Solvay second quarter 2024 results

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

Good afternoon, everyone and welcome to Solvay's second 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, our CFO, Alexandre Blum and our COO, Lanny Duvall.

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 to view 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, a top priority for us, as you know. I like to say that safe companies are successful companies.

Over the course of 2024, we have seen continuous improvement and a downward trend in Solvay's safety record. I told you at our Q1 results that we have a target to increase Management time spent on the shop-floor at every level. This is happening, and contributes to reinforcing the importance of safety across our businesses.

My team has put in place clear measures as part of our Star Factory program, also supporting safety improvement; and we recently reiterated our commitment to safety, as a founding element of our values and purpose at Solvay. Our target is very clear; it is zero accidents.

Moving to the second quarter results, on slide 5.

Solvay has continued to perform well despite the challenging market environment. This is due to our continued financial discipline as well as our continued focus on what is within our control.

Let me give further detail.

First, an update on the market environment.

You will remember that market demand deteriorated in the second half of 2023, with most probably the trough in demand reached in Q4 23 last year.

Following a slight improvement in the market environment in Q1, due to restocking and some "green shoots", the underlying demand stabilized in the second quarter.

We were also able to capture some opportunities to generate additional EBITDA and cash.

Solvay has a very resilient portfolio, and we serve multiple end-markets. That helps navigate the current challenging conditions.

For instance in soda ash, construction in general and container glass in Europe remain soft. But this is offset by a continued growth in solar panels and lithium carbonate.

In our Performance Chemicals segment, which serves many different applications, our 2nd quarter benefited from a favorable product mix as for example in our autocatalysis rare earth applications.

Taking a step back, we see order books stabilizing during the quarter, but remaining fragile as well. I will come back on this in our outlook, later in the call.

So, in this context, we focus on what we can control: our transformation, which will deliver cost savings, and discipline in capital allocation

The transformation of the new Solvay is well under way:

- We clearly set out who we want to be and what are the foundations of our culture
- We continue to deploy our new operating model across the organization
- The progress we have made in our transformation is best demonstrated in the delivery of €46 million of cost savings achieved since the separation.

With that, I would like to give the floor to Lanny Duvall, our Chief Operating Officer, who will provide you with some more detail around how we are transforming our organization and how we see future cost savings supporting the expected strong cash generation of our business in line with our mid-term targets.

Lanny joined Solvay over a year ago with substantial experiences in working in private equity owned companies. Since he joined us, Lanny has visited almost all of Solvay sites and met with a large number of our employees. He put in place the €300m savings plan, and is now implementing the digitalization and simplification initiatives in our plants necessary to deliver our mid-term targets

Lanny, the floor is yours.

Lanny Duvall, COO

Thank you Philippe, and good afternoon everyone.

During our Capital Markets Day in November 2023, we told you that one of the key drivers of Solvay's EBITDA growth would be the delivery of our cost savings program of €300 million.

Seven months after the partial demerger, it is the right time to dig deeper into the program and explain where and when we will deliver these savings.

First and foremost, this is about transforming Solvay.

We are a new company, with a more focused portfolio and different priorities than the old Solvay. Consequently, we need to transform and adapt our processes.

Today, you will hear me use two words that are key in this transformation: Simplification and Digitalization. The demerger has allowed us to leverage these areas in ways that were not possible before.

Let's start with our plants.

In last year's CMD, we explained how our "Star Factory" program will help us shape the plants of the future. Today, I'm happy to say that 90% of our plants have started their "Star Factory" journey and their roadmaps cover all dimensions of safety, productivity and sustainability. For our plants, Star Factory is central in our transformation!

Now the organization: we have evolved from an organization that was designed to manage the complexity of both a specialty and an essential business. In the new Solvay we aim to create a new organization that has a lower cost base.

We are now able to move towards creating a more cost efficient organization and continue optimizing our industrial footprint. And later, the new ERP will allow us to go even further in simplifying our organization.

To be able to deliver these savings, we need the right people with the right capabilities; and the good news is that the people in Solvay are very talented and dedicated to transforming Solvay.

Moving to slide 8.

In terms of timing, we see 2 phases:

The first phase has already started and will be focused on our plants. Mainly fixed and variable cost savings with some optimization within the Solvay's central SG&A functions

After 2 years, we expect to deliver €150 million of the €300 million target. This is not based on vague plans. This is supported by a set of initiatives that are already proving to generate value, and digital plays a significant role.

In the second phase, we will continue to work on the efficiency in our plants, but you will see an acceleration of the savings related to SG&A. This second phase will be made possible by the end of the transition services agreement with Syensqo and the implementation of the new ERP.

I have strong confidence in our cost savings plan. We have a significant pipeline of savings projects, we have invested in our digital infrastructure and the focus of our people is clear.

Let me give you three concrete examples on the next slide 9.

We have structurally changed the way that we are managing our industrial data, and this has allowed us to implement several of these initiatives at scale. The first one is around condition-based monitoring of our assets in our plants. We have now implemented 800 IoT devices in our plants. By the end of the year we expect to have 2,000 devices installed and within the period, we expect to have greater than 5,000 devices installed in our plants. This allows us to fundamentally change the way we manage our assets, and we know from examples already within Solvay that every one of these IoT devices saves us money.

The second example is around how we manage our operation. We are setting new standards in the way that we manage our operations through a process that we call process control excellence. This program is really transforming the way we manage our processes, leading to improvements in productivity, cost savings and, equally important, in sustainability. In this example, we changed the way that we are managing a turbine, and we built a model around how we're managing the constraints and also maximizing the energy production. And this one example has allowed us to increase the amount of energy production from this turbine, generating more than €600,000 per year savings.

Last, but not least in SG&A, we are taking advantage of this split to review and simplify the number of legal entities that we have. We're also looking at our office footprint and optimizing both our offices and our industrial footprint. We recently decided to stay in our current campus but refocus into one building, allowing us to regroup all of our people working in Brussels into one unique building.

These are only a few examples of a pipeline of more than 1,000 concrete measures that we are implementing across the company.

Moving to slide 10.

We have already delivered €46 million in the first half. We have accelerated and worked quickly on these savings measures after the spinoff. This is why I am confident we will reach €80 million over the course of 2024. We intend to update all our stakeholders and the market regularly on our progress. We will update you again during the Q4 earnings call.

With this, I now hand over to Alex for the financial review

Alexandre Blum, CFO

Thank you Lanny and good afternoon everyone.

Moving to financials, let me start by reminding you the two important elements which I will have to repeat through 2024:

Following the Partial Demerger on December 9, 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 in 2024 which are important to consider when comparing with last year; so I invite you to go back to the various communications that are available on our website.

Let's now review our Q2 financials. And to aid comparison, I will comment on the organic evolution, meaning at constant scope and currency, unless otherwise stated.

Moving to sales on slide 12. In the second quarter, they were down -7% versus Q2 2023, mainly reflecting the lower prices in soda ash, and lower energy & input costs in some other businesses. But Volumes were up 4%, continuing the stabilization trend we saw in Q1.

Moving to EBITDA on slide 13, it amounted to €272 million in the second quarter. This is -17% below Q2 last year.

Volumes had a 9% positive impact, thanks to the stabilization trend we continued to see in Q2 and some favorable product mix and opportunity captures, such as in Special Chem, as Philippe previously mentioned.

As expected, net pricing year-on-year was negative, mainly due to the lower prices in soda ash.

Cost savings also contributed to the EBITDA resilient performance, as already highlighted by Lanny.

This quarter includes a provision of €18 million in relation with our coal phase-out project in Dombasle, France. This provision comes on top of €11 million in Q1, and €49 million in 2023.

This project started in 2019, and since then we had to face several headwinds such as the covid, the european energy crisis and the consequences of the conflict in Ukraine, which all resulted in difficulties for our contractors and subcontractors.

The provision reflects the recent full reassessment that we performed, and we can confirm that the project is expected to be completed by the end of 2025.

Let me remind you that this project is one of the largest CO2 reduction projects in Europe and that it will mark the complete coal phase out of Solvay in France.

We remain completely focused on our energy transition, and the ongoing projects in the US and in Germany, are on time and on budget.

Overall, for Corporate EBITDA in H1 and Q2, the negative impact of this provision has been more than offset by both the non-structural and structural savings.

Looking at the segments now, and Basic chemicals on slide 14.

Sales were down in the segment in Q2 by -6%, with higher volumes of 9% being more than offset by the negative price impact of -15%.

In Soda Ash & Derivatives, we saw higher volumes including in Bicarbonate, but sales were lower by -11% for the quarter, due to prices. For Soda Ash, demand continued to be strong in the seaborne market, but this was partly offset by the reduced demand from container glass in Europe. As for bicarbonate, the continued progression of volumes was supported by the feed, and flue gas treatment applications.

Peroxides sales increased by +5% organically, +29% if we include the consolidation of our JV Peroxidos do Brasil sales from 2024. Volumes were up year on year-in-all end markets: merchant, HPPO and electronics.

The EBITDA for Basic Chemicals amounted to €194 million, down -27% in Q2 2024 following lower Net pricing and despite the positive volume impact and lower fixed costs. The EBITDA margin reached 27.3%, decreasing by -10 percentage points compared to a record high level in Q2 2023.

Moving to Performance chemicals on slide 15.

Segment sales in the quarter were down -7% compared to Q2 2023, mostly from lower prices in line with price indexations.

Silica sales decreased by -8% with formula indexations impacting prices. Volumes were higher in the Tire applications, as well as in Consumer and industrial goods markets.

Coatis sales were down by -5% as well, but saw improved market conditions. Net pricing improved year on year and sequentially in a lower costs environment.

Special Chem sales were lower by -9%. Overall, product mix improved with volumes up in rare earth and fluorine automotive markets and in rare earth healthcare applications, while they were down in the other fluorine end-markets. In electronics, volumes were down year on year but improving sequentially.

The EBITDA of the segment was up +11% organically to €101 million, thanks to the favorable product mix in Special Chem and lower fixed costs, while Net pricing was essentially flat. The EBITDA margin increased +1pp to 21.0%.

Before moving to cash, I would like to put in perspective our second quarter performance, focusing on the sequential evolution of the EBITDA performance and EBITDA Margin on slide 16.

I remind you that the first half of 2023 was still very strong, while the second half saw a clear contraction both in price and volume.

Since the end of Q4 23, we have seen a recovery of the EBITDA supported by demand (restocking and green shoots) and cost savings, the second quarter of 2024 ending 10% above the level of Q4 2023. This also translates in a sequential improvement of our EBITDA margin by 2 percentage points over the last 6 months.

Although I would not qualify the business environment as a broad-based recovery, our EBITDA reflects both the stabilization of the demand after the trough we experienced in Q4 of last year and the ramp up of our cost saving initiatives.

Moving to the free cash flow on slide 17.

Our Free Cash Flow was again strong in the first half. Let me highlight the following elements behind this performance:

First, the EBITDA, at €538 million.

Second, the low Capex. We were clearly prudent in the first half with our investment pace. We wanted to take the necessary time to stabilize the company after the split, especially in the uncertain environment around us which prevailed at the beginning of the year.

Third, the working capital. We continue to be very disciplined in managing it, the €60 million cash out being mostly explained by the seasonality linked to the bonus payment that you see every year in Q2

Philippe will come back on what we expect for the second half, but I can tell you that we have already accelerated our investments which will translate into cash-out in coming months;

In H1 our Capex amounted to €108 million. You will certainly remember our “capital allocation slide” from the Capital Market Day, where we explained that our “Essential Capex”, which includes safety, maintenance, leasing, regulatory Capex and energy transition, is between €250 and €300 million year. Besides, considering our good cash management, we will also have the opportunity to invest very selectively in some discretionary projects.

To put it simply, it means that our Capex in H2 will be directionally two times what you saw in H1.

Turning to net debt on slide 18.

Two comments here: you see that the Free Cash Flow we generated in the first half is pretty much covering the dividend outflow; secondly, you see that we had over €70 million of cash out that were still related to the separation project. I expect this number to reach approximately €100 million for the full year.

As a consequence our financial debt and Long Term provisions remain well aligned with what we committed to during our Capital market Day presentation last year.

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

Philippe Kehren, CEO

Thank you Alex. So, where do we go in the second half ?

I will start with the demand:

First: as already said, we don't see a recovery yet in the market. Overall demand is expected to be stable in H2 compared to H1.

Second: the visibility of our order books continues to be relatively short, which adds a level of uncertainty.

With this in mind:

On the pricing side, nothing new. Prices are in line with what we expected: lower in soda ash and resilient in the other businesses.

On the cost side. The savings first: we generated 46 millions of savings in the first half. We expect to generate 80 million over the year as Lanny set out earlier. We started the year in a very prudent way and reduced discretionary spending to a strict minimum. We now expect to spend more money in the second half of the year for our transformation, especially for our digitalization programs.

Consequently, this leads us to tighten the range of our guidance of organic growth of the EBITDA from -10% to -20% to -10% to -15%, which translates into a range of €975 million to 1,040 million for the full year 2024.

Beyond that, we decided to upgrade our guidance of Free Cash Flow to Solvay shareholders from continuing operations from more than €260 million to more than €300 million. This includes an acceleration of our Capex to reach between €300 and €350 million of investments for the full year. This acceleration is explained by the investments we intend to make for our transformation and some growth projects, on top of the Essential Capex that you all know.

To conclude, we are also very happy with all the progress we already made in the transformation of Solvay into a more focused, simple and lean company. There is a lot of work, but our teams are really engaged and it gives us a lot of energy.

Thank you for listening. And now, we will 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

Chetan Udeshi (JP Morgan):

Thanks for taking my question. I will try to ask two, if possible.

Just in terms of Q3, how do you see the trends as we think about EBITDA from Q2 to Q3? The struggle we have at the moment is just to understand what the seasonality of the new Solvay is. And so if you can just update us on how you see Q3 when we look at EBITDA versus Q2, and also, what is the typical seasonality, do you have in mind that you have in mind for Q4, given that most companies in the sector tend to have pretty sharp reduction in earnings in Q4 versus Q3?

The second question was on these provisions that you have taken for the cost overrun. It seems quite big because it has been ongoing since last year, and it seems it's totaling more than €100 million already. And if I am not mistaken, the cost of this project was like €200 million. So, can you remind us what exactly happened here, and why we should not be worried that this might be an issue with all your other energy transition projects? An associated question is, are these provisions now final? So should we expect no provisions in H2 any more? Thank you.

Philippe Kehren, CEO:

Thank you very much, Chetan, for the questions. I will answer the first one and then probably give the floor to Alex for the second one, and complement, if necessary, on the broader question of the energy transition.

So for Q3, what we see clearly today on our volumes is stabilization. Clearly, Q4 last year was the trough. We had some green shoots in Q1, and we see Q2 in line with Q1. And when we look at our order book, we see Q3 very much in line with Q2 as well. So we do not see any big movement.

Our cost-saving program is delivering well, probably a little bit faster than we thought. And that is very good. On the other hand, as we said, we also have to spend a little bit of money in the second part of the year for our transformation, for IT digitalization and so on. So this will probably balance very much. And I think that is why we see a sort of continuity. We cannot rule out some destocking effects. Let's face it, this can happen, particular during the summer or at the end of the year. So this is why today we confirm the guidance and tighten it. Tighten it because I think we de-risked the first part of the year. We still have some uncertainty for the second part of the year. So I think the -10% to -15% of organic evolution between '23 and '24 is reflecting today what we see for Q3 and Q4.

Now, maybe I give the floor to Alex for the provisions on Dombasle energy, and I can complement if necessary.

Alexandre Blum, CFO:

Yes, hello, Chetan. The total amount for the provision is €78 million. We gave the amount to be transparent on the impact. We have done, over the past few months, a full reassessment of the project. So obviously, we think, we estimate this is final. We have reorganized the project, we have restabilized the relationship with the main subcontractors. So we are quite confident in the timing and the new assessment of the project.

The total amount for the project, we never gave a specific number, but it's over €200 million. This was the original estimate. I am sure Philippe will want to complement, but keep in mind that from the financial standpoint, it's a quite complex project. It is big, we have several financial partners in the project, a complex contractual arrangement, and this is why we have to take the necessary time to do this evaluation before getting to you with a statement.

Philippe Kehren, CEO:

Absolutely, you said everything, I think. Alex, I just want to add that this is a great project. It is the biggest of its kind in Europe. I think it is today probably one of the biggest CO2 emission reduction projects that we have in Europe. As you said, Alex, it is complex, a lot of stakeholders. We are doing the EPC *(NB: Engineering, Procurement and Construction)*. This is why, we are not investing ourselves, but we have a responsibility in terms of management of the CAPEX. So this is why we decided to provision to the right level. And as you said, we are today comfortable with this number.

This is why we publish it because we did our homework. And we do not have at all the same type of issue on the other projects, in particular the ones in Germany and the US, which are on time and on budget.

Martin Roediger (Kepler Cheuvreux):

Yes, hello. Good afternoon.

On net pricing, which was -€102 million effect on EBITDA in the second quarter, here I have a clarification question to Alexandre. What was the net pricing effect, if you compare the second quarter with the first quarter at Group level, was it stable or slightly up ? sequentially, I mean.

And maybe if I am allowed to squeeze in another small question on the depreciation amortization charges in Q2, which are sequentially down versus Q1, is the Q2 number a good run-rate for the upcoming quarters? Thanks.

Alexandre Blum, CFO:

Thank you, Martin, for the question. For the D&A, I think the run-rate should be around €330 million per year. I don't have the number in front of me for Q2, but €330 million is the right number for the full year.

Regarding net pricing, it is hard to talk about net pricing sequentially, but indeed, if you look year-on-year, the net other pricing of Q2 is much more negative because Q2 2023 was the peak. Broadly speaking, if you look really the fundamentals of the market, the net pricing of soda ash, silica, where we have also multiyear contracts, fundamentally it has not changed much *(compared to Q1)*.

However, the only thing that probably changed a little bit between Q2 and Q1 is the fact we have improved the product mix. We sold a little bit more of products with high margins, and that has helped to probably overall improve.

Matthew Yates (Bank of America):

Good afternoon, everyone. I would like to take the opportunity to ask Lanny a question, if that is okay, about the details presented today because I find it fascinating that you are probably one of the first companies in the sector to talk about this idea of digitalization and what can be done.

So, firstly, from a financial perspective, can you explain how the cost of rolling out this program works? Is this a one-off investment in sensors and software, or is it more of a kind of recurring cost, whether that be licensing or something else each year?

And then in terms of the benefits of this program, can you explain a little bit what part of collecting, or perhaps more importantly, using the data is seen as proprietary to Solvay, and something that your competitors wouldn't be able to replicate in due course? Thank you.

Lanny Duvall, COO:

So, first, explain kind of the cost of the rolling out. The really nice thing is this is really about capabilities more than it is about a large acquisition of stuff, the capital cost of the devices. That is one of the reasons why we can really do this at scale now. The incremental cost has come down every year for these IoT devices, and now they are really within our normal capital envelope that we use for optimization around our organization.

I also think this is a strength of this program is this is nearly 100% done by our own people. So this is not consultant-driven, this is not somehow external, this is really developing our own capabilities in-house and then aligning that across the organization and then deploying at scale.

The benefits, now: I think this is a unique Solvay possibility. And the reason I say that is because 70% of our assets are based upon repetitive technologies. So implementing an improvement in one peroxide plant allows us to then take that learning and implement it in all of our peroxide plants. Implementing that learning in a soda ash plant, in the sodium carbonate section, allows us to then take it to all of our plants.

So this is something that is actually not possible for many of our peers to do, simply due to the scale of Solvay. And this is why I can just be so excited about the work that the team is doing and the ability to continue to deliver over the next several years.

Philippe Kehren, CEO:

Thank you very much, Lanny. This is, I think, really in line with the essential chemical business model. We differentiate, not based on IP, but based on our know-how. We have a specific know-how in terms of process and technology in all of our businesses, in all the businesses that we have in our portfolio. And this allows us, I think, to act as a leader, to improve the competitiveness of our processes.

Peter Clark (Bernstein SG):

Good afternoon, everyone. Thank you. I have got two questions.

First one on the Capex, you say you brought it down to the bare minimum in the first half. I am just wondering where we stand on the Green River expansion, and what is going on in the States in terms of the soda ash?

And then on the soda ash again. Obviously, the seaborne market and the volumes there are helping the utilization rate. But looking at soda ash specifically, you are pointing at the container glass market, still soft as it has been for quite some time now in Europe, which is high-margin. I am just wondering how much of a mix drag there is, in terms of the margin drag you have. I know most of it is pricing and volume pull stock, but I am just wondering about the underlying mix drag of that seaborne versus container glass as well. Thank you.

Philippe Kehren, CEO:

Thank you, Peter.

So, on Green River expansion, we are completing the project, most of it is already spent. And so when we say that we are trending towards €300-350 million of CAPEX, the completion of our Green River project is included in this envelope.

In terms of soda ash and container glass, it's true that, strangely enough, container glass is relatively soft. We still believe that this is more of a short-term headwind because container glass should do well in the mid- to long-term, but in the short term, it's facing some headwinds. This has an impact, but a moderate impact on our soda ash business because it's mainly compensated by the fact that other segments, such as lithium carbonate or solar panels, are compensating, offsetting a little bit this downward situation on container glass. That is the beauty of soda ash, the variety of the end markets, really.

Jaideep Pandya (On Field Investment Research):

The first question, apologies again on soda ash, but could you give us some indication how pricing has evolved in the first half between the three buckets you have, so seaborne, some of the long-term contracts, i.e., the multiannual and the annual contracts? And given the fact that not just for soda ash, but for a lot of chemicals right now, we are in a bit of a deflationary phase. Should we not expect another round of price decline in 2025, given the market looks like it is going to be balanced or more than balanced? That's my first question.

And then the second question, around your rare earth business, are you starting to see any changes to the strategy also in terms of customer reception and pricing premium? I am just trying to understand, the old Rhodia used to have a relatively volatile, but a relatively larger exposure to rare earth. What is the new Solvay view, especially under the current geopolitical backdrop for rare earth?

Philippe Kehren, CEO:

Thank you very much, Jaideep. So, how prices are evolving in 2024 on soda ash? For us, they are not evolving significantly because prices are mostly locked on a yearly basis. So that is why we have, I think, a good visibility of what is happening also, and what will happen in Q3 and Q4. And the variations and all the volatility is only on part of the seaborne volumes. And this is something that we know how to manage. We manage volumes versus prices depending on the situation and on the market and the opportunities that we have. So I would say the visibility is good.

2025, very early to say. What I can say is that in the longer term, soda ash demand will grow. We know that soda ash demand is supported by the big trends of this world. Glass is needed, detergents are needed, solar panels are needed, lithium carbonate is needed. Even if we have a short-term headwind on batteries, electrification will not stop, and it can slow down for a few weeks or months, but in the next years and decades, it is absolutely necessary if we want to reach carbon neutrality. In the same way, bicarbonate, de-pollution, pharma, all this is needed. So at some point, the market will tighten because the demand will recover.

At current level of prices, and I am not talking about the impact of deflation because this is reflected in our prices, and it is reflected in our costs. What matters is margins, right? It is not the price itself. Our margins are very robust on soda ash, but I can tell you that they are barely enough today to reinvest in capacity. So if demand is picking up and if capacities are again needed, margins will need to increase a little bit. That is my only point. But today, clearly, to give precise information for '25, I think is a little bit too early.

Rare earth, very good question. Today we are serving the auto catalysis market for internal combustion engines, cars, we are serving electronics, and we are serving also to some extent the medical applications with high purity products. And on those markets in particular, on the auto catalysis market, which is doing very well right now, we are the leader, so we have a good position on those markets.

The question that we have today is to repurpose potentially our business, and in particular our plant in La Rochelle that has been operating for 75 years. Here again, we have a strong expertise in this domain, to repurpose it to serve the permanent magnet market. This is not the case today, but we have a plant, we have the know-how, we have everything in place, provided we invest a little bit of money to convert some of the units to produce rare earth elements for the permanent magnet.

Today, this is exclusively supplied from China. It is a strategic value chain because again, this serves all electrification projects and in particular electric motors, wind turbines and so on. We feel that there is a push today to de-risk this sourcing. And that is in particular the purpose of, for example, the Critical Raw Materials Act that has been voted in Europe. We are there. If we want to do that, we are there.

We will start next year producing the first tons. We are ready to invest a little bit of money to launch the process and to work with our future customers to see if it works. And it will work, of course, and then investing more money. This will depend on whether the value chain exists, meaning if we have the right level of support from our customers and from the regulators.

Jaideep Pandya:

Can I just ask one follow-up on Base Chemicals? Is it fair because we always talk about soda ash, and hydrogen peroxide is sort of left in the background: is it fair to say that this year, that the sales representation split is also a fairly good indicator for the EBITDA representation, i.e., the hydrogen peroxide as a percentage of sales of Basic Chemicals equals also the percentage of EBITDA, roughly, or would you say that soda ash, even in 2024, is still outweighing hydrogen peroxide?

Philippe Kehren, CEO:

Those are very critical markets. We will just communicate on the spit of our top-line and not of the EBITDA. I will probably disappoint you with my answer, but stick to that.

Sebastian Bray (Berenberg):

Hello, good afternoon, and thank you for taking my questions. The first one is just to ask for a clarification of an earlier statement around the stabilization of volumes in Q3.

Based upon what Solvay sees today, is it likely that the business environment in Q3 in volume and pricing terms resembles that in Q2, i.e., is it reasonable to expect a fairly similar quarter in terms of profitability?

And my second question is on the soda ash market more broadly. The China spot prices have come down more recently, and I know that this is not necessarily immediately relevant for Solvay, but are there any indications that the issues that have beset the capacity brought to market in inner Mongolia in terms of iron contamination have been resolved? And is it still your base case assumption that we are going to see pricing inflation in the market in 2025, i.e., that 2024 was the trough year for soda ash at Solvay?

Philippe Kehren, CEO:

Thank you for the question. So, yes, what we see clearly is in Q2, a confirmation of the volume that we've observed in Q1 in all of our markets. And we see from what we see today in our order book, Q3 is of the same vein. We were able to seize some opportunities in Q2 on some of our markets, in particular in Special Chem. We will see if this will continue in Q3. But all in all, do not expect big changes other than the ones that are in our control when we decide to do, to take or not, some of the volumes.

For soda ash, frankly speaking, I'm not sure that the iron issue is solved. We will see. You can maybe also see with the analysts if they have some information on this. Indeed, we are not very much impacted by what is happening today in China. China has been importing, and now is more balanced. We will see how this evolves, but I do not expect in the future to see more or less impact from China on the rest of the market.

Jonathan Chung (Morgan Stanley):

Hi, I have got one question on your cash flow for the second half. It looks like you are going to spend a bit more money on Capex in the second half. In what scenario do you see yourself landing in the upper end of that Capex range? And similarly, what takes you to the lower end? And can you talk about the building blocks in your Free Cash Flow bridge first half versus the second half after interest?

And then related to the interest costs, I noted that your net interest cost is €10 million higher in Q2 versus Q1. So, can we assume the €28 million is the new run-rate for the year?

Alexandre Blum, CFO:

For the first question, we have already started to release some investment. But as you know, there is always a lag between the moment you release investment, and when you have really the cash-out. The high end of our Capex range is both that we are successfully carrying out all the investment, meaning we are able to mobilize the team and the suppliers to work on our project.

And second, and most important, as you have seen, we are very reactive, and we adapt with the environment. H1, we saw a challenging and uncertain environment starting the new company. We went down. If we continue to see the stabilization that Philippe was mentioning earlier, we will be confident in releasing the Capex. Those are the two main factors that would lead us to the high end of the €300-350 million.

On interest expenses, as you know we have done some refinancing this year with bonds, before that we had the bridge loan. I recognize it is maybe a little bit difficult to read the run-rate, but fundamentally it should be around €100 million per year. That is the number you need to keep in mind for interest financial costs. This year, because of the coupon phasing, the financial interest payments will probably be below that number.

Alex Stewart (Barclays):

Hi there. Apologies, I got kicked off the call a few times, so it is possible you've already answered this. But you talk about product mix phasing in Special Chem, particularly. Your Performance Chemicals EBITDA was up, I think, 25% quarter-on-quarter, which is an extraordinary increase. Could you tell us a little bit about the details of this situation in Special Chem, whether these are orders that are brought forward or pulled back, or whether it's additional demand? It's very hard for us, really, to understand whether €80 million is the normal rate of EBITDA or €100 million is the normal rate of EBITDA. So anything you can give us around that would be really helpful. Thanks.

Philippe Kehren, CEO:

Yes, absolutely. Indeed, it is a very good performance. We have seen good volumes in specific markets, in particular in silica for tires, but mostly in Special Chem. Auto catalysis was very strong. This was not necessarily completely expected, but you know what is happening today between electric vehicles and conventional cars. There is probably a little bit of phasing in this, maybe a little bit of restocking. We do not know. And we also had some good sales in some of our niche markets like rare earth for medical applications. This is good. Will it repeat? Frankly speaking, we do not know. We do not assume this will repeat every quarter, but obviously, if there are opportunities, we will seize them.

Alex Stewart:

So I suppose if I ask the question in a slightly different way, you had about €80 million in Q1 and €100-odd million in Q2. What should we take as being a more normal rate of EBITDA over those two periods? Does it look more like the €80 million, or does it look more like the €100 million?

Philippe Kehren, CEO:

The €100 million is probably reflecting a quarter where we seized a lot of opportunities. So I would say probably somewhere in between.

Alex Stewart:

Okay, thank you. And just one other question, if that is okay. Going back to this provision for the investment in France, I think at the time of the separation, you gave us the guidance that the corporate costs would be somewhere around €80-100 million. You are on track to do that this year, even though you have got several tens of millions of provision. Should we therefore think about normalized corporate costs being more like €60-70 million, in other words, 30% below what you had highlighted at the end of last year? Again, this is very hard for us to model properly because we do not have a track record. Thank you.

Alexandre Blum, CFO:

First, let me recognise that we are trying to put as much as possible the one-off element in a non-business related segments, i.e in Corporate, but that creates some volatility. €80-100 million remains the run-rate. As we will roll out our saving program, this €100 million should improve, but I think this is the right number to take for the moment. Probably closer to hopefully €80 million than €100 million.

This year, indeed, the Dombasle project had a negative impact in H1, but this was fully compensated, fully offset by non-structural and structural savings. So that is why for modeling point, I recommend to use €80-100 million.

Tristan Lamotte (Deutsche Bank):

Hi, thanks for taking my question. Just one, please. You described some potential softness in the order book and also specifically mentioned possible destocking in August, I believe. I was wondering whether you could talk through where there could be some risk or where you just have less visibility than you would like? And then also, just as an add-on to that, could you just clarify whether we should expect that the normal seasonality of the business is that Q4 is larger than Q3, now that Syensqo is separated? Thank you.

Philippe Kehren, CEO:

I would say there is not a lot of seasonality in our business, generally speaking. And when I was mentioning potential destocking in the summer or at the end of the year, it is not based on what we see today. It is just a risk that we have to keep in mind because this is something that we have experienced in the past. So this is why I am saying we want to be a little bit cautious. Keep that in mind and manage the business. Manage the cash with this in mind.

But when we look at our order book today, it looks pretty much in line with what we had since the beginning of the year. And again, keep in mind that our book is more short-term compared to other types of activities. We do not have a view over several months. So nothing really concrete today pointing towards a destocking effect, but it is a risk. And very limited seasonality, generally speaking, in our businesses.

Operator:

That was our last question. I will now hand it back to Geoffroy for closing remarks. Thank you.

Geoffroy d'Oultremont, Head of Investor Relations:

Thank you, Operator. And thank you all for your participation today. After the summer break, we will be in different roadshows and conferences in September, both in Europe and in the US. And we will issue our Q3 earnings on the 6th of November. Thank you very much.