Solvay second quarter 2026 results

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

Good afternoon, everyone and welcome to Solvay's second quarter and first half 2026 earnings call. I'm Geoffroy d'Oultremont, Head of Investor Relations, and I am joined today 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.
Let's get started. Philippe, over to you.

Philippe Kehren, CEO

Thank you, Geoffroy and hello everyone.

Let me start with safety, which is at the heart of everything we do.
Our transformation delivers tangible results, with the Reportable Injury Rate further improving in the second quarter. This positive development reflects the commitment of our teams. We continue to strengthen our safety culture through targeted initiatives. For example, we now have a focus on hand injuries, slips, trips and falls and contractors' safety management.

Our performance in the second quarter reflects different realities in an operating environment that is constantly evolving. On the one side, Bicarbonate and electronic grade Peroxides are at record sales levels. On the other side, soda ash remains under competitive pressure in the export markets, indirectly weighing on the US market.

On the conflict in the Middle East, we estimate that it had a negative impact of around €20 million on the EBITDA during Q2. The main element is the shutdown of the Peroxides plant in Saudi Arabia. Outside of this, the impact is slightly negative, with the improvement of the dynamics at Coatis not fully covering higher energy, raw materials and logistic costs.
Looking ahead, we currently anticipate that the Peroxides plant in Jubail will restart in the second part of Q3; our teams on site are working in this direction and we will be ready as soon as the platform restarts. I will come back to this when we talk about the outlook.

Two weeks ago, the European Union released its draft proposal for the reform of the Emissions Trading System. Although it is still too early to fully assess the impact, we believe the proposal moves in the right direction. Most importantly, it confirms the 2050 carbon-neutrality objective while maintaining the allocation of free allowances. The proposal appears significantly more focused on supporting industrial competitiveness and decarbonization, rather than simply increasing costs for European industry. We will continue to assess the proposal in the coming weeks; as said we believe it goes in the right direction, but there is still a lot of work to do before it is final. We will obviously update you on the topic in our next communications.

Alex, over to you for the details of the Q2 results.

Alexandre Blum, CFOAlexandre Blum, CFO

Thank you Philippe, and good morning/afternoon everyone.

Let's move to the details of our financial performance, which, as explained by Philippe, is mainly impacted by the continued weakness of the soda ash prices in the export market, the conflict in the Middle East and the more general geopolitical environment.

Moving to slide 9.
And as usual, I will comment on the organic evolution, meaning at constant scope and currency, unless otherwise stated.

Underlying net sales in Q2 reached slightly over 1 billion euros, down 7% compared with the second quarter of 2025, but up sequentially in all business units.The decline was mainly volume-driven, reflecting the temporary shutdown of our Peroxides plant in Jubail and the 20 million one-off gain recorded in Q2 last year for a contract-termination in the Fluorine business line. Pricing was slightly lower overall, broadly stable across all our business units except for some pressure largely concentrated in the soda ash seaborne market. Forex provided a small tailwind this quarter, thanks to the strengthening of the Brazilian Real against the Euro.

Now moving to EBITDA.

We delivered an underlying EBITDA of 187 million euros in the second quarter, down 19.5%, representing an EBITDA margin of 18.1%. There are two main factors behind the year-on-year EBITDA decline, both explaining the significant volume drop of this quarter. Around half relates to the consequences of the conflict in the Middle East, mainly due to the temporary shutdown of our Peroxides plant in Saudi Arabia. The other half reflects the one-off in Special Chem in Q2 2025. Net pricing was broadly stable. The improvement in Coatis was offset by higher costs in other businesses and continued pricing pressure in the soda ash seaborne market. Fixed costs contributed positively, as our structural cost-saving initiatives more than offset inflation. We delivered a further 26 million euros of cost savings in the quarter, mainly through operational excellence initiatives in our manufacturing sites.

Moving now to the segment review, starting with Basic Chemicals on slide 110.

Sales in Soda Ash and Derivatives declined by 8% organically.
Soda ash volumes were slightly lower year-on-year, partly because of some delayed shipments into July. Pricing was marginally lower in domestic markets and declined more significantly in the seaborne market. On the other hand, our bicarbonate business remained steady, with both volumes and pricing broadly stable year-on-year.
Peroxides sales were down 5%. This mainly reflected the temporary shutdown of our HPPO plant in Saudi Arabia, which was partly offset by continued strong growth in electronic grades, supported by semiconductor demand. Performance in other applications was broadly stable.

The segment EBITDA decreased by 6%. Lower Peroxides volumes and continued soda ash pricing pressure were partly mitigated by improved operational performance and cost discipline.

Moving on to Performance Chemicals on slide 12.

Overall, Performance Chemicals EBITDA declined by 26%, mainly due to the absence of the €20 million one-off benefit in Q2 2025 and a lag in price indexation in Silica. This was partly offset by the stronger performance in Coatis.
Looking at each business now:
Silica sales were slightly down. Overall performance remained solid, although the quarter was affected by an unfavorable regional mix and a lag in price indexation.
In our Coatis business, sales increased by 1%, with improved pricing in both phenol and solvents product lines. The difference between the year-on-year and organic performance mainly reflects the impact from the stronger Brazilian Real against the Euro and US Dollar.
This marks a clear sequential improvement for the business, following the significant pressure experienced since the middle of the second quarter of last year.
In Special Chem, sales declined by 18%. The overall performance was stable in most business lines, with a pickup of volumes in electronics rare earths applications at quarter end. As highlighted before, the year-on-year comparison is primarily impacted by the contract termination benefit recorded in the second quarter of last year in our fluorine business line.

Finally, a quick word on the corporate segment EBITDA, which was €-25 million in Q2. As expected, stranded costs were still high during this quarter, reflecting the full impact of the exit of the TSA with Syensqo. Based on this, I can confirm that our full year expectation remains between €70 and 80 million.

Turning to slide 13, free cash flow to Solvay shareholders reached 15 million euros in the first half of the year. The second quarter was negative at €-11 million, due to the seasonality, combined with some concentration of cashouts. Let me explain:
Capex for the first half of the year amounted to 141 million euros. Spending remains disciplined and focused primarily on essential HSE and maintenance investments, as well as ongoing energy-transition projects.
Working capital represented a cash outflow of 79 million euros in the first half, reflecting the usual seasonality during the first six months of the year, including variable remuneration payments in Q2.
Cash outflows from provisions amounted to 106 million euros in the first half. As already explained, they are still above the normalized level and mainly relate to the transformation and restructuring initiatives. This includes the exit from the TSA, the optimization of the fluorine business footprint and remaining spending on the Dombasle energy-transition project.
The free cash flow in the third quarter will remain under pressure from the above elements. But we are firmly focused on delivering our full-year free cash flow guidance.

On slide 14, let me remind you that our free cash flow in 2025, 2026 and 2027 is impacted by temporary transformation expenses, which include the stranded costs linked to the exit of the TSA, the restructuring of the fluorine business and the development and implementation of a new ERP. So looking at 2026, these expenses represent approximately €90 million of cash outflows. We could improve cash generation by slowing or postponing our transformation, but as already explained, we are convinced that continuing is the right decision, especially in these market conditions.

Moving now to net debt on slide 15

Underlying net debt stood at 1.8 billion euros at the end of June, temporarily higher than at year-end, reflecting the full dividend payment during the first half of the year, for 254 million Euro. Similarly, the leverage ratio temporarily increased above 2 times at the end of the quarter and should be back around 2 times year end. This is consistent with the confirmation in June by S&P of our BBB- investment grade rating.

Overall, our Q2 results reflect the challenges brought by the conflict in the Middle East, which we need to manage while continuing the transformation of the Group and maintaining a solid balance sheet.

Philippe, back to you for an update on our latest rare earth developments and the 2026 outlook.

Philippe Kehren, CEOPhilippe Kehren, CEO

Let me give you an update on our strategy regarding rare earths and the progress we're making in La Rochelle.
With more than 75 years of experience in rare earth separation, Solvay holds a unique position globally. We are the only company outside China with the technical know-how and industrial capabilities to separate all 17 rare earth elements, making us a central player in the discussions around the setting up of rare earth value chains outside of China.

Operationally, we continue to accelerate our developments.
To secure future feedstock supply, we recently signed a Letter of Intent with Viridis to source mixed light and heavy rare earth concentrates from Brazil, with deliveries expected to start in 2028. This agreement strengthens our long-term access to strategic raw materials and supports our growth ambitions. The feedstock includes key rare earths for permanent magnets, notably neodymium, praseodymium, dysprosium and terbium, supporting increasing global demand. It also contains an important distribution of additional heavy rare earths, used in critical advanced technology sectors such as automotive, electronics, medical and aerospace applications.
You remember we reached an important milestone in April 2025 with the start of production of magnet-grade light rare earths, specifically NdPr. This represented a first significant step in building a more integrated and diversified rare earth ecosystem in Europe.
Today, we are taking the next step by investing an additional €15 to €20 million in heavy rare earth separation capabilities, creating additional opportunities in high-value applications. This includes the start of industrial scale production of DyTb in the fall of 2026.
Overall, these investments reinforce Solvay's leadership in rare earths, strengthen European supply chain sovereignty, and position us to capture attractive growth opportunities in the energy transition and advanced technologies.

Moving to the outlook now: today we confirm our guidance for the year 2026. This guidance anticipates the restart of our Peroxides plant in Saudi Arabia before the end of the third quarter.
More specifically, we confirm that we expect:

- An underlying EBITDA between €770 and €850 million
- Free cash flow to Solvay shareholders from continuing operations to exceed €200 million, with capex around €300 million

So, in conclusion: We remain fully committed to our Essential chemistry strategy and to our transformation. This is obviously challenging given the difficult environment we have been facing over the past few quarters. However, we know it is essential to prepare Solvay for the future.
In our transformation, we do not forget about growth. We remain highly selective and disciplined, investing in areas where we have differentiated capabilities and where we see compelling long-term demand. This includes electronic grade of peroxides, for which demand is booming due to AI, and rare earths, where there is a clear need to develop independent value chains for permanent magnets.
Finally, we continuously evaluate the best possible way to create long-term value. One way to do it is to review our portfolio of assets and businesses and assess whether there are opportunities to improve its efficiency or reinforce it.
This combination of transformation, disciplined growth and active footprint management, is how we are building a stronger and more competitive Solvay for the future.

Thank you and we are now happy to take your questions.

Geoffroy d'Oultremont, Head of Investor Relations

Thank you, Philippe and Alexandre.
Gaia, you may open the line for questions.

Questions and answers

Katie Richards (Barclays)

Hi. Good afternoon. Two questions please. Firstly, could I ask your conviction on the Sadara Peroxides restart and whether your decision today to hold the guidance is just simply a binary call on this restart mid Q3 taking place or not, or there are sort of other factors taking place. I mean, listening to Dow's conference call, they were saying the plant is still offline and it had suffered some damage. So I'm just wondering whether the communication you'd heard was any different here. And secondly, you noted that some soda ash shipments were delayed from Q2 into July. Could you quantify the impact for us here?

Philippe Kehren (CEO)

Hello Katie, and thank you very much. Regarding Sadara, remember we are producing hydrogen peroxide that we supply by pipe on the platform where we are one of 23 units. We are currently actively preparing this restart for before the end of the quarter. And this is what basically we're getting prepared for. That's what I can say, and this is what we assumed. Regarding soda ash, it's true that there's been a little bit of delay in some of the shipments from Q2 to Q3.

Alexandre Blum (CFO)

We cannot comment precisely. It's really a logistic question. As you know, soda ash is exported by boat. So you quickly get big quantities if you have delayed shipments. In terms of top line, it's single-digit number of millions of EBITDA. What we mean is that on annual basis, don't expect a decrease or increase in soda ash volume, but one quarter to the other, you may have some phasing.

Martin Roediger (Kepler Cheuvreux)

Hello, Philippe, Alexandre, Geoffroy and team. I have one question with three sub questions. So you said that basically half of the €40 million year over year EBITDA decrease in Q2 is due to lower Peroxides volumes on the back of the Middle East conflict. I understand that roughly €20 million earnings decline is caused by the production stop of your HPPO plant in Sadara. So when I know that this plant accounts for 2% to 2.5% of group sales and has the highest margin and do the math, then my questions are the following. A, is it fair to assume that this plant generated around 40% EBITDA margin one year ago? B, this plant is now heavily loss making as you have costs, i.e. salaries, but you do not sell any products? And C, if there are losses right now, can you stop these losses of that plant in case the Middle East conflict lasts many years?

Philippe Kehren (CEO)

Thank you. So basically, we confirm that there is more or less a €20 million impact of the Middle East crisis for us in Q2. And that the plant in Saudi Arabia represents a big part of it. It is not the whole amount, but it's a big portion of it. As you say, the plant has been idle since mid-March. And we lose the sales and we also have some costs to incur. Clearly, again, and I repeat, we are today preparing for a restart. And this restart is supposed to happen before the end of this quarter. Now, as you say, if the conflict continues, if there continues to be problems and so on, of course there are a lot of different possible scenarios. We will explore all of them and get back to you with the outcome of those discussions.

Chetan Udeshi (JP Morgan)

Hi. Thanks for taking my questions. My first question is on the soda ash prices. The future prices for soda ash in China, it's completely collapsed. It's now at the lowest ever levels. I think the contract price in Europe is $300. The soda ash prices in China are now $130, $140. And I'm just curious, are you getting pressure from your customers in Europe who are using maybe imports from China as a reason to bring your prices down? Because I understand historically it's not been as economical to ship from China to Europe. But given where the price differential sits today, I don't know if it starts to become actually economical. And it just feels like this is the only one of the very few commodity products in chemicals where the Chinese exports into Europe really hasn't gone up that dramatically. And can that be a risk given the price delta?

Now, the second question was on this announcement or this capacity expansion that you're doing for rare earth separation. It still seems pretty tiny to me. It's like €15, €20 million in the context of large expansions happening elsewhere in that space. Firstly, can you confirm how much of that CapEx has been funded through by customer prepayments or subsidies or both? Or is this a net CapEx after some of these prepayments? And second, what do you still need to invest? I mean, it feels like things are still progressing rather slowly with rare earths on Solvay side.

And the last question is, do you typically have this €15, €20 million license income for HPPO? You didn't have it last year. Did you have any in Q2? And if not, do you expect that to come through in H2 and specifically when either is it in Q3 or Q4? Thank you.

Philippe Kehren (CEO)

Thank you, Chetan. So soda ash, I must confess that we're not looking too much at prices in China because we're not selling in China. And for us, what is more important is the prices in the export market. So in Southeast Asia, Middle East, Africa and Latin America, and they're higher obviously than the domestic Chinese price. But still, you're right, they are at a very low level, historically low levels. This is not new. And this, of course has been taken into account in our outlook. Does it put additional pressure in Europe? At this point, no. I mean, because it's still very difficult to ship Chinese soda ash to Europe, we don't see any Chinese soda ash right now in Europe because the transport cost is extremely high.

And so, our sites in Europe are still the best, with the Turkish ones, in terms of cost to deliver in their domestic market and that’s really what matters. However, it puts pressure on the volumes that are exported out of Europe and out of the US. This is why our seaborne business is currently not performing as well as it used to perform in the past years. And it also puts pressure on the US producers, because the US producers, including us, are exporting 50% of their capacity. And this is why you might have seen also that SVM has shut down its plant in California. That's a direct consequence of what's happening on the seaborne market due to Chinese overcapacity. So it has consequences, but not directly, at this point on our European or US markets.

Capacity expansion in rare earths, it might look small, but in reality, it's not. I mean, remember that we are revamping an existing plant. We are repurposing units that already exist. If you would have to do this type of investments outside of La Rochelle, in any location in the world outside of China, it would cost four or five times more. So we really need to keep that in mind. And this is why those investments are very interesting because they are built on an existing plant. And we are gradually building step by step a new value chain in this region.

You might have seen and I said that we've signed an agreement with Viridis to expand our options in terms of sourcing. And we are indeed signing new contracts with customers for these new NdPr, DyTb and so on type of rare earth elements. These investments are done because we have the commitment of the customers. This is why it's gradual. And we will move further with an objective to reach €50 to €100 million of CapEx in the end. And they are also supported to some extent by the French government. And they are

also in some cases prefinanced by our customers. So all this makes those investments possible and very promising.
Peroxides license, no, we don't have any revenue in Q2. We're pursuing a certain number of opportunities, but today nothing is secured, but this is taken into account in our outlook whatever happens.

Sebastien Afoy (Bernstein)

Hi. Good afternoon. Thank you for taking my questions. Two please on my side.
On Coatis, the Brazilian expected tariff rate was recently increased to the US and Chinese exports in other chemicals value chains are up in recent months. Does this make you less bullish on the prospect of recovery?
And on the EU ETS rule changes, does that change your need to make decarbonisation investments on your European soda ash capacity through the end of the decade to compete with lower carbon Turkish soda ash? And could more funding be available from Europe to help you make the investments? Thank you.

Philippe Kehren (CEO)

Thank you, Sebastien. So first question on Coatis, a big part of the recovery is due to the current geopolitical context and the consequences of the conflict in the Middle East that push margins higher and so on and so forth, and the logistic routes are being disrupted. So that being said, a part of the recovery was also boosted by the end of the tariffs. That's true. It was not the main part, but a part was coming from that. The previous tariff was 50% plus 10% of baseline. Now we move to 25% plus 10%. I think it's too early to say what type of impact it will have on our customers. So far, we don't see any change in the order book. But of course, we monitor this extremely carefully. But the new tariff is 50% of the previous one, so we need to keep that in mind.
The new ETS, I mean, first, it doesn't change anything on our ambition, let's be clear. Our ambition is to be carbon neutral by 2050. And we have a very clear trajectory in order to go there in the next 15 years. So the new proposal is, in fact, in line with our ambition. This is where we're comforted in our strategy is that the previous versions were too aggressive and putting us under pressure. The new version is in line. So that does not mean that we will go slowly. It means that we will go as planned. That's what matters. Now, will it create more opportunities? I think that's the purpose. Because what we're asking for is indeed more support for the energy transition to redirect the revenues from the ETS more towards energy transition projects than in the past. And I think this is what is also planned in the new draft that has been proposed by the European Commission.

Sebastian Bray (Berenberg)

Hello, hello. Good afternoon. Thank you for taking my questions. My first one is on the outlook as we move into 2027, because I'm struggling to think about how earnings growth can materialise under certain circumstances. So on the one hand, we've got Peroxides coming back. On the other hand, it's difficult to imagine scenarios where soda ash pricing is supportive in the next year. I imagine Coatis might be down a little bit as well. My point here is how exactly are you thinking about the prospects of achieving earnings growth in 2027 and reconciling that with the fact that the dividend won't be covered in 2026?
And my second question is just on seasonality into Q3. Is anything getting sequentially better or worse as we move from Q2 into Q3? Thank you.

Philippe Kehren (CEO)

Thank you, Sebastian. I will give the question on Q3 to Alex. In the meantime, just some elements regarding 2027. Clearly, it's very early to say anything about 2027 at this point. I mean, we're of course focused on

delivering the 2026 guidance. And we just confirmed our guidance, and we are focused on what we control and what we control is our transformation and we are moving in the right direction. We are delivering the savings that we expect in our transformation, both on our sites and at the group level. And we are doing what we have to do also in terms of growth. We're not investing a lot of money, but we invest where we have to invest. We mentioned electronic grade H2O2, rare earths. Those are examples that will help us prepare the future in 2027 in particular. Now on Q3, Alex, I give you the floor.

Alexandre Blum (CFO)

And maybe also to make the transition, this is why we thought it's useful to show you the slide again, with all our transformation expenses that we've decided to maintain. Even if the economic context is challenging, we said this year it should be around €90 million and next year should be in the tune of €50 million. So just this decision will improve the cash flow mechanically, whatever the context, by €40 million. And in terms of dividend affordability, I think it's an important piece of the equation.

Now, on the seasonality, I think you're alluding to the seasonality of the cash. We expect really the cash to be back ended in Q4 because we will continue to spend quite a lot of money on this transformation costs, restructuring, ERP in Q3. So the cash would tend to be quite back ended. What I want to make clear is that you see in H1, because the level of activity at the end of June was quite decent compared to a very low level at the end of December. So we've invested in working capital close to €80 million, and that will progressively reduce in the second part of the year. But obviously, it's really when activity gets very low at the end of around November, December that we should see a significant working capital decrease.

Julia Winckelmann (Bank of America)

Hi. Good afternoon and thanks for taking my question. First, on your full year EBITDA guidance, it's still a relatively broad range. Could you explain a bit more about what needs to happen to reach the upper end midpoint and the lower end of the range? And then same for the free cash flow guidance. What are the moving parts to get to above €200 million? Is it really mainly the working capital unwind or is there anything else?

And then my other question is on the rare earths business. I just wanted to understand the business a bit better. So maybe it would be helpful if you could quantify how large the rare earths business is today as percentage of group sales or percentage of Speciality Chemical sales. And then I also wanted to ask on the customer offtakes, which what kind of customers are these? Are they from automotive industry, defence industry or what industry are they from? And also, how are the agreements structured in terms of duration committed volumes, pricing and also the flexibility to any of those elements? Thank you.

Philippe Kehren (CEO)

Thank you. Julia. I will give you some elements on rare earths, and then I will give the floor to Alex on the range of the guidance on EBITDA for 2026. So the size of the rare earths business is more or less half of Special Chem. It's 8% of the group sales. Just to give you the order of magnitude of the size of the rare earths business. Historically, we've been serving markets for autocatalysis, electronics and medical applications. Now these new investments are related to permanent magnets, and indeed permanent magnets are for electrification.

So you have all these type of customers that you've mentioned, auto manufacturers, wind turbines, aerospace and so on and so forth that are looking for this type of material and indeed to invest, we need commitments from the customers because today this market is mainly delivered from China and there are enough capacities in China. So the type of commitments that we ask for, and that we get, in order to invest are volumes and prices through multiyear contracts. Alex, you want to take the question on the EBITDA?

Alexandre Blum (CFO)

Yes, I will be quite simple. Obviously, volatility is the name of the game. I mean, the same way the situation changed dramatically in one direction with the Middle East crisis. Can it move back in the other direction? Maybe. I think today what we've said is that the main impact is the HPPO plant being stopped. The rest of the impact is between Coatis, the cost of transport, the cost of energy,... It's slightly negative, but manageable. Can it turn positive? You have FX but there is not one specific element that needs to happen apart from the fact that we need to restart this HPPO unit and we are actively working on it to restart in the coming months. And we're confident in this.

Geoffroy d'Oultremont (Head of IR)

Thank you for your participation today. If you have any questions, please feel free to reach out to the IR team. We might be less reactive in the coming weeks given the summer break.
There are a few events planned for September. As usual, you can find them on the financial calendar page on our website.
Our Q3 earnings will be published on November 4. Thank you!