement a little bit on the first two, and then probably we'll address the third question on the capital employed.

Alexandre Blum, CFO:

On the second question on guidance, we do not want to give too much of a precise guidance on Q2. We have seen over the past few months, including in December last year, how quickly in such an environment you can see volumes shifting from one quarter to the other. You should look at the full year guidance being really the relevant one. We have seen geopolitical tension, the climate events in Latin America. All of that can impact the quarter.
On the third question *(NB: this was actually answered at the end of the call)* it is linked to the fact that the Return on Capital Employed is calculated as the average of four quarters and consequently our Russian joint venture Rusvinyls was still impacting the Capital Employed calculation at the time. You also have to note that the stop of energy third parties activities also contributed to reduce our Capital Employed.

Alex Stewart (Barclays):

Good afternoon. Thank you for taking some questions. I was interested in your free cash flow bridge. It seems that the net financing costs in that bridge were €15 million negative, which seems very small in the context of your overall capital costs and well below the P&L finance charges. So I wonder if you could explain that.

Secondly, and I appreciate that Solvay is much more than just a soda ash company, but through 2021, 2022 and 2023, China exported an average of 300,000 tons of soda ash every quarter. In the first quarter of 2024, it imported 300,000 tons, the first real net import in years. So with that in mind, could you tell us whether the strengths in your seaborne market, in other words, the export market, was driven by a very unusually tight situation in Chinese soda ash which was a confluence of good demand and delays in some plant start-ups. I'd be very interested to hear your view on that. Thank you.

Philippe Kehren, CEO:
Thank you. So I will probably let Alex answer the first question on the free cash flow bridge, and then I will take, I think, the question on soda ash.

Alexandre Blum, CFO:
The interest cash out is Q1 is a little bit lower than the normalised interest cash out, which should be around €100 million per year on the normalised basis. That was included in our forecast, this is the phasing of the interests on the bridge loan. So nothing unexpected for that. Again, keep in mind, normalised is €100 million per year.

Philippe Kehren, CEO:
Thank you, Alex. On the question on soda ash, it is true that I think China has been a net importer of soda ash for the past six months. And that's quite unusual. We very often say that China has a limited impact on the global market because it is more or less balanced, but it's true that normally it is exporting, on a net basis, between 1 million and 2 million tons per year. So now we see imports.
Is it structural? It's difficult to say. It might be linked to the ramp up of the new capacities and the fact that the Chinese industry is already restructuring its least competitive assets. I think we're not necessarily betting on this to continue in the long run. In our model, China has a limited impact on the rest of the world, and we see it relatively balanced. So it's true that right now, it allows the other players to sell a little bit in the Southeast Asian market. But globally, the soda ash market will need capacities outside China in the coming years, but it does not change anything on the view that we have on the evolution of the market.

Alex Stewart:
Very interesting. Thank you. If I could just press this. So I suppose you have a sense of where your volume is going, which regions. If you were to look at Southeast Asia compared to a historic average trend rate for Solvay, would you be able to give us some sense of what that net import position in China is doing to your demand? Any sort of context you can give would be very helpful.

Philippe Kehren, CEO:
It is not very significant. It is true that the dynamic on the seaborne markets – and not only on Southeast Asia – is compensating a little bit the softness of the markets that we have today in Europe and also to some extent in North America. But I would say it's not major. So it helps to compensate a little bit, but it's not big.

Peter Clark (Bernstein):
Yes, thank you. I've got two questions, please. The first one is about the Peroxides recovery in Europe, I'm just wondering how important Antwerp was within that, with the HPPO plant there, which obviously had some difficulties beforehand in terms of the market.

And then what about the soda ash business and the seaborne volumes that obviously were helping in the first quarter. Obviously it helped utilisation rates and overall margin or the profitability. Just wondering on the margin on that.

And then just the last comment actually on Coatis, you saw some sequential volume recovery. That seems to be, at last, stabilising. Just your feeling on Coatis. Thank you.

Philippe Kehren, CEO:
Yes, thank you very much. So indeed, I mean, Peroxides went well in Q1 and not only on the HPPO segment, as you mentioned Antwerp. So those are the mega plants supplying the propylene oxide for the polyurethane chain. It's true that these ones have run pretty high, and I think there was some restocking effects. But also the merchant segment, so the segment that is for the pulp and paper and for disinfection, this segment was also strong, which was a good surprise. Again, let's see if this materializes in the longer term. I think it's too early to say at this point.

As you mentioned, the seaborne market for soda ash was not bad. It was not booming, I mean, let's be clear, it's not something big. Again, as I said before, it helps us, a little bit, to compensate the softness that we see on container glass in Europe, but nothing really big. So all in all, there's no big surprise.

And your last question was on Coatis. So indeed, I think Coatis was clearly at the trough in Q4. It is picking up. I think we are optimistic for the future of the activity, and we see, in particular, our integrated chain bringing a lot of value, as we are integrated both with the phenol on the solvents and on the polyamide chain. And this integration is bringing a lot of value, and we see the solvents market recovering pretty well.

Jonathan Chung (Morgan Stanley):
Hi, thanks for taking my questions. I've got two please. First one on your P&L, other gains and losses on net indebtedness, you recorded a €10 million gain on net indebtedness versus minus €3 million in the prior year quarter. Can you explain what is the driver behind this gain, please?

The second question is based on CAPEX. I think you mentioned in the start of the call some circular raw materials and greenify your soda ash productions. Can you give us a bit more numbers on how much of your CAPEX is spent on decarbonizing your production base in Q1? And what is your expectation for the decarbonization CAPEX for this year, and whether that's included in your guidance? Thank you.

Philippe Kehren, CEO:
I will probably start with the question on the CAPEX and then if Alex can manage to find the right answer for your first question, I will give him the floor.

On the CAPEX, good question indeed. I remind you that the decarbonization roadmap is absolutely key for us. And though the CAPEX corresponding to the decarbonization are included in our essential CAPEX. And so that's included in the envelope that we estimate between €250-300 million that we have to spend every year to maintain our assets to be compliant and also to do the energy transition. You might remember that we communicate an amount of €1.2 billion over 20 years that we need for the energy transition. That is more or less €60 million per year. Half of it is really CAPEX for us, and half of that is financed through third parties, like we have already today in a few projects. So in our CAPEX for this year, we have more or less €30 million of investments for decarbonization.

Alexandre Blum, CFO:
Okay. On the first question, we found out that this is a link to the re-evaluation of SYENSQO shares we hold for long-term incentive purpose, and with the share price appreciation in Q1, it created a gain of €9 million. That is the main driver.

Jonathan Chung:
Thank you. And maybe I can squeeze in just a clarification question. I think you mentioned free cash flow bridge for Q2 but I got cut off during the call. Can you just remind me just what's the moving parts in the bridge for Q2, please, when we think about cash flow?

Alexandre Blum, CFO:
Sure. What I mentioned is that in Q2, you have to expect a free cash flow being only slightly positive. Main reason for that is that we will have to pay variable remuneration. And on top of that, I also mentioned tax cash out was a little bit low in Q1, which is quite usual, and you have to make some payment to tax administration typically in Q2. So these two element explains why the free cash flow should be a zero plus in Q2.

Jaideep Pandya (On Field Investment Research):
I want to dig a little bit on the European side of the soda ash business. Could you tell us in terms of European imports, where do you see the most competitive pressure from? Is this the US, and what is the transportation cost these days to ship soda ash out of US to Europe? Is this north of $50 or is this around $50? That's my first question.

And the second part to the first question, on soda ash pricing, it looks like prices were down 19% or 18-19% for Q1. So could you just tell us within this how has been the dynamic for your long-term contracts, your annual contracts, and then your seaborne market?

And then my last question is on net pricing, could you give us even some qualitative sense of how much was raw materials/ energy costs down in Q1 at the Group level? Thanks a lot.

Philippe Kehren, CEO:
So regarding imports to Europe; you might know that Europe is a net exporter of soda ash. So you have, at the same time, imports and exports, but we have, in Europe, competitive plants and, in particular, the one that we have in Bulgaria that is able to export anywhere in the world. The main flows imported to Europe are coming from Turkey because the Turkish capacities, in particular, those based on solution mining, are competitive. Here, you don't have any new volumes, this year versus last year. So this is a flow that has been existing since the start-up of those plants. And there is an equilibrium in place. So I guess your question is probably more towards the US from what I understand. Indeed, transportation costs are extremely high from the US because the US production sites are in Wyoming. So you need first to bring the product to the port, and then you need to put it on a ship and sail to Europe. So that's why you don't see a lot of US imports today. Historically, you've had some imports to the UK, but that's a very specific situation. You don't see a lot of imports coming from US to Continental Europe. It's really minor because the logistic costs are too high. To give you an order of magnitude, the cost to bring from Wyoming to Europe is much, much higher than the production cost in Wyoming to produce one ton of soda ash. So it's much more than $50, to answer your question. And our sites, after the reorganization that we've done over the past 10 years, all of our sites are the best ones on their market in terms of delivery cost. So if you take a site in France, a site in Germany, or a site in Italy, it is better than any import on a delivered basis.

Now your second question was on pricing. So on pricing, indeed the prices went down more or less 19% in Q1 on soda ash. And by the way, the main variation of the group’s EBITDA between 2023 and 2024 is mainly coming from soda ash prices. Half of it is coming from the decrease of the energy prices, because we have, since the European energy crisis in 2021, implemented energy clauses that automatically pass through increases and decreases on soda ash prices. And half of it is coming from the supply demand equation, to give you an order of magnitude.

Alexandre Blum, CFO:
The last question was about the raw materials and energy impact in net pricing; you can see that through the EBITDA bridge, the majority of the decrease in selling price is linked to energy and raw materials.

Chetan Udeshi (JP Morgan):
I had a couple of questions. First one, if I go back, you mentioned at the March conference call that you had certain delays in your separation costs, and I think from memory, I had in mind €200 million of separation costs, which was still to be paid out this year. It seems your actual cash out in Q1 has been much less than that. So can you remind me if there are any pending separation costs, if there are any pending costs which will flow through the cash flow in the remainder of the year and how much is the magnitude of those costs?

And the second question, there's always a lot of focus on soda ash for the right reasons. But when I look at your Basic Chemicals margin, if I'm not mistaken, in Q1, you did 28% EBITDA margin in this division, which includes primarily your soda ash and peroxide business. And I remember Philippe, you've been talking about, at least, soda ash market at a trough. I'm just curious, why would this business make 28% EBITDA margin at a trough? And then you have the Performance Chemicals business, which is also at a trough, but you can see the margins that are really weaker at 16%. So what is the key difference between these two segments which allow you to make much higher margins at a trough in one versus the other? Thank you.

Philippe Kehren, CEO:
Thank you very much, Chetan. I think I let Alex answer the first question and I take the second one.

Alexandre Blum, CFO:
What I mentioned at the time, it was €100 million when we were looking at the bridge at the net debt at the end of 2023, and I mentioned that we were slightly lower, indeed €200 million lower than what was announced at the Capital Market Day. And that half of that was linked to a PO2 cost that moved to 2024. So we're expecting about €100 million. We are trying also to optimize that. And in Q1, we have paid about €50 million in Q1. So we expect less than €50 million to be paid over the next quarters.

Philippe Kehren, CEO:
Thank you. So I take the second one. To answer your question on the margins, they are different in the Basic Chemicals segment and the Performance Chemicals segment, and that is true. You are right to say that at the trough, the Basic Chemicals segment is at around 28% EBITDA margin. What you need to keep in mind is that this segment is much more capital intensive. So you need those EBITDA margins. And I would say you need more if you want to have investments in new capacities.

Today, the conditions are not there to have big investments. Except of course, the investments that are taking place in China probably are under different assumptions. Those investments are not taking place today yet in the US. I think the players are waiting for the conditions to improve a little bit. So, these higher EBITDA margins are required to get the right level of profitability and return on capital for the new investments to take place, because these businesses are more capital intensive.

On the Performance Chemicals, it is much less capital intensive. And you might see that we are launching some of the investments, for example, in rare earth or in silica even though the EBITDA margins are lower, because the return on capital is there. And keep in mind also that Coatis today is really at the trough, and that when it will have recovered, and we hope to see that coming in the next months, then we will also get a positive impact on the margin for the Performance Chemicals segment.

Frank Claassen (Degroof Petercam):
I have one question left on the cost savings initiatives. You achieved the €19 million in the first quarter. Can you elaborate what we can expect for the rest of the year? Do you have targets? What are the main projects? Maybe some phasing? Could you elaborate on this? Thank you.

Philippe Kehren, CEO:
In fact, we launched immediately our cost savings plan. And it's true that we already delivered €19 million, and I gave some examples earlier in my presentation. We expect more savings to come quickly as well, because we are just starting our digitalization initiatives in the plants. I said we have already invested in 200 IoT devices in our plants, but we will continue and we will accelerate on this point.

The other point is on the organizational changes and on the investment we will do on our information systems. This will take a bit more time. And this will also contribute to the €300 million cost savings that we want to achieve by 2028. So to answer your question, I think we will dedicate some time during the Q2 earnings presentation to give a full update on where we stand in terms of cost savings and the projection for 2024 in particular.

Tristan Lamotte (Deutsche Bank):
Hi, just one question please. It is on PFAS exposure, which I know largely went to SYENSQO. I was wondering if you could possibly give some color on your level of remaining exposure to PFAS. Do you have any provisions outstanding for this now? And which businesses have used PFAS-related chemicals, is it just the TFA business? Thank you.

Philippe Kehren, CEO:
Yes, indeed, it is only the TFA. So of course we do not want to minimize the subject, we are taking this extremely seriously. It is true that all the fluoropolymers business went with SYENSQO. And in the current scope of Solvay, we have one business line, with one product and some derivatives, which is the TFA. TFA today is produced only in one site of the Group, in Salindres in France. By the way, it's the only site in Europe that is producing TFA today. TFA is considered as a PFAS technically from a chemical structure point of view, but it is two carbon molecules, so it's not a polymer. And in that aspect, it does not accumulate in the body, so it is not the same mechanism as some of the fluoropolymers that are classified as PFAS of concern. This is not the case for the TFA. That being said, of course we are fully compliant, we have always been compliant on our site. We have invested to reduce the TFA emissions from our site, and we continue to invest in order to reduce them. What you need to know is that, for us, it is very small business. It is only, as I said, a production in France. And keep in mind also that it's an essential product, it's used to produce agro and pharma products. So, we need also take that into account.

Jaideep Pandya:
Thanks a lot. It's just regarding your energy and raw materials – or rather energy and electricity hedging policy. In the annual report, you say that you are always hedging the net exposure. Could you just remind us what is the hedging policy that you have and how much, let's say, for instance, this year you're benefiting or not benefiting from hedges of the past, just to understand the movement for natural gas, electricity and coal.

Alexandre Blum, CFO:
So for energy hedging, the general framework, when we look at energy exposure, the first thing strategically to do is the energy transition and to move away from carbonized energy. That is the best way to reduce the volatility. Then we will try to hedge for commercial agreement, meaning that our selling price reflects variation of energy. That is especially true since the European energy crisis, which may be possible for producers like us to absorb the energy price increases. And on the other side, we did not want to make some windfall profits on the big swing down of energy prices. So we progressively changed our contractual framework to have more natural

exposure. And you see it today in the bridge of sales and EBITDA, that now a large part of the variation of the selling prices is linked to energy and, to a lesser extent, to raw materials. So that is the main line of direction. And this is why when we say net exposure, what we will hedge financially at the end is what remains between the purchases, the selling price, and certain contracts we may have on site where we resell energy to industrial partners. We will hedge that remaining piece. We have the objective to be largely hedged financially for the coming year. We will target, yes, to be largely hedged, but that is the only remaining portion. And in the Q1 results, you do not have significant gain on those hedging. This is more to protect us against a spike of energy that could occur during a few months.

Jaideep Pandya:
And if I just can ask one more question to Philippe, any scope for carbon sequestration projects, given maybe in Germany and France, you have quite a lot of cement producers around you. So any scope or any projects on your list right now where you're working on this? Thanks a lot.

Philippe Kehren, CEO:
We are exploring a certain number of projects on this field. Probably not so much sequestration in Europe because it is true that we have caverns that we could use. But those caverns are better used I think for more profitable activities, like storage of energy. With the development of renewable energy production, it is very much needed to be able to store energy in those cavities. But we are looking at CO2 capture projects indeed, and in other regions outside Europe, maybe potentially also sequestration.

Geoffroy d'Oultremont, Head of Investor Relations:
Thank you much. Before we close, there was a question at the beginning about the ROCE calculation, the decrease of the capital employed, and more specifically about the movement in investments in associates, and joint ventures. Alex: it is linked to RusVinyl as the ROCE is calculated as the average of 4 quarters; our Russian joint venture was still there at that time. You also have to know that the stop of the energy third party activities have also contributed to reducing our capital employed. ,

for your participation today in our call. The IR team of Solvay is available in the coming weeks to answer your questions, and we remind that we invite all our shareholders to vote at our general meeting on the 28th May and that we will issue our Q2 earnings on the 31st July. Thank you very much.