Solvay fourth quarter and full year 2024 results

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

Good afternoon everyone and welcome to Solvay's 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.

In today's call, we will discuss our Full Year earnings, and Philippe will also give you his perspective on the first year of the new Solvay and remind you who we are.

Philippe Kehren, CEO

As usual, we will start with a word on safety. And unfortunately, after the loss of one of our colleagues in August last year, we have to report two new losses in the fourth quarter of 2024. One in Bulgaria and another one in Spain. These are very tragic and sad news, and I would like to express my deepest sympathies and thoughts to the families and colleagues of the three contractors who lost their lives.

Safety is above everything we do at Solvay. All of us should return home safely after our day's work.

We have made important steps in line with our strive for zero accidents. We have launched what we call SAFE, safety as first engagement, and as part of SAFE, we address safety in our meetings. We extended the Solvay Life Saving Rules. We introduced a new process for our permit to work.

But this year has shown that this is not enough.

Therefore, we decided to take immediate action, and we launched a Safety Culture Transformation program, which aims at elevating safety performance across all our sites and to achieve a transformative shift in the safety culture across the group. To do so, we have created a dedicated group safety task force to completely lead on safety, with the assignment to accelerate on all aspects that are needed. Safety is a fundamental commitment of Solvay. We will never compromise on that, and you can count on me.

Now, let me take a few minutes to step back and look at the achievements of last year. 2024 marked a pivotal chapter in Solvay's history. The spin-off has unlocked significant value and empowered us to create a more focused and a more agile organization.

First, we successfully navigated the organizational shift, ensuring our 9000 employees were fully engaged in this new era.

Secondly, our streamlined structure enabled us to accelerate our transformation, exceeding our projected cost savings for the year.

Thirdly, we continue to drive the energy transition of our plants one after the other, and we remain on track to meet our ambitious sustainability goals.

We connected with a lot of customers, and we will continue to build strong partnerships to support them in their innovations. Think about the microchip producers for electronic grade H_2O_2 or our tire customers for circular silica.

Finally, despite a volatile economic landscape, we solidified our financial position through a successful €1.5 billion bond issuance, and we delivered a solid set of results that surpassed our initial projections.

On slide 7, you see an overview of this solid financial performance. As usual, Alex will provide more details in a few minutes but let me share the following message with you.

Everybody will agree that the environment has not been very supportive in 2024. However, our unique profile and strong focus on what we can control allowed us to deliver solid earnings above expectations.

More specifically, I would like to highlight the EBITDA of €1,052 million supported by cost savings well above our own forecast, thanks to the acceleration of some initiatives.

Our Free cash flow of €361 million with a CapEx at 355, shows that the resilience of our businesses allows us to generate enough cash to support all our commitments: energy transition, payment of our dividend to shareholders and investment in future growth. This is a great achievement.

So month after month, with deep industrial roots and a well-defined strategy, Solvay consistently demonstrates the resilience of its financial results.

I'm very happy with the energy I see in the company, and that gives me a lot of confidence for the future as well.

And our future is **essential**.

One year after the split, it is probably a good time to remind you who we are and repeat a few key elements of our strategy. We are essential chemistry, making progress possible for generations. At Solvay, we do not invent new molecules. The ones we have in our portfolio existed already decades ago and will still be needed for a very long time. All the products we sell are essential to our daily life.

Take soda ash, one of the major uses of soda ash is to enable the production of glass. There is not a single day when we are not surrounded by glass. With no soda ash, window glass would be a luxury.

Silica is essential to the tire industry. Without our highly dispersible silica, we would still have tires, but those tires wouldn't have the same performance in terms of fuel efficiency, CO2 emissions, and safety.

Smartphones. Without semiconductor chips, there's no smartphone. And without products like our hydrogen peroxide or our rare earth oxides, there are no chips.

And these are just a few examples. Most of our businesses share those same characteristics. They are critical to the products you use every day.

Moving to slide 9. Our ambition is clear. We want to be the best in what we do. We want to be a leader in essential chemistry.

And our purpose that we've just seen: “We are essential chemistry, making progress possible for generations” is the beacon that is guiding our ambition.

The core value drivers supporting the strategy will be what will make the difference between a winning company and the others: market leadership, cost leadership and sustainability.

Our key enablers of that strategy are the way we need to operate and what we should expect from our teams: our operating model and our people and culture.

The strategic priorities we need to focus on to make a difference and deliver the financial results we aim for: sustainable cash flows and attractive returns. Those priorities are the few strategic levers that we have selected. We will come back to them later on.

Slide 10 please. Our products are not commodities, but they are not specialties either. They have very unique characteristics that make them different. We can define them around the six following dimensions. Let me explain a few of them. Looking solely at the product, essential chemicals would be in most cases close to a commodity. There may be a few references and performance matters, but very often it would be sold on spec, and the product would basically be the same for all producers.

But if you look at the technology, essential chemicals will be closer to specialty. Our processes are not available “off-the-shelf”. A strong expertise and know-how are required to be able to design and operate our plants. That's how we can license some of our technologies, like our mega plant technology for hydrogen peroxide. They are not totally unique, but only a few companies own and master the technology.

Similarly, the way we interact with customers is different from commodity players. In all of our businesses, we need to know our customers, understand their needs, how they use our products, and build relationships. While we don't sell “value”, we don't just apply an index that will vary every month or every quarter. And we tend to have stable long term supply agreements and strong innovation programs with our customers.

Being essential is also being focused. Our portfolio of products is simple. Five mono-technologies (soda ash & bicarbonate, peroxide, silica, fluorine, and rare earth), and one very strong regional business, Coatis (more focused on the Latin American market). We can be much more focused and much more reactive than before the split.

And we serve a high number of customers in a wide range of end markets. Take automotive, construction, health care or electronics. Each account for less than 20% of our overall sales. This brings resilience and resilience is important for our clients and for all our stakeholders.

Now, being close to our customers is another key element when you want to build long term partnerships. This is why at Solvay, more than 80% of our sales are actually regional or local to local. And this brings a lot of advantages, such as competitiveness, when you know that essential products can be expensive to transport. It's also good for security of supply. And it's the best protection against tariffs.

In the following slides, I will deep dive into our strategic levels as they are driving our choices for resource allocation and also for setting priorities: operational excellence, accelerating the energy transition, process innovation and production capacity.

So the first one is operational excellence. This means continuous progress and optimization of operations and systems. Our initial plan was to achieve more than €300 million of savings by 2028. We are now increasing that target to €350 million, and we accelerate the delivery as we expect €200 million already by the end of this year. That will contribute to ensure our businesses remain competitive and that will improve their position as benchmarks in their respective industries.

For each of our manufacturing sites, we have built detailed plans to optimize our operations. For each of our corporate functions, we are building a target operating model. As you can imagine, digitalization is a key component of those plans. For example, we use more and more devices to monitor the equipment and improve the reliability of our assets and as a result, our maintenance costs. We also implement digitalization and AI capacities in all our support functions, especially in our global business services centers. But digitalization is not everything. Here are a few other examples. We are saving on our transportation costs by changing the transportation mode, the lot size or the number of rotations. We improve yields on our energy and raw materials consumptions. We continue to take initiatives in procurement as well.

Now moving to our next strategic lever, sustainability and the energy transition. In 2024, we have taken the time to redefine the sustainability agenda of the company while aligning it with the new Solvay profile. So today, I'm very happy to launch “For generations”. “For generations” is our new sustainability roadmap. We have refreshed our ambition, added new commitments, redefined our processes and our governance. But the ultimate goals remain the same: reduce our impact, create trust and value. This roadmap is structured around two pillars. Planet progress, focused on climate and nature, and better life, for people and communities. It will be deployed in all our sites around the world, and it will be deployed through the “Star Factory” program, which aims at designing the factories of the future. It is also integrated into the incentives in all layers of the management, with safety, CO_2 emissions and diversity as the main KPIs.

Next slide please. This slide summarizes the KPIs we track as part of our For generations roadmap. We confirm our main climate target: carbon neutrality by 2050, with an interim target of reducing greenhouse gas emissions by -30% by 2030. We are well advanced, -17% so far. In 2024, we maintained our greenhouse gas emissions reduction scope one and two, despite increased levels of production in some of our businesses. This was achieved through the strategic execution of our energy transition projects and our successful exit from coal at two of our plants in 2024 in Germany and in Wyoming, USA.

We have added an additional voluntary commitment regarding biodiversity. We are already recognized for our good practices on biodiversity in several of our sites like Paulinia in Brazil, Rosignano in Italy and Torrelavega in Spain. We are now pledging to allocate 30% of our land around our sites to support nature conservation and restoration efforts by 2030. We will partner with the IUCN, that's the International Union for the Conservation of Nature, to achieve this target. Several projects are already underway, like the reforestation project in Brazil, the tiny forest in the Netherlands, or the mangrove project that we have in Thailand.

Regarding safety, the overall trend is positive. Yet the three tragic accidents we experienced in 2024, which I addressed earlier, serve really as a critical reminder. Vigilance is non-negotiable. We must and we will do better.

We have also made tangible progress in advancing diversity within Solvay, putting us on course to reach 30% of gender parity by 2030.

And finally, a word on the United Nations living wage initiative. I'm happy to confirm that we are on track to have 100% of our employees at the right level in 2025. This is one year earlier than planned.

Now moving to the energy transition roadmap and the need to accelerate its execution. This is really a strategic imperative. It's driven by our commitment to the planet. The clear expectations of our customers, but also by the fundamental need to remain competitive. Particularly in Europe, where the rising cost of energy and of carbon emissions create a distinct economic advantage for sustainable businesses. This is critical for our long-term success.

We act on decarbonization, and our track record is there. Both Alex and I have successfully deployed some of the largest global decarbonization projects within the group in the past, and thanks to this, Solvay in general has already reduced its CO_2 emissions by half in the past 20 years.

Our roadmap outlines clear milestones. -30% emissions cut by 2030, a further one third reduction by 2040 and net zero by 2050. Implementation will involve coal phase out, the rollout of e.Solvay and other technological breakthrough projects. We will invest as Solvay a CapEx that is affordable. It will be €30 to €35 million annually until 2030, increasing to €50 million per year by 2040, which will be complemented by strategic third-party financing for some of the key large projects.

Third strategic level, process innovation. This is how Solvay started: by revolutionizing the soda ash process in the 19th century. So we understand very well the importance of staying ahead of the curve and continuously improving our processes. It can take many forms from bringing improvements to existing processes, for example, new generations of catalysts for our peroxides plant, to finding technologies to offer circular materials like our silica with the rice husk ash process in Italy, or digital tools to transform the way we operate at the level of the shop floor. With our flagship e.Solvay process, we reinvent a new way to manufacture soda ash. And we are making rapid progress. We are reaching technological feasibility, and we can now work on the economical equation.

Finally, production capacity. Production capacity, both to sustain our market share in our traditional markets and to capture growth in targeted, high potential opportunities that are our products can serve in our traditional markets. Growth is close to GDP. We invest when our customers need it. This can be through expanding our production capacity, building new units, or increasing production through partnerships. But it always entails sites where we have a competitive advantage and where we have a clear roadmap in terms of sustainability.

Beyond these core end markets, each global business unit has growth applications where we see high potential opportunities and where we want to invest. Here are a few examples. In our Soda ash and derivatives business, we have new bicarbonate applications such as SOLVAir® Marine, an innovative technology used as a dry exhaust gas treatment system for sulfur oxides and particle removal for the shipping industry. In silica, new circular highly dispersible silica is expected by tire manufacturers to increase the share of circularity in their total sales. In Special Chem, we will inaugurate the first production of rare earth oxide for permanent magnets in a few weeks from now.

So that concludes my 2024 update for today. Our strategy, I hope, is clear. It is solid. The split allows us to be much more focused on what is important for Solvay and its businesses. And I would like now to hand over to Alex for the review of the financials.

Alexandre Blum, CFO

Thank you, Philippe, and good afternoon, everyone.

So moving to the financials. Let me start by reminding you of the two elements that impacted the presentation of our financials in 2024. The partial demerger of Syensqo in December 2023, and some APM and scope changes that started in 2024. I invite you to go back to the various communications that are available on our website for more detail. And as usual, I will comment on the organic evolution meaning at constant scope and currency unless otherwise stated.

So let's start with sales on slide 21. Underlying net sales in 2024 reached €4.7 billion, lower by -4% versus 2023. This rather small decline is explained by lower prices, as expected, mainly from our soda ash business. Offsetting partially this impact, our volumes were up in the majority of our businesses.

In Q4, volumes continued to grow year on year for the fourth consecutive quarter, and we can especially highlight our bicarbonate and peroxide businesses as contributor to the recovery, as well as the fact that we have seen generally a less pronounced seasonality in the last months of the year compared to what we observed in 2023.

Underlying EBITDA amounted to €1,052 million in 2024, down -8% year on year. This is slightly higher than our latest guidance that you probably remember to be at the "higher end of -10 to -15% organic growth range", thanks to the resilience of our volumes that have just highlighted, but also thanks to the strong cost discipline, which translated into a +4% lower annual fixed costs. Quite an achievement in a year of sustained inflation and higher inflation rates of our assets.

As just said, our fixed costs decreased as we delivered significant structural savings in our manufacturing plants and corporate functions. But we also delivered significant variable cost savings by reducing our energy and raw material consumptions. In total, cost savings were €110 million, largely exceeding our target of €80 million.

Moving to the segment review and here, I will mostly focus on Q4 development.

Let's start by Basic Chemicals on slide 20. The segment continued to demonstrate solid performance in Q4, especially on the volume side, and is the main reason for the quality beat of Solvay in terms of EBITDA for this quarter. Soda ash volumes were higher, especially in the seaborne market compared to the low base in Q4 2023, while bicarbonate demand continued to be strong, especially for the flue gas treatment applications. In peroxides, volumes continued to be up year on year in all segments that we serve, showcasing the strength of this business. In Q4, we also booked the initial profit from a new license for our peroxide businesses. While it is positive when looking at the quarter comparison, you have to keep in mind it is neutral when you look at the full year, as we signed such a license in Q3 2023 last year as well. In terms of EBITDA, it was down -1% in Q4, with the year-on-year volume offsetting the negative soda ash metrics. The EBITDA margin reached 29% in this quarter.

Performance Chemicals on slide 25. Our Performance Chemicals segment is generally more subject to Q4 seasonality due to its exposure to such elements as automotive and Brazil end markets. This explains the sequential decrease of sales and EBITDA compared to the previous quarters. Year on year, Q4 volumes were slightly lower in Silica tire application and Special Chem autocatalysis, but prices have been resilient across businesses. Hence, compared to Q4 2023, the overall segment EBITDA was up 6% thanks to the positive net pricing. The EBITDA margin increased to 15%.

Free Cash Flow to shareholders from continuing operations amounted to €361 million in 2024, thanks to the solid EBITDA performance and the good control of our working capital, especially at the end of the year. This represents a 34% free cash flow conversion ratio. As expected, Capex accelerated in Q4 and reached €355 million for the year. Provision cash out of €193 million were higher than last year, mainly due to higher restructuring and settlement of old litigation. This contributed to the reduction of our long-term provisions in the balance sheet.

On the other side, financing cash outs were lowered due to the timing of the coupons payment from the newly issued bonds. Financing costs are projected to rise to approximately €80 billion in 2025, reflecting the full year coupon payment on the bonds issued in 2024. Additionally, note that provisions cash out is expected to temporarily increase by €50 million, mainly due to the Dombasle energy transition project. Capital structure. Underlying net financial debt was €1.5 billion at the end of the year, quite stable compared to the end of 2023, and the underlying leverage ratio was 1.5 times EBITDA.

Based on the free cash flow generation and in line with the dividend policy of the company, the Board of Directors has decided to propose a gross dividend of €2.43 per share, subject to shareholders approval during the AGM of May 2025. If approved, and taking into account the interim dividend of €0.97 per share paid in January, the final gross dividend of €1.46 per share would be paid on May 21st, 2025.

One year after the split, we have the balance sheet we wanted. We are investment grade, and we successfully refinanced our short-term debt into long term bonds, while our dividend cash out is well covered by our free cash flow delivery.

Now let's step back and see how 2024 compares with the last seven years. And I draw your attention to the fact that the figures before 2023 are not restated for the phase out of two businesses in 2023, which accounted for approximately €100 million EBITDA.

This chart simply confirms once again that our unique profile allows us to be resilient, even in times of crisis or challenging conditions. We are essential, and we have the flexibility to adapt our investments to the market conditions. This ability, combined with the quality of our individual businesses and the portfolio effect ensure resilient and steady cash generation.

Let me conclude my presentation by reminding you of our capital allocation policy. We generate enough cash, and we are deploying it strategically. First, €250 to €300 million annually for essential Capex, which is safety, maintenance, regulatory compliance, leases, and of course, our energy transition projects.

Second, a stable to growing dividend, a commitment we never missed in the past 40 years, with approximately €260 million allocated in 2024.

Finally, and depending on affordability and merit, we will prioritize growth projects with strong returns while keeping the optionality to return excess cash to shareholders. But whatever the level of cash we generate, trust us to be extremely selective, we will never invest for the sake of investing.

With that, Phillipe, back to you for the outlook

Philippe Kehren, CEO

Thank you Alex. And indeed, let's move to the outlook now. So how does that translate into expectations for 2025. And what about our mid-term targets?

So for 2025, the current challenging macroeconomic context does not suggest any significant volume recovery in our main end markets. Net pricing is anticipated to be resilient compared to 2024, and that includes the impact of the soda ash annual contracts, which impact between 10 and 20% of Solvay net sales.

We will continue to focus on the transformation of the company. We target an additional €90 million in cost savings, contributing to a cumulative €200 million since 2023. We expect this to mitigate both inflation and the temporary corporate stranded costs expected from the exit of the Transition Service agreement with Syensqo.

These actions will support our guidance of an underlying EBITDA between €1.0 billion and €1.1 billion in 2025. Free cash flow to Solvay shareholders from continuing operations is projected at approximately €300 million, with CapEx between 300 and €350 million. Notably, provisions are expected to increase by €50 million, as just explained by Alex.

Now, an update on our mid-term targets. Following a successful first year as an independent company, we are happy to confirm our 2028 trajectory as presented at our Capital Markets Day in November 2023. At the core, we confirm our commitment to mid-single digit organic underlying EBITDA growth over the 2024-2028 period, driven by both top line growth and cost savings. We recognize the questions around our 2024 performance, which is tracking below 2023 levels and the implied acceleration required to achieve our 2028 objectives. However, we entered 2024 fully aware of the challenging market conditions, as communicated during our Capital Markets Day.

Furthermore, our confidence is rooted in the long-term prospects of our markets. They will recover at some point and for some of them, like soda ash, where limited new capacity is projected in Europe and in the US before 2030, that implies a supply demand that is tightening. Importantly, we are increasing our cost savings target with an additional €50 million, a lever that is firmly within our control. We also confirm our guidance for underlying EBITDA margin and return on capital employed, underscoring our commitment to sustainable profitability and efficient capital utilization.

Regarding free cash flow, we are moving away from a specific free cash flow conversion ratio. We are convinced that our capital allocation policy is clear and reflects the way we intend to spend the cash we generate. First essential Capex, then a consistent dividend policy. And finally, depending on merit and affordability, strategic growth investments and further shareholder returns as appropriate. This was also highlighted by Alex earlier on.

So let me clarify a few things as we received some questions around this already this morning. And I would like to thank all of you that came back to us.

First, our focus on cash generation has not changed, but it is important that we keep the ability to decide what makes the most financial sense. And this is not consistent with a fixed free cash flow conversion target.

Second, we're not saying we will necessarily accelerate investments as an essential company. We typically invest when supply demand is tight. To achieve our confirmed 2028 EBITDA target, by the way, no significant new investments are needed. Bicar® and purified grades of hydrogen peroxide are probably the main businesses where we will need to add some capacity, and those are not capital intensive.

Third, we confirm our ROCE targets, which should also bring some comfort to investors on the returns and on the best possible use we will make of cash.

Now, before we take your questions, I would like to leave you with these few words.

I'm convinced about what we do at Solvay and also, by the way we do it. We have a clear strategy that gives plenty of confidence for the future of Solvay. And the new culture is only one of the many enablers we have to achieve our goals. We started our transformation to adapt Solvay to its new reality and leverage new technologies that allow us to be more efficient. We also started to transform our safety culture after the events of 2024 that remind us how critical it is for a company such as Solvay.

And finally, we redefined our sustainability roadmap for generations, keeping our ambitions at high levels and clarifying the way we will achieve them. At Solvay, the energy transition is a journey that started decades ago, and we keep accelerating it. The biomass project at Torrelavega in partnership with ENSO, which we announced yesterday, is a great example where we will reduce the size emissions by half before 2027 and consolidate the competitiveness of the site.

Thank you for listening. And now we're happy to take your questions.

Questions and answers

Wim Hoste (KBC Securities)

Yes. Good afternoon and thanks for taking my questions. I would like to ask two, please.

The first one is on the soda ash market and the consolidation announcement that we have seen in the past few days. Any thoughts about how that might change the structure of the markets and also in light of future capacity addition projects ? And then secondly, I wanted to dive also into your take on the transaction. Were you blocked by antitrust for and was that the reason for not participating, for example, or did you participate? Any thoughts about your potential interest that you might have had in that deal would be interesting.

And then the second question I would like to ask is, on the e.Solvay projects, you said that you're advancing nicely. Can you talk a bit on your potential timing of rolling this out, and also kind of quantify the potential cost advantages? You highlighted the environmental advantages, but the cost advantages that this project might have, if you can just update us on that as well, that would be interesting.

Those were my questions, thank you.

Philippe Kehren, CEO

Thank you very much for your questions. So, regarding the announcement of the recently acquired Genesis by WE soda. First of all, it does not add any new capacity in the market. It just, I think, highlights a little bit what we are trying to explain when we say we are between commodities and specialties. We are essential chemicals which require complex processes, scale and long-term customer contracts, So by nature, it is a market where you do not have numerous players, and each one is developing the way to reach in the best possible way and in a competitive way and sustainable way to customers. One interesting thing in the public communication that was issued by WE Soda is that they said very clearly, that at the current level of margins on this market, it is easier to invest and build on an existing capacity than to build a greenfield unit. And so, does it mean anything for the large projects that were announced, in particular in Wyoming? I don't know, and obviously I will not comment further on this, but I think it's interesting to see that we're expanding our capacity in Green River at a very competitive cost in terms of investment. WE Soda is buying an existing capacity at a certain level of cost per ton. If you want to build a new plant, it costs much more. That is, I think, what we need to take away.

Then another important thing is that we continue to be a player that is both active in synthetic and natural, and I think that is very important. Why is it important? Because the world needs both, both synthetic and natural. And so, you're talking about e.Solvay. e.Solvay is exactly about having different options and in particular, the possibility at some point also to build greenfield units in areas where today there is no production, and in particular in areas such as Latin America, Southeast Asia, Middle East, Africa. Areas where soda ash is needed, growth is there, but there is no big capacity of production. So I think this is an option that we have and that others do not have.

In terms of timeline, we are just, as we said, finalizing the industrial pilot in our plant of Dombasle and we will move now into the economical assessment because we need first to optimize the cost of investment, and second, also to make sure that we can have access to long term competitive low carbon electricity. This is absolutely needed in order to do this project.

Also, you asked us : did we look at those type of projects and do we have antitrust considerations, and so on? Well, let's be clear. Today, we're really focused on organic growth. Of course, we are looking at what is happening on the market, but primarily we want to make the best possible use of our assets.

Martin Roediger (Kepler Cheuvreux)

Good afternoon. First question is for Philippe. You shift a bit your strategy towards more growth Capex to create additional value. What is the likely payback time when comparing the growth Capex to EBITDA? Is it three years or four years or five years?

The second question is more for Alexandre. It's related to the charts 21 and 22 of your presentation. You're showing these two charts that €231 million volume and mix effect in revenue contribute €103 million to EBITDA. Thus, 45% of the top line effect falls to the bottom line. Why is it that high? Does that volume mix column on page 22 also include license income in peroxides? Thank you.

Philippe Kehren, CEO

Thank you very much. There are two types of growth Capex, when you refer to additional capacities. First of all half of the growth in EBITDA will be done through also improvement of the competitiveness. But if we look at the growth Capex you have the large investments like the ones that we are doing typically for soda ash and that we will start up this year. Those are done typically every four or five years when the market needs it. We do not need to anticipate that, we do it when the market is there, and the payback is relatively fast. But it's true that the tickets are a bit higher.

What we are targeting in the short to mid-term is more targeted lower Capex in some specific markets, and I will cite two of them. We have Bicar®. Bicar® is a market that is growing at least twice as fast as the GDP, probably even higher as we speak. And those investments are paid back in only a few years, very quickly. The second type of investments are electronic grade or purified grade hydrogen peroxide. We are just starting new capacities inSoutheast Asia and Taiwan. Those capacities are immediately used at 100% and we are talking about double digit growth and paybacks that are very short there as well. So in the short to mid-term, we will really focus on this type of investments. Maybe, Alex, if you want to comment as well before moving to the second question ?

Alexandre Blum, CFO

I do not think we are changing our strategy. After one year in operation we think it's worth clarifying: in essential chemicals, we are not investing ahead of the curve. Even for a new investment in rare earth we will wait to have customers commitments before making any significant investment. That is very important to mention.

Regarding payback: it is not the main indicator for big investments. Payback is usually a good indicator for small investments at site level.But when we look at things which are a little bit more strategic, we tend to look at the internal rate of return (IRR) and at the impact on ROCE. Our internal hurdle rate is around 15%, because we know that we have enough investment opportunities not to have to look below that level. So this is normally the internal rate of return, that would be the minimum requirement.

Then there was the question on the fact that you have a very high conversion ratio between the sales volume to the EBITDA volume: that would be because we have the impact for the peroxide license, which is almost straight from sales to EBITDA *(NB: actually, not in net sales but in non core sales, but impacting EBITDA)*, and which is recorded in volume.

Thomas Wrigglesworth (Morgan Stanley)

Thanks very much for the opportunity. A couple of questions, if I may. Firstly, can you unpack your guidance, at the EBITDA level? Obviously, you have got a large number of businesses. I'm very keen to hear specifically within that, how you see these Bicar® opportunities evolving in 2025 versus the assumptions that you have made for the soda ash business.

The second question I have is a smaller one on the free cash flow bridge. There is this positive “other” €60 million impact in the bridge there. I know that we can see this impact in the other quarters as well, but could you just remind us what is that positive driver that is offsetting the taxes bucket? Thank you.

Philippe Kehren, CEO

Thank you very much. So I will probably let Alex answer on the free cash flow and start with the guidance. The guidance is really based on the elements that we have today, which means no significant change in our markets and relatively stable net pricing in 2025 versus 2024. What could be the difference between the low end and the high end? Well, I would say clearly the volumes, we do not see today some of the things we have seen last year, for example, the restocking that we had in Q1 2024 that we do not have in Q1 2025. We have also seen a little bit of pre-buying in Q4 2024 that will potentially also slow down a little bit the restart in 2025.

We do not know if we will have volume recovery, but if we have, then we could go a little bit at the higher end of the range. And then we also have a certain number of volatile elements that are impacting potentially all of the businesses. Energy prices are still very volatile. And even though we have a good level of protection we still have some potential volatility there. We also have the implementation of tariffs that is changing a little bit from time to time, to say the least. This also creates a little bit of uncertainty. So if you take all this into account this explains a little bit the range of the guidance and where we could move. Now, Alex, maybe on the free cash flow.

Alexandre Blum, CFO

Sure. Hi, Tom. So the positive "other" is, in fact, the main reason why the provision cash out will be higher in 2025. In 2024, we made a provision for the Dombasle Energy project overrun that you may remember we communicated on, with our Q2 2024 results. This had no , or very limited, cash impact in 2024. So in the free cash flow bridge, it offsets the negative impact in the EBITDA by this element. And in 2025, we will see the other way around. No more EBITDA impact, but an impact on the free cash flow as the project is targeted to be operational at the beginning of 2026. So most of the spending will take place in 2025.

Thomas Wrigglesworth (Morgan Stanley)

If I can just follow up on the energy prices. Can you just elaborate a little further on that? So if we were to see a rapid change in, say, gas prices higher or lower, how much time would it take you to fully pass through that price to customers? Is it on average going to take three months given the net effect of your contracting, or will it be shorter than that? More like a month or longer?

Philippe Kehren, CEO

It very much depends on the businesses. I mean, the maximum is clearly three months, but normally, we are much more reactive than that, so that's why we are saying it can have a little bit of side effects but not too big. We react fast, and the impact will be limited, but still, it can add to the volatility of the price.

Alexandre Blum, CFO

Two additional comments. First, when you have such swings, mechanisms are never perfect. The more you have volatility, the more you create some small impact. And then for certain volumes for export, especially if you take export of soda ash to the seaborne market, there is less protection. Usually there is a strong correlation, but you don't have mechanically a protection. So that's why we are saying it's not necessarily structural, but it can have an impact.

Sebastian Bray (Berenberg)

Hello. Good afternoon. Thank you for taking my questions. I would have two, please. The first is on the Capex guidance and in particular as it relates to environmental Capex. Has anything actually changed here versus the time of the split? It looks to me a bit as if the environmental Capex near term, excluding Dombasle, has been cut a bit and the burden shifted to the post 2030 period. Is that right? Is Solvay basically making a bet that the environmental legislation only really tightens properly from after 2030?

And my second question is, can you give us a status of how long or how much you have in terms of free carbon allowances? Are you saving these up for 2030, knowing that you need to spend more a bit later?

And the final one free cash flow. Does this include the provision for the €50 million for Dombasle, the €300 million guidance? Thank you.

Philippe Kehren, CEO

So in terms of Capex, for energy transition in particular, it did not change. We always said that we are spending around €30 million per year. Now we say between €30 and €35 million. There is a little bit of inflation, but it's not really material. And then we will increase from 30 to €50 million after 2030 because of the nature of the projects. So, I don't think we changed anything on the amount of Capex that we announced for until 2030.

Alexandre Blum, CFO

Indeed. And I think we never expressed clearly the amount of Capex we were expecting to spend for the following decade. Having one year behind us, we have much more visibility on the projects, and we are getting closer. So now we think it's good to provide you with that visibility. But fundamentally, you can see the trajectory to decarbonize, one third by decade. And the affordability is there.

Philippe Kehren, CEO

The next question was on free carbon allowances. So today, there is, as far as we know, no change until 2030 in the ETS directive. I know that there will be some changes, but I think they will be positive because the Commission would like to support energy transition projects probably a little bit better by generating more revenues. So there are no changes today. The only thing we can say is that we see additional support from Europe and the member states. That's what they call the clean industrial deal. And by the way, we just announced yesterday that we are doing a very important energy transition project in Spain, where we have received, very clearly, a high level of support. And we will be able to reduce drastically, to cut by half, the CO2 emissions of Torrelavega and to do it in a very competitive way. So I think we are moving in the right direction. Beyond that, there's nothing that really changed, I think.

Alexandre Blum CFO

On the free cash flow, I confirm the guidance includes Dombasle energy cashout, as well as the other elements we have mentioned in the past with TSA with Syensqo exit and so on.

Chetan Udeshi (JP Morgan)

Hi, thanks for taking my questions. I was just curious. I don't know if this was already discussed, but can you give us some sense of how you're thinking about Q1, whether it's year on year, Q on Q, any key points to keep in mind? Or even if you can give a proper guidance. It's almost March, so I guess you have a good visibility now on Q1 and where it should sort of stack out.

The other question I had was just going back to the whole discussions around Capex and taking out this cash conversion target from 2028.I mean, I think there is a bit of a confusion to the extent that on one hand, Philippe, you are talking about investing in projects which are not capital intensive. And if I look at your CapEx already for 2025, it's €350 million, which sort of implies that you've already spent roughly €100 million on growth, on top of essentials. So if all the future stuff that you are planning to do is also more de-bottlenecking, less capital intensive, why take out that cash conversion target at all? It just feels like it's not consistent between what you are saying while at the same time taking out the cash conversion target.

Philippe Kehren, CEO

Okay, maybe I'll start with your second question so that Alex can answer you about Q1. So, we say our central Capex is more or less between 250 and €300 million. And last year, by the way, we invested €355 million . This year, we will land between €300 and €350 million. So it means we spend for our growth, what we call discretionary Capex, between €50 and €100 million, let's say. That's a few projects that are not really capital intensive. We are talking about electronic grade H2O2, we are talking about a circular silica in Italy, we are talking about a few € millions to launch the production of rare earth oxides for permanent magnets in France. So we are talking about small, targeted investments that can deliver high growth. But it's really not big tickets, so this is why we say it's more, at least in the short to mid-term, about more small, targeted investments.

Then what we are saying is just that our capital cash allocation policy clearly states the priorities are first essential Capex and dividend payment. And then we see how to make the best possible use of the additional cash that we might generate if the market conditions are there. This supersedes the free cash flow conversion. That's the only thing we say. If you look at our free cash flow conversion this year, it's 34%. So we're not saying that we will not do 35%. It's just that this should not drive the choices that we will make. If we have more cash, we will decide. We don't think we should, at this point, deleverage our balance sheet. So should we invest in secured investments, should we invest in other types of shareholder return? We will see. But this is what will drive our decisions. Alex, ,on Q1 ?

Alexandre Blum, CFO

So for Q1, we have been telling you every quarter that visibility is not great, but at the beginning of the year, it's even more challenging. So what I can say, generally in terms of business segments, we continue to see what we see in H2. So the most dynamic segments are food, feed especially in Bicarbonate, Electronics, all of that is growing well overall. Obviously, the US as a region. And on the other side of the equation, construction, no sign of recovery and auto, very volatile. As far as Q1 is concerned, as we mentioned volume in Q4 was quite good. It was part of the reason for the beat. So it's not completely clear with all the noise today, whether it was some pre-buy or something else. We don't think there is a fundamental recovery in demand. So what we expect: we mentioned there is no significant change in volumes between 2024 and 2025, but probably the profile will be different. Last year, we had quite a strong Q1, some recovery and then normalization, a lot of opportunities, market a little bit tight. We don't see that this year, but I must say the noise created by the tariffs is not helping. And keep in mind, Q4 this year, we had a one time license. So when you just project Q1, you have to take that into account. So very little visibility, no drop, but a lot of nervousness in the market.

Chetan Udeshi (JP Morgan)

Thank you. Maybe, Philippe, if I can come back. So if I understand your comments correctly, you are saying at least for the next maybe one or two years you continue with the path of existing bolt-on projects and then down the line you just want to keep that flexibility in case something “exciting”, interesting comes out for you to invest into something bigger. Is that how we should think about your comments on CapEx?

Philippe Kehren, CEO

Yeah, that's it. Absolutely. That's it.

Alexandre Blum, CFO

But it's not “exciting”. It's “value creating”.

Philippe Kehren, CEO

Indeed. And also, I mean, we will not take a bet. We will do it if it's secured.

Alex Stewart (Barclays)

Hello. Thank you for taking my questions. This sort of builds on Chetan's questions a little bit. You've said a number of times over the last 15 months that there's no scope to cut prices in soda ash. That soda ash is at the bottom. Margins are at the bottom of the cycle. This is something that's come up time and again. And yet I look at your return on invested capital and it's almost 18% including the headwind from your corporate function. So your underlying return on capital of your businesses is approaching 20%. So I suppose the question is really in two parts.

Firstly, how can you say that we are at the bottom of the cycle and there's no room for more investment when you're making a sector leading return on capital, which would traditionally attract more capital into the market?

And the second point around Capex is that if you're making a return on capital, that's 500 basis points above your internal rate of return threshold for new projects. Surely that suggests that you should be investing much more growth Capex in order to profit from that arbitrage. Could you possibly rationalize your thinking with those two statements? Thanks so much.

Alexandre Blum, CFO

Let me take this one. So on the first one, return on capital employed, I think, yes we confirm soda ash is at the low end of the cycle. We are not in the mid-cycle position, but it's a profitable business. This is what we've always said. It's a resilient business. With existing assets you can make some margins, but the margins are too low to trigger additional investment in new capacities because new capacities would be more expensive, and the marginal price would be quite low. And I would say on the corporate cost, in 2024, they don't have a very significant impact. We mentioned TSA dissynergies and so on probably a little bit more in 2025 and 2026.

Then the fact that we have a hurdle rate at 15% does not mean that we will invest in all the investments that are above 15%. But we said we look at merit and affordability. That is very important. So yes, we have several investments at more than 15%. And then there is what we can afford. This is why we said, we don't think a fixed free cash flow conversion KPI is required. Still, you have seen it this year, we want to make sure we generate more free cash flow than our dividend. So we will look at the two angles. And we need to invest in the right time. I mean, we don't want to invest too early. So typically, this is what we do in several business lines. We invest progressively.

Alex Stewart (Barclays)

Do you think that you will cover your dividend with cash flow generated by the business in 2025?

Alexandre Blum, CFO

Yes. Always.

Alex Stewart (Barclays)

Yes. But you're guiding to €300 million of free cash flow. And then there are always cash outflows which aren't included in that. And your dividend is €260. So you've only got €40 million to play with. You're confident you can cover it?

Alexandre Blum, CFO

We are a new company, we have a certain level of dividend. So this is what we're saying: even in a challenging environment, we have a cash flow covering the dividend. Yes.

Peter Clark (Bernstein)

Good afternoon, everyone. I have two questions.

Actually, I think I am getting the gist of what you are saying in terms of, for example, silica expansions. Absolutely not going back to ten years ago when you were investing ahead of the market. Two plants came on career, I think, one n Poland, and the market disrupted. Here, we are talking about incremental investment on existing kit with the market demand already there.

Secondly, the peroxides had a really good fourth quarter in terms of growth and across the patch pretty much. Just wondering what is going on in the HPPO market, whether there was a kick in Antwerp in terms of volumes or something like that. Thank you.

Philippe Kehren, CEO

Thank you. Indeed, when we talk about the investments in Silica, and in particular the move towards bio sourced material, we are not talking about really new, big capacities. We are talking about a new market, a certain type of bio sourced silica, and we secure the investments. We do not invest if we do not have the volumes secured with strategic customers. We are not investing ahead of the market,we are investing when the market is there.

Now, for HPPO, today we have three plants that are running at normal utilization rate. And we are pretty much focused today on our licensing business in China because this is where the growth is taking place.

Geoffroy d'Oultremont

Thank you for your participation today. If you have any questions, please feel free to reach out to the Investor Relations team. We have added our roadshow program on our website. If you go in the Financial Calendar section, you will see the different roadshows and conferences attended by the management in the coming days and weeks, so feel free to react to that if you want to join one of these events. Thank you very much. We will publish our Q1 results on May 8th.