Solvay third quarter 2024 results

Analysts call transcript
6 November, 2024

Geoffroy d'Oultremont, Head of Investor Relations

Good afternoon, everyone and welcome to Solvay's third 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.

Unfortunately, I need to begin today's call with very sad news. On the 27th of August, one of our colleagues, a contractor who was working on our Torrelavega site in Spain, lost his life. His name is Oscar.

This is a tragedy - this has a big impact on all of us, and in particular on our colleagues in Torrelavega. I would like to express again my support to all of them and our deepest sympathies and thoughts to his family and friends. We are undertaking a thorough investigation into what happened and what we can learn from it to prevent this from ever happening again.

This terrible incident reminds us how critical it is for Solvay to continue to improve our safety standards, for the benefit and safety of all our employees, contractors and stakeholders.

We have already launched a new SAFE campaign, SAFE standing for "Safety As First Engagement". To achieve zero injuries, we must continue to prioritize safety engagement in the field, and we all need to strictly apply our Solvay Life Saving Rules across all of our sites, as part of a fundamental commitment to safety and integrity. We will never compromise on safety.

Well this is such a difficult transition, but let me now turn to the third quarter results.

Slide 5, please. The main highlight from our Q3 results is that the performance of our businesses in the third quarter is fully in line with our expectations and consistent with our message delivered in our various roadshows and investor meetings in September. Indeed, the trend we observed in the second quarter continued into the third quarter and, as expected, we did not see any structural recovery.

Our Q3 sales increased organically year on year by 4%, driven by higher volumes in most of our markets. But this is compared to H2 2023, which we previously qualified as the trough in most of our markets.

The incremental revenue that we captured in the first half of 2024 from restocking and from opportunistic sales, for example in autocatalysis, did not continue in the third quarter.

Yet, we continued to perform well despite the challenging market environment. I am also very pleased that we delivered further structural cost savings, derived from both variable and fixed costs, and from all our businesses and functions.

Alex will give you more detail on the financials in a couple of minutes, but, as the CEO of Solvay, I'm particularly satisfied that we could deliver another good quarter of free cash flow while, at the same time, ramping up our capex.

Strong cash generation is a key element of our strategy, supporting essential investments, shareholder return and investments in our future growth.

Moving to slide 6, I'd like to take a moment to speak about the transformational project we recently inaugurated at our American plant in Green River.

Green River is our large trona based soda ash facility in Wyoming, where we will soon expand production capacity by 600,000 tons. To support this increase and enhance our export capabilities, we have also secured a new agreement with the Vancouver Bulk Terminal in Washington State.

Meanwhile, we have also worked on significantly improving the sustainability of our operations at the site.

Earlier this year, we already announced the successful phase out of the use of coal, which was the primary source of energy for this site.

During this quarter, we inaugurated a brand new regenerative thermal oxidation process (RTO), marking another key milestone in our global efforts to reduce greenhouse gas emissions and drive sustainable growth. This innovative emissions control technology is the first of its kind in the trona mining industry. It represents the largest emission reduction project for Solvay in many years, and alone, contributes to reducing the Greenhouse Gas emissions of our company by 8%.

Overall, if we combine these two energy transition projects with the capacity expansion, we are still reducing by 4% the Greenhouse Gas emissions of Solvay. This is quite an achievement!

Clearly, this reflects our determination and passion for process innovation at the service of sustainability. It also strengthens Green River's position as a U.S. benchmark for sustainable soda ash production and marks a key step in reducing our global carbon footprint. Achieving carbon neutrality requires ambition and dedication, and I'm proud of our teams for driving us closer to our climate goals while growing the site's capacity.

With this, I will now hand over to Alex for the Q3 financial review.

Alexandre Blum, CFO

Thank you Philippe, and good afternoon everyone.

Moving to the financials. Before we get into the detailed quarterly financials, please allow me to start by reminding you the two important elements which I will have mentioned over the course of 2024.

Firstly, following the Partial Demerger of Syensqo 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 currently available on our website.

Let's now review our Q3 financials. And to aid comparison, I will comment on the organic evolution, meaning at constant scope and currency, unless otherwise stated.

Starting with sales on slide 8. In the third quarter, underlying net sales were up year on year for the first time in six quarters. This compares to what we qualified as the trough of our businesses in the second half of last year. Net sales were up +4% versus Q3 2023, despite the negative pricing impact from soda ash, compensated by higher volumes.

Moving to underlying EBITDA on slide 9, it amounted to €259 million in the third quarter. This is stable compared to Q3 last year, after 4 quarters of negative year on year comparison.

Volumes had a slightly positive impact on our EBITDA evolution, highlighting a moderate increase year on year in the majority of Solvay's end markets compared to a quite low Q3 2023. As expected, net pricing year-on-year was negative -7%, mainly as a result of the lower prices in soda ash, while remaining very resilient in our other business lines.

Cost savings initiatives continued to support the EBITDA, with €31 million of additional savings accumulated in Q3 2024. Consistent with previous quarters, approximately half of these cost savings were driven by variable costs, and half by fixed costs.

Looking at the fixed costs, you will note that they were slightly negative at €-8 million but this is mostly linked to the difference in variable remuneration accruals between this year and last year. In Q3 the saving initiatives have compensated inflation and on a YTD basis, fixed costs have reduced by €46 million.

Overall, the EBITDA margin in Q3 2024 was at 22.4%, which is -3.2 percentage points lower compared to last year but consistent with what we delivered in the first half of 2024.

Looking into the segments now; and starting with Basic chemicals on slide 10. Sales were slightly up in Q3, with higher volumes of +9% being mostly offset by the negative price impact of -7%.

In Soda Ash & Derivatives, sales were slightly lower by -2% in the quarter, due to lower prices in soda ash. This was almost offset by higher volumes in both soda ash and bicarbonate. Demand for soda ash continued to be supportive in the seaborne market, but this was partly offset by the softer demand from container glass in Europe. Bicarbonate volumes continue to increase especially thanks to demand in feed and flue gas treatment.

Peroxides sales increased by +9% organically. Volumes were up year on year in merchant markets, especially in pulp, mining and chemical applications, and also grew in HPPO and in electronics for our high purity grades, notably in Asia.

The EBITDA for the segment amounted to €181 million, down -22% compared to Q3 2023. This decrease is partly linked to the fact that Q3 last year included licensing revenue for Peroxides.

And I am happy to confirm that we will have the same type of deal in Q4 this year, which will make it neutral in terms of EBITDA on a full year basis. Philippe will come back on that when speaking about the guidance.

The EBITDA margin was 26% in the quarter, down from the record levels we saw in the corresponding quarter of last year.

Moving to Performance Chemicals on slide 11. Segment sales in the quarter were up +9% compared to Q3 2023, thanks to higher volumes. Prices were stable year on year.

Silica sales declined -4% driven by lower prices due to formula indexations, while volumes were slightly higher, but lower sequentially on the tire market.

Coatis sales were up +29% driven by higher volumes and pricing in both solvents and polyamide chain product lines.

Special Chem sales were up +2% year-on-year with positive development in electronics while being lower in automotive end markets.

The EBITDA of Performance Chemicals for the quarter was up +26%, thanks to higher volumes year-on-year in most product lines, although lower sequentially on the automotive applications. The EBITDA margin increased year on year by 0.3 percentage point to 17.6%.

Moving to Corporate now on slide 12. As you have read in our press release, Corporate EBITDA was only €-2 million in the third quarter, as the segment continues to benefit from the structural cost savings linked to Solvay's new leaner organization, but also continues to see the positive impact of lower spend on our discretionary expenses as well as phasing effects.

Generally speaking, the Corporate Costs have been very low since the demerger, and I would like to pause here and review more in detail what you can expect for the EBITDA of that segment. As you can see on this slide, we have separated the normalized EBITDA (in blue) from the one-off items (in purple). The normalized part consists of the share of corporate and function costs that are not re-allocated to the segments, and the one-offs include costs and savings that are exceptional by nature.

In 2024, the normalized part benefits from the first wave of SG&A savings made possible by the separation. The exceptional elements include lower discretionary expenses which, combined with the minor mark up margin on the TSA with Syensqo, will offset the negative impact of our Dombasle energy transition project accruals that we booked in H1.

To summarize, we expect both reported and normalized EBITDA for 2024 to be approximately €-50 to €-60 million.

Looking ahead, while normalized EBITDA is expected to remain stable, the total Corporate costs should temporarily increase in 2025 and 2026, as Solvay faces the stranded costs remaining from the exit of the TSA with Syensqo. In 2026, Solvay also expects some higher costs linked to its new ERP implementation.

For 2027 and 2028, stranded costs will be fully offset, and the ERP roll out and the simplification of our IT landscape and functions will generate a second wave of savings. So you might expect to see the normalized EBITDA of the Corporate segment gradually improving.

Moving to the free cash flow on slide 13.

We generated €74 million of free cash flow in the third quarter, bringing the total of the first nine months to €320 million. This was supported by the EBITDA performance, while we accelerated, as planned, our investments during the quarter. The cash out from restructuring provisions was again rather high in the quarter, as we continue to see the consequences of some plans that were launched prior to the demerger.

Finally the net debt on slide 14.

At the end of September, net debt is stable compared to the end of June, and only slightly higher than at the end of December 2023. Our leverage ratio remains stable, well below 2 times. If you consider financial and other long-term liabilities, this is well in line with what we committed to during our Capital market Day in November last year.

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

Philippe Kehren, CEO

Thank you Alex.

So we delivered another solid quarter. We are proving that, as an Essential Chemicals company, we can deliver a resilient performance quarter after quarter, even in a more challenging economic environment.

Looking ahead into Q4, we expect the trends we have seen so far to continue, with some potential seasonal effects expected towards the end of the year. As we anticipated from the beginning of 2024, our markets are not experiencing any structural recovery.

In that context, we confirm today our guidance of an organic growth of the EBITDA between -10% and -15%. We expect to be at the high end of that range (meaning -10%), thanks to our performance in the first nine months (with an EBITDA close to €800 million), thanks also to the accelerated delivery of our cost saving initiatives and thanks to the new license just mentioned by Alex for our Peroxides business. This license has been signed in October 2024 with Huajin in China for a 300 kilotons per year propylene oxide (PO) facility, and the initial revenue will be booked in the fourth quarter.

We will continue to deliver on our cost savings. While we still expect to reach €150 million savings by the end of 2025, we have anticipated the launch of some initiatives, and we will end up 2024 above our €80 million objective that we announced last quarter.

We also confirm our guidance of free cash flow to Solvay shareholders from continuing operations of more than €300 million, and our capex expectations of €300 million to €350 million.

The acceleration of the capex in the second half relates to the ongoing transformation of our company and to our willingness to strengthen our position in specific growth areas, so that we are prepared to seize new growth opportunities when they arise.

Looking forward to 2025: we are approaching it with caution, at least at the beginning of the year; although everyone expects a recovery to take place at some point, no-one can clearly predict when it will happen, and at what pace. That is why we are focused on what we can control: our transformation and our cost savings program. We are positioning ourselves to navigate with resilience and with confidence, whatever happens.

More specifically regarding soda ash, we are entering into the negotiations for our 2025 annual contracts, so this is too early to give you any indication. There is some uncertainty in the short term, but the fundamentals are there. We know things will recover, and capacity will be needed.

We are in essential chemistry, not in commodities. Whenever growth is back, and in particular in construction, the market could become tight very quickly, and the price levels of today are not enough to trigger new capacity projects.

To conclude, let me repeat these two words: essential and resilient.

Solvay is a much simpler company today, delivering essential chemical products that are absolutely necessary. We are a leader, both in size and in technology. This is what explains our resilience, why Solvay is able to deliver continued solid performance in such an environment.

Thank you for listening. And now, we are happy 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

Thomas Wrigglesworth (Morgan Stanley)

Philippe, Alexandre, thank you very much for the presentation. My question is around the new guidance. Just to clarify, it sounds like the peroxide license is new and that wasn't in the guidance given at Q2. But in terms of the corporate costs, is that new? I didn't quite catch that on your comments. Or is that something that was already baked-in in the Q2 guidance? Because clearly, that's a surprise versus consensus today. Thank you.

Alexandre Blum, CFO

Thank you, Tom, for the question. On the peroxide license, it was rather expected. We didn't know when the negotiation would be finalized, but this was likely to happen. So this is new to the market, but we could integrate it in our guidance range.

On the corporate costs, we took the feedback from various questions we received in Q2, and we realized it was a little bit difficult for you to isolate what was exceptional in nature from what should be the run-rate. For the moment, we continue to be very careful on our discretionary spend, as I mentioned. When we did the spin off, we have simplified a lot the organization. In a different market context, we could have restaffed a little bit, but, considering the market trends, we have kept a very lean organization. So we have maximized some savings. We thought it was the right time to give you, after nine months, a new base, a new guidance for this year and for the coming years. I would say this one is not new, but this is why we say we reconfirm our guidance. By the fact that these savings, whether they are structural or a little bit more non structural in nature, are being delivered quarter after quarter. That makes us confident to get towards the high end of the guidance.

Thomas Wrigglesworth (Morgan Stanley)

Just to clarify, you're saying that you don't know yet whether these savings are structural or temporary? But you've been working hard to drive cost savings.

Alexandre Blum, CFO

We count on both of them. Then we have to deliver them. We measure them every month and you see the impact flowing to the P&L. To have these savings coming through was part of the guidance range that we communicated at the end of Q2. As Philippe said, the market environment is not improving but is not deteriorating, and we've communicated from Q2 that we were not especially optimistic on the positive improvement in H2, and it has been confirmed. But savings have been going in the right direction on all aspects, so this is why progressively we are trending towards the high end of our guidance.

Martin Roediger (Kepler Cheuvreux)

I will also limit my question to one. Can you talk about your CO2 allowances in Europe? How many do you get for free for the next couple of years? And how many do you have to buy in the next couple of years, say until 2030?

Alexandre Blum, CFO

What I can say is that we are receiving free allowances for the majority of our emissions until 2030. And the way we address the gap for the part that is not covered by the free allowances is first to do the energy transition. This is why we are quite diligent to do the energy transition when it makes sense and when it allows us to have competitive production costs. And then for the remaining gap, we will use financial hedges. And what I can say is that between the energy transition project which are coming through and the financial hedges which are already in place, we are well covered until 2030.

Philippe Kehren, CEO

And the financial hedges have been executed quite some time ago. So they are not at the current CO2 market price.

Alex Stewart (Barclays)

Hello, I wanted to focus on soda ash, and I know you're much more than soda ash, but it is an important product. If I look at what your competitors are saying, if I look at what your customers are saying, if I look at what the industry press is saying, they are all talking about a fundamental shift in the last few months in the soda ash market, whereby China has swung from importer to exporter, affecting seaborne volumes. A big US competitor of yours, I think, presented that argument in much more vociferous language. Could you please tell us what you expect from the soda ash market over, let's say, the next six months. Do you see an impact from changing buying patterns in China? And if not, why are you the only big soda ash company in the world that isn't seeing the effect of these shifts? Thank you.

Philippe Kehren, CEO

Thank you for the question. What we see clearly over the next six months is a demand that will stay relatively stable. We don't see any recovery when we look at our order book. And keep in mind that on soda ash, the order book gives you visibility over two or three months maximum, so is relatively short term. We don't see any recovery, but we don't see any deterioration either, which is really something that is unusual for soda ash, because soda ash has always been growing steadily by, let's say, 2 or 2.5%. So this is something new that we have to cope with. And that was already very much reflected in our 2024 results, because this shift, as you say, happened between 2023 and 2024. And what we see today for the beginning of 2025 is no change.

In terms of capacity, there is not a lot of change, either. The only new capacity that will come on stream next year is our capacity expansion in Green River of 600,000 tons. And this capacity will be super competitive. So we are very comfortable, first, to be able to use it to improve our results, whatever happens; and second, to have this capacity available whenever the market will recover. And again, we really think that the long-term fundamentals have not changed. The markets that soda ash is serving are essential markets. We're talking about glass, we're talking about bicarbonate.

By the way, bicarbonate is growing quite significantly, much more than 2%, even today, and that has been the case for the past seven quarters at least. And bicarbonate is driven by all the special applications, but mainly by the industrial applications, flue gas treatment, where we are talking about growth that is very significant, close to double digit.

So the market will not build capacity at current margins. Those capacities will not take place. That's the only thing we're saying. If demand is not increasing, we will continue like we are today and we will have to manage this situation as we are doing today. Today, China is not exporting more than they had in the past. If you look at the past 10, 15 years, China has always been exporting between one and two million tons per year. So this is not a big surprise, and this is something that we are very well used to cope with. The only thing we are saying is that if at some point construction recovers, and we know this will happen at some point, as we see the interest rates going down. Let's see also what will happen with the Chinese plan to stimulate the economy. To answer your question, I don't expect this to happen in the next six months. But after that, at some point we will have a recovery. And then the market could become tight again very quickly if there is no capacity and there is no capacity today coming online.

Alex Stewart (Barclays)

So, to be clear, you don't expect any change in demand on the seaborne market over the next couple of months relative to, let's say, the first half of this year.

Philippe Kehren, CEO

The seaborne market is always volatile. We expect this volatility to materialize as it has in the past, where you see import then export in or out of China moving from one quarter to another. We will manage this. This will have short term impacts that we will manage. It does not change the fundamental balance of the global market. That's our vision. Of course, we will check that in the coming quarters.

Chetan Udeshi (J.P. Morgan)

My first question may be for Alex. I'm just looking at your volume leverage that you show in your EBITDA bridge. It's been all over the place through this year. It's 17% in Q3, it was 57% in Q2 and it's 25% in Q1. And when I say volume levels, I'm just calculating the incremental EBITDA from incremental volume growth in revenue. I'm just curious what's going on by quarters and why is it so low in Q3 and why was it so high in Q2?

The other question, going back to the quality of your reporting here. I'm just curious, why do we have €45 million one-off EBITDA cost incurred in Q2 associated with separation project? Because I thought this was already done and dusted last year, so what additional cost do you have?

And last question, on your license on HPPO, can you remind us what end-product is this license related to? Because I think there you have a strategy to not cannibalize your own hydrogen peroxide business in China, So I'm assuming this is a project related to some other chemical product. And can you also maybe give us some sort of insight into how you see this licensing strategy in terms of contribution per year or every two years, every three years, how do you see that play out? Thank you.

Alexandre Blum, CFO

On the conversion of EBITDA between sales to EBITDA, this was expected. The volumes we are seeing in Q3, we could be a little bit more upbeat, but we know the recovery that we are seeing towards H2 is in the lower margin products. We have mentioned Coatis recovering, but this is the more cyclical, almost kind of commodity business where you have lower margin than the rest of the businesses. While on the other side, the opportunities we were able to capture, especially in H1, were in the really high-end type of products. We've mentioned at the time, things like autocatalysis, where there were some opportunities to capture some sales as probably inventory were a little bit low and that's typically very high margin products. So it's really a question of mix. And we expect towards the end of the year that trend to continue.

Talking about the €45 million, that is mostly linked to the restructuring we have announced, I think it was a month ago, about our Salindres site in the Fluorine business. This is what is making the bulk of that €45 million.

Philippe Kehren, CEO

I will take the last question on the licensing and HPPO. We have really three different businesses in this business unit Peroxide. The first one is indeed what we call HPPO, Hydrogen Peroxide for Propylene Oxide. And in that segment, we are either investing, which is what we've done in three projects in Belgium, in Thailand and in Saudi Arabia, or we are licensing. This is what we recently did in China. And this is the scheme that we have implemented for the last license that we've sold and for which we will have the first revenues in Q4 this year. HPPO is hydrogen peroxide that is delivered by pipe on big platforms. It is sold to mainly one customer and it is used by a petrochemical company, that will produce propylene oxide and then polyurethane and all this petrochemical chain. The two different segments are distinct. There is the merchant segment that's the historical business of pulp and paper where you use H2O2 as a bleaching agent and where you also have applications such as hydrogen peroxide as a disinfectant. This is a different market, and it's not supplied by these type of plants. And then you have a third segment which is developing quite fast. And where we invest as well, it's the electronic grade H2O2. And here, we purify to super high levels the H2O2 and we sell it to microchip manufacturers. It is supplied from another type of assets. Now the licensing model is also a different model than we used to have in the past, where we have a licensing fee, and we are also generating recurring revenues because we're selling the solution and the catalyst that are required to produce H2O2 in those mega plants. And this is one of the technological advantages that we have.

Alexandre Blum, CFO

Just to observe specifically here, these plants were not using hydrogen peroxide before. So this will not be removing some capacity from the market, so no cannibalization.

Wim Hoste (KBC Securities)

Good afternoon. I just wanted to check up on the cost savings program. You said that you are reaching out for more than €80 million this year, which was the original target. Can you maybe update on the targets for the coming years and also remind us the kind of initiatives you will undertake to reach those targets. A couple of examples of what's on the agenda for 2025 and 2026 will be interesting to hear. Thank you.

Philippe Kehren, CEO

We are confirming our target in terms of savings: the commitment is €300 million by 2028. We already announced that we should deliver €150 million by the end of next year, so by the end of 2025. And indeed we will deliver more than €80 million already this year. So it means we are accelerating a little bit the delivery this year. This comes mainly from the modernization and the digitalization of our plants, which deliver the bulk of those savings both on variable costs and fixed costs. Variable costs typically, it's about putting IOT sensors using machine learning in order to optimize the consumption of raw material, of energy and so on. On fixed costs, it's mainly about predictive maintenance, putting sensors on critical equipment, and in particular on rotating machines and so on. And save on maintenance costs by saving costs on curative and preventive maintenance, which was widely used in the past.

Beyond this modernization plan in our plants, we are also generating savings from our simplified organization. But here, the bulk of the savings on the organization and on the new operating model will be done after end 2025, when we will have exited the Transition Service Agreement that we still have with our spin-off company Syensqo.

Alexandre Blum

In terms of specific example we can mention typically predictive maintenance in Green River, where we were a few months ago. We signed an agreement to purchase a large number of IoT captors that were installed all along the site, which helps people detecting potential machine breakdown and repairing before you have the breakdown. Another example is advanced process control, which is also starting to deliver quite a lot of savings. So a lot is in the plan, and this is where we can implement quite quickly.

Geoff Haire (UBS)

Good afternoon. I just wondered if I could ask a question about free cash flow. You're obviously guiding to higher than €300 million, but you've already hit that in the first nine months. Is there anything we need to be aware of about any peculiarities of cash flow in the fourth quarter? That would mean that you would effectively be either negative free cash flow or neutral.

Philippe Kehren, CEO

In terms of performance, you can expect something that is relatively similar compared to the past quarters. The only difference is that we will spend more Capex, and that is the main explanation. We plan to spend between €300 and €350 million of Capex over the year. What we wanted to do is to secure the cash generation during the first quarter to be able to spend what we have to spend and still meet all our commitments.

Alexandre Blum, CFO

I think we can mention also a few other elements that will generate some cash out in Q4. We have interest expenses. As you may remember, we have refinanced the company earlier this year, we had a bridge to bond loan following the separation, and then we refinanced with bonds. We will have the first coupon to pay in Q4. We didn't pay almost any interest in Q3 because we ended the bridge to bond loan, and the coupons are paid every six months only, so we'll have the first payment in Q4. Also, typically, taxes are always a little bit higher in Q4 because you tend to pay in Q2 in Q4. So there are few elements like that which are nothing to be worried about that, just the usual seasonality. But overall Capex acceleration or let's say catch-up is really the main factor.

Jaideep Pandya (On Field Research)

I just want to understand, coming back to Alex's question, a little bit more in detail the contract structure and the duration in your soda ash business. Could you tell us how much, especially in Europe, of the proportion of your business is on a sort of annual and biannual or multi annual contract? And how much of this is railcar customers, which I guess we as the market are underappreciating.

And secondly, with regards to seaborne, could you tell us which are your main seaborne markets? So i.e., in your seaborne exposure, are you getting a lot of the Chinese competition or actually the seaborne markets that you service are a little bit far away from the Chinese exports and therefore actually your pricing is not getting impacted as much as again, we think.

And last sort of link to this three-part question really is what is driving this whole year seaborne market to be better than the traditional markets, which sort of end markets do you think in seaborne are actually doing better than the traditional markets, especially in Europe? Thanks a lot.

Philippe Kehren, CEO

So in terms of contract, we have more or less 30% of our contracts that are long term, and 50% of our contracts are yearly contracts. So it's still the bulk of our contracts, the rest is shorter term. And the shorter-term contracts are more specific to seaborne. And to answer your question on seaborne, we are delivering everywhere in the world. We are present in Latin America, in the Middle East, Africa, in Southeast Asia. Those are the three-four big regions that constitute what we call the seaborne. It's seaborne just because there is not almost no production unit in those regions. So all the material consumed in these regions is coming from the U.S. and Europe mainly.

Now, your question on China. In fact, the transportation cost of soda ash is quite important. And the soda ash industry in China is not the most competitive. You don't see Chinese soda ash traveling around the globe. You see Chinese material mainly close to China, in the Southeast Asian region, typically not far away from China. This is where we can be in a position to compete with Chinese producers. But keep in mind that they are not exporting big quantities. They export, as I said earlier, between one and two million tons per year on a total market outside of China, which is around 34, 35 million tons. In this Southeast Asian region, you can indeed find material coming from China, or material coming from the US mainly. We could also send from Bulgaria, we are competitive enough to do it. And there you have probably more volatility than you can see in other markets. So clearly, the dynamic that you can see in Latin America or in Middle East Africa is different from the one in Southeast Asia. Southeast Asia is the market that is more directly impacted over a short period of time by the Chinese soda ash. And here you have to be able to manage this volatility, and this is what we do, this is what we've always been doing in the past. There is today nothing really new in that perspective. And the markets on seaborne are mostly the same in Southeast Asia. What you see is a big development of glass producers, which you have a lot, including China headquartered companies building glass capacities in Vietnam, in Malaysia and so on. So you have the same range of and usages and a bit more development of glass manufacturing in Southeast Asia.

Jaideep Pandya (On Field Research)

Thank you. And just as a follow up, we are seeing shutdowns in capacity, obviously, in Europe, in some industries. Again, just curious, what is your utilization in Europe and if there are shutdowns of glass manufacturers in Europe because of capacity readjustments or CO2 headaches or whatever, how would you deal with that? Or is that in your long-term plan basically. Thanks a lot. I'll leave it there.

Philippe Kehren, CEO

It is clear that we are not investing in new capacities in Europe. We are, on the contrary, readjusting a little bit our capacities. Last year, we downsized our facility in Spain because we've decided to focus more on higher value-added product like bicarbonate. What we see in Europe is competitive capacities that will continue to deliver the European market. Obviously, we need to support our customers and make sure that we continue to produce an essential product such as glass in Europe. We are also working a lot on the energy transition to guarantee this competitiveness in the long run and to supply low carbon product that is requested by European customers. And we are focusing more and more on bicarbonate. Today we are producing the higher grades of bicarbonate in particular for food and for pharmaceutical applications, mostly in Europe.

Peter Clark (Bernstein)

Good afternoon. Back to one question, but two bits, if I can put it that way. On the Green River expansion.

You were quite confident back in September that with the others delaying their capacity, you're going to have a more favorable environment than it could have been as you ramp up. So I just want to check if you are still confident on that ramp up.

And then secondly, related to that, obviously it's relatively clean product. Do you get a premium from some of the American customers for this or do you see it easier to sell? Obviously in Europe you have mentioned that you are getting some customers who are wanting this sort of product, so I'm just wondering about the American customers. Thank you.

Philippe Kehren, CEO

Regarding the ramp up, this new capacity should be available over the first semester of next year [*see complement below from CFO*]. This capacity will be the most competitive in our asset portfolio. So I can guarantee that we will use it. We will ramp it up as soon as fast as we can. And even if there is no additional demand at that time, we will use it and make money. It will be favorable, and we will have the return on this investment. And when the demand recovers, and that can happen second part of next year, even if of course no one knows, we will have this capacity available. I remind you we are not in a commodity business, we are in an essential chemical business and our assets are running at 75, 80% so we don't have a lot of available capacity today.

It's indeed, as you say, a clean product. We are moving gradually into a low carbon production. I think, customers need to support us, that's very important. They need to pay a premium. If you ask me, is it enough today? I would answer no. They need to pay probably a bit more, but they are supporting us. Everyone understands that you cannot do this energy transition for free and that everyone has to take its fair share of this effort. Now, that being said, you've seen that we have started up a brand-new investment in order to abate the greenhouse gas emitted by the mine in Green River. Despite the fact that this is voluntary, as there is no carbon cost in the U.S. as opposed to Europe, for example, we were able to valorize those emission reductions in the Californian market in order to support our investment. So we find ways to make those investments profitable and to secure our competitiveness in the long run.

Alexandre Blum, CFO

Can you allow me to clarify? The capacity will be ready around the end of H1, but the sales will not immediately ramp up. Let's be clear, we will not push immediately these sales. And this is a project that we have already delayed. Now, you may remember, I mean, even before the Covid and when Covid came, we decided to pause, slow down. But we want to make sure it's available towards the end of next year.

Tristan Lamotte (Deutsche Bank)

Thanks for taking my question. Good to see Soda ash and Derivatives sales up sequentially in Q3 versus Q2, implying maybe, in your view, that soda ash has reached its quarterly trough. But the sequential increase wasn't matched in Basic chemicals, at the EBITDA level. So I was wondering if you could maybe explain why Basic Chemicals EBITDA was down sequentially €-13 million in the quarter when on top line Soda ash was up. Thanks.

Alexandre Blum, CFO

When we are looking at businesses on a quarterly basis, you always have some moving pieces. Between Q3 and Q2, fundamentally, the business, the volume, the mix, wherever you look at that level, there's no major change. You can have a few things shifting here and there. The main changes in EBITDA, is more on the fixed cost part. We had some maintenance, some turnaround to perform in our sites or in certain logistics facilities in Q3. So that explains the slightly different margin between Q2 and Q3, but it's more internal events than business events or business trends.

Sebastian Bray (Berenberg)

Hello. Good afternoon and thank you. The question is on energy cost relief. From memory, it was mentioned a few quarters back that this is no longer an issue for Solvay, and effectively this has been hedged out. But if we do get a big decline in 2025 versus 2024, is this helpful or it's something that doesn't make a difference anymore?

And if I could squeeze another one in. The company has previously indicated 2024 is the trough year for soda ash pricing. What is your degree of confidence around that continuing to be the case as we move into 2025? Thank you.

Philippe Kehren, CEO

So in terms of energy, this is indeed mainly a question for soda ash, where energy is really a very big part of the production cost. We plan to continue to have this energy adjustment mechanisms so that we can have a sort of natural hedge, a pass-through of our energy cost in our different contracts.

Regarding soda ash, we still see 2024 as a trough. There is not a lot of room, for prices, for margins to continue to deteriorate. And I would even say that we want to have some investments at some point the current level of margins are not enough to support those investments. So we know that at some point we will need additional capacities, and again today only our capacity expansion in the U.S. is in the pipe outside of China. And we will need capacity. And today, if you take the investment decision, it takes four to five years to build a solution mining site in the U.S. So, I continue to see it as a low point.

Alexandre Blum, CFO

But obviously, you always have a little bit of volatility. I think we talked about Southeast Asia, for example. Southeast Asia can indeed go one side or the other. On this type of business, essential chemical, you need to go beyond the quarter. You can capture an opportunity one quarter, you can have spot prices going up or down, sometimes favorable or unfavorable. Structurally in the US and Europe, the prices are below what is required to generate investment. Then you have some noise from one quarter to the other, but what is important is our ability to adapt.

Geoffroy d'Oultremont, Head of Investor Relations

Thank you for your participation today. If you have any questions, please feel free to reach out to the IR team. We will issue our Q4 earnings on March 6, 2025. Thank you.