

# **Solvay SA (SVYSF) Q1 2024 Earnings Call Transcript**

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**Body**

Solvay SA (SVYSF)

Q1 2024 Earnings Conference Call

May 07, 2024 08:00 AM ET

Company Participants

Geoffroy d'Oultremont - Head-Investor Relations

Philippe Kehren - Chief Executive Officer

Alexandre Blum - Chief Financial Officer

Conference Call Participants

Alex Stewart - Barclays

Jonathan Chung - Morgan Stanley

Jaideep Pandya - On Field Research

Chetan Udeshi - JPMorgan

Frank Claassen - Degroof Petercam

Tristan Lamotte - Deutsche Bank

Jaideep Pandya - On Field Research

Presentation

Operator

Hello, and welcome to the Solvay Q1 Results Conference. My name is George. I'll be coordinator for today's event. Please note that this conference is being recorded and for the duration of call, your lines will be in a listen-only mode. [Operator Instructions]

I'd now like to hand the call over to your host today Mr. Geoffroy d'Oultremont, Head of Investor Relations. Please go ahead sir.

Geoffroy d'Oultremont

Good afternoon, everyone and welcome to Solvay's first quarter 2024 earnings call. My name is Geoffroy d'Oultremont, I'm the Head of Investor Relations. And I'm joined here today on the call by our CEO, Philippe Kehren; and our CFO, Alexandre Blum. The 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 risk 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

Thank you, Geoffroy and hello, everyone. Let's start with safety. As you know safety is a top priority for me and also for all my colleagues from the management team. Safe companies are successful companies. The beginning of the year has seen a continuing downward trend in accidents with eight recorded in Q1 2024 compared to 10 in the last quarter.

While this is encouraging it is still not enough for me. This is why we recently took further actions. These included ongoing work to fully comply with the Solvay life saving rules and to better address critical risks.

We see clear evidence of safety messages flowing down the organization and one of our major targets for 2024 is to increase the amount of time spent on the shop floor by all levels of management. Our target is very clear, it is zero accidents. Safety is in just one person's responsibility it is a shared commitment. Our people can count on us and we can count on them as well to keep focusing on safety every day.

Now Solvay has its first quarter as a standalone company behind it. And I'm personally proud of the progress we've made so far in 2024. First, we stabilized both our operations and our organization after the split. Second, we delivered solid results in the first quarter. And third, we refinanced the bridge loan inherited from the separation process.

Looking ahead, Solvay is now fully-focused on implementing its new operating model with a senior management team putting in place key measures necessary to rapidly deliver this new model which will bring significant efficiency benefits. Alex will come back on the detailed Q1 financial performance, but let me first give you some market context.

We clearly continue to experience uncertain macroeconomic conditions. There is no firm market trend, while the future recovery everyone is expecting has not yet materialized. Yes, we've seen evidence of green shoots in Q1 2024 across different businesses, but not yet enough for Solvay to be confident in signaling a structural recovery at this point in time. It is too early and we still have low visibility on the second half of the year.

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

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

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

Despite my previous comments, it does not mean that Solvay is not planting seeds to reinforce its growth potential. Look at what we achieved in Q1. We expanded the capacity in France and Italy to meet the rising demand for our bicarbonate gas treatment solutions Solvay Air and enhance the use of circular raw material across Solvay's facilities in Dorval, France and Rosignano Italy.

We expanded our capacity of hydrogen peroxide in China to meet the growing demand of photovoltaic-grade hydrogen peroxide. Coatis launched its innovative bio-based carbon neutral Augeo cleaning products for the US and the South American markets. We signed a memorandum of understanding in La Rochelle, France, reinforcing our strategy to establish a significant manufacturing footprint for the Rare Earth permanent magnets value chain in Europe.

And two weeks ago, we inaugurated in our plant of Rosignano Italy, a production unit for Alve-One, an ecofriendly chemical blowing agent designed to support the thermoplastic forming industry to increase its health and safety standards for the benefits of the people and the environment.

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

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

In Soda Ash, we have seen yield improvements. We also improved in Green River, Wyoming, the collection of the mine gas to use it in the dryers instead of bending or sending to incineration. We acquired a first set of 200 IoT devices that are being installed in the plants and will contribute to improve the efficiency of our processes. We have a simpler and leaner corporate organization with less layers of management than in the past.

Now that we have a more consistent portfolio of activities, we launched a spend review challenge to review and improve external costs such as maintenance. These are all examples of savings in variable and fixed costs. I could share many more examples but we will use our Q2 earnings call to deep dive into our various initiatives and explain how we will reach the €300 million target by 2028.

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

Alexandre Blum

Thank you, Philippe. Good afternoon, everyone. Before I present the Q1 financials, I would like to take a moment to thank our finance team for their accomplishments over the past few months. They have done an outstanding job managing at the same time the operational split of the company. Solvay's refinancing through the bond issuance and preparing our annual report in Q1 earnings. A big thank to our people.

Moving to the financials. Let me start by repeating, two important elements. First, the partial demerger was approved by Solvay shareholders at the EGM on December 8, 2023 and became effective on December 9. As a consequence, the group presents the specialty businesses and discontinued operation for the period prior to the partial demerger, in the consolidated 2023 income statement.

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

With that turned away, let's now review our Q1 financials and to add comparison, I will comment on an organic evolution meaning at constant scope and currency, unless otherwise stated.

Let's start, with Q1 sales. They were down 12% versus Q1 2023, mainly due to lower price in soda ash, but also to a lesser extent in other businesses, but surely reflecting lower energy and input costs. For June, we are slightly up in both segments, turning positive for the first time in seven quarters.

You heard Philippe saying, that the environment remained challenging. This improvement in volume, which I do not see structural yet is coming from the green shoots and restocking, we mentioned including for example, bicarbonate Peroxide in Europe or silicon.

Moving to EBITDA. It amounted to €265 million in Q1. This is 14% below Q1 last year, but it is up 7% sequentially versus the restated Q4 of €247 million. There are several drivers to this. As expected, the margin of our soda ash businesses reduced due to lower prices. But on the other side, our saving plan is starting to yield benefits. The volume were slightly higher and the corporate cost, which were low in Q1 at only €16 million reported EBITDA, thanks to the discretionary costs that were particularly contained, during the quarter. We don't expect this to repeat when the macro and business environment will normalize, and we confirm that the annual run rate for corporate costs is still expected to be between €80 million and €100 million.

Looking at the segment now, and basic chemicals on Page 10. Once again, soda ash and derivative 18% lower sales, year-on-year were entirely driven by lower prices. Soda ash volumes were essentially flat, and increased deliveries to seaborne market offset the volume. The lower demand in container glass application in Europe and North America.

Bicarbonate volume were slightly positive, year-on-year driven by food and pharma applications. Peroxide sales in Q1 increased 13% year-on-year, mainly from the consolidation of the sales of Peróxidos do Brasil as previously announced.

Organically, sales decreased 7% from pricing linked to lower energy costs, which was partly offset by volume recovery in most end markets especially, in Europe. The Q1 EBITDA of Basic Chemicals is down 22%, year-on-year, but only slightly down sequentially versus the restated basis of €207 million, due to lower soda ash net pricing partly offset by slightly positive volume impact and stable fixed costs. The EBITDA margin remained at a high level of 28%.

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Turning to Performance Chemicals on Slide 11. Silica sales for the first quarter were down 12% organically from lower prices due to formula indexation, while volumes were slightly higher in both tire and consumer and industrial goods market. Coatis sales we are down 12% from slightly lower volume year-on-year, but improving sequentially especially installments.

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

The EBITDA of the segment is down 16% organically with essentially stable volumes and fixed cost, but with a decreasing net pricing compared to the high Q1 2023, which was positively impacted by lag formula indexation -- by lagging formula indexation.

Moving to the free cash flow on Slide 12. This is clearly one of the key achievements of Q1. With €123 million of free cash flow generated in three months, we demonstrated how we can quickly react and adjust our cash spending, and particularly our discretionary CapEx.

A couple of additional comments. Almost all the CapEx in Q1 were dedicated -- essential CapEx. Half of the €45 million provision cash out is related to restructuring plans that were launched before the split and other small litigation settlements.

Thirdly, our tax cash out was low in Q1, and that's due to phasing of tax payment over the year.

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

Turning to net debt on Slide 13. Instead of going through the figures that should not present any surprise, I would like to come back to the refinancing of the €1.5 billion bridge loan we inherited from the split. We took advantage of the favorable market conditions at the end of March to issue a dual tranche bond with a full year tranche of €750 million and

[Audio Gap]

Question-and-Answer Session

Operator

[Operator Instructions]

Unidentified Analyst

€20 million benefit from fixed cost Philippe you talked about €19 million cost savings in your speech that might be a rounding difference.

But where do I find the adverse impact from cost inflation in this chart? And staying with that chart, the €8 million contribution from others, are these temporary savings? Or is that a net figure after deducting these cost inflation effects?

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The second question is, on let's say, yeah, near-term outlook assuming the macro environment is unchanged in the second quarter versus the first quarter. How do you see the chance that EBITDA in Q2 will be higher then the €265 million EBITDA you achieved in Q1, due to a, the normal seasonality and b, the ongoing cost savings.

And the third question is on, capital employed. It dropped from €4.5 billion in Q4 to now €4.1 billion in Q1, down by €360 million quarter-on-quarter. And the main driver seems to be investments in associates and joint venture which decreased by roughly €300 million quarter-on-quarter. Can you elaborate on that, please? Thanks.

Philippe Kehren

Thank you very much for the question. So I will start with your first one. So indeed, it's to be accurate. We're talking about €19 million of structural cost savings in Q1. That's mainly half coming from variable cost savings and half coming from fixed cost savings.

And I insist those are really structural cost savings. We also benefited in Q1 from some I would say non-necessary repeatable savings on our central costs. But the €19 million that we are referring to are really structural savings that will repeat.

On your second point Q2, so indeed, I mean we don't see today a big difference on our markets in terms of demand in Q2 versus Q1. We've seen some restocking effect in Q1. We will check if this -- how this evolves over the year, but we don't see any major change or any major recovery in Q2 versus Q1. However, we will continue to control our costs and our cash as we did in Q1 for Q2. So this is more or less how Q2 should look like.

I don't know Alex if you want to complement a little bit on the first two and then probably we will address the third question on the capital employed.

Alexandre Blum

Okay. Maybe on the second question on guidance, I mean we don't want to give too much of a precise guidance on Q2. I mean, we've seen over the past few months, I mean including December last year, how quickly in such an environment you can see volume shifting from one quarter to the other.

And really you should look at the full year guidance of being really the relevant one. We've seen geopolitical tension, climate events in Latin America all of that can impact the quarter.

On the third question, I will have to check. But normally there shouldn't be some major change in the capital employed. So maybe let me check on that and get back to you.

Unidentified Analyst

Thank you.

Alexandre Blum

Next question please.

Operator

Our next question will be coming from Alex Stewart of Barclays. Please go ahead.

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Alex Stewart

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

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

Philippe Kehren

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

Alexandre Blum

Sure. No. I mean the true in Q1, the interest cash up is a little bit lower than I would say the normalized interest cash out, which should be around €100 million a year on a normalized basis. That was included in our forecast. I mean this is the phasing of the interest on the bridge loan, so nothing unexpected for that. Again keep in mind normalized is €100 million per year.

Philippe Kehren

Thank you Alex. On the question on soda ash, it's true that I think China has been a net importer of soda ash for the past six months. And that's quite unusual. I mean, we very often say that China has a limited impact on the global market, because it is more or less balanced but it's true that normally, it's exporting on a net basis let's say between one million and two million tons per year. So now we see imports.

Is it structural? It's difficult to say. In my willing to the ramp-up of the new capacities and the fact that the Chinese industry is already restructuring its least competitive assets, I think we are not necessarily betting on this to continue in the long run.

In our model, I would say China is more or less has a limited impact I would say on the rest of the world. And we see it relatively balanced. So it's true that right now it allows the other players to sell a little bit in the Southeast Asian market. But globally the soda ash market will need capacities outside China in the coming years, but it does not change anything I would say on the view that we have on the evolution of the market.

Alex Stewart

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

Philippe Kehren

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

Alex Stewart

Thank you.

Operator

Thank you for your question. Our next question will come from Peter Clarke [ph] from Bernstein. Please go ahead. Your line is open.

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Unidentified Analyst

Yes. Thank you. I've got two questions please. The first one I hope I got cut off so I hope this wasn't asked before or you alluded to it. But the peroxide recovery in Europe, I'm just wondering how important and positive within that with the HPPO plant there which obviously had some difficulties beforehand in terms of the market. And then this probably has come up but the soda ash business and the seaborne volumes obviously we're helping the first quarter. Obviously it helped your utilization rate and overall margin or the profitability. Just wondering on the margin. And then just the last comment as on Coatis. Obviously Coatis you saw some sequential volume recovery. That seems to be less stabilizing just your feeling on Coatis? Thank you.

Philippe Kehren

Yes. Thank you very much. So indeed I mean peroxide in Q1 and not only on the HPPO so you mentioned Antwerp. So those are the plans. The mega plants supplying the probably the propylene oxide for the polyurethane chain. Its true that these ones run pretty high and I think that was – some restocking effect. But also the merchant segment so the segment that is for the pulp and paper and for you know disinfection. This segment was also strong. So yes, I mean that was a good surprise.

Again let's see if this materializes in the longer term. I think it's too early to say at this point. As you mentioned the seaborne market for soda ash was not bad. It was not booming. I mean let's be clear. It's not something big again. As I said before it helps us a little bit compensated the softness that we see on container glass in Europe, but nothing really, really big. So all-in-all there is no big surprise.

And your last question was on…

Alexandre Blum

Coatis.

Philippe Kehren

On Coatis. So indeed I think Coatis was clearly at the trough in Q4. It's picking up I think we are optimistic for the future of the activity. And we see in particular our integrated chain bringing a lot of value now that we've integrated both with the final on the solvent and on the polyamide chain and this integration is bringing a lot of value and we see the solvent market recovering pretty well.

Unidentified Analyst

Excellent. Thank you.

Operator

Thank you, Peter. We'll now be moving to Jonathan Chung calling from Morgan Stanley. Please go ahead, sir.

Jonathan Chung

Hi. Thanks for taking my questions. I've got two, please. So first one on your P&L, other gains and losses on net indebtedness, you recorded a €10 million gain on net indebtedness versus minus €3 million in the prior year quarter. Can you explain what is the driver behind this game, please?

Second question is on CapEx. I think you mentioned at the start of the call, done some circular raw materials and greenify your Soda Ash production. Can you give us a bit more numbers on how much of your CapEx is spent on decarbonizing your production base in Q1? And what is your expectation for the carbonization CapEx for this year and whether that's included in your guidance? Thank you.

Philippe Kehren

Thank you very much. I will probably start with the question on the CapEx and then if Alex can manage to find the right answer for your first question, I will give it in the floor. On the CapEx, you have a very good question indeed. I remind you that the decarbonization road map is absolutely key for us. And the CapEx corresponding to the decarbonization are included in our essential CapEx. And so that's included in the envelope that we estimate between €250 million to €300 million that we have to spend every year to maintain our assets to be compliant and also to do the energy transition.

More or less, you might remember that we communicate an amount of €1.2 billion over 20 years that we need for the energy transition. That's more or less 6-0, €60 million per year. Half of it is really CapEx for us and half of that is financed through third parties like we have already today in a few projects. So I would say, in our CapEx for this year, we have more or less €30 million of investments for decarbonization.

Alexandre Blum

Okay. On the first question, we find that this is linked to the revaluation of sales core share record for long-term incentive purpose. And with the share price appreciation in Q1, it created gaining of €9 million. That's the main driver.

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Jonathan Chung

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

Alexandre Blum

Sure. What I mentioned is that Q2, you have to expect the free cash flow being slightly positive, main reason for that is that we will have to pay variable remuneration. And on top of that, I also mentioned typically tax was a little bit low in Q1, that's quite usual and you have to make some payments to tax administration typically in Q2. So these two elements explain why the free cash flow should be zero plus in Q2.

Jonathan Chung

Okay. Thank you.

Operator

Thank you very much, sir. Next question will be coming from Jaideep Pandya calling On Field Research. Please go ahead.

Jaideep Pandya

Thanks a lot. I want to dig a little bit on the European side of the soda ash business. Could you tell us like in terms of European imports, where do you see the most competitive pressure from. Is this a U.S.? And what is really the if I flip it around, what is the transportation cost these days to ship soda ash out of U.S. to Europe? Is this north of $50 or is this sort of around $50? That's my first question.

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

And then my last question really on net pricing. Could you give us even some qualitative sense of how much was raw material/energy costs down in Q1 at the group level? Thanks a lot.

Philippe Kehren

Okay. Thank you very much. So regarding imports to Europe. Obviously, I mean, you might know that Europe is a net exporter of soda ash. So you have at the same time imports and exports but we have in Europe competitive plants, and in particular, the one that we have in Bulgaria that is able to export anywhere in the world.

The main flows imported to Europe are coming from Turkey, because the Turkish capacities, in particular, of those based on solution mining are competitive. Here you don't have any new volumes, I would say, this year versus last year. So this is a flow that has been existing since the start-up of those plants. And there is a sort of, I would say, equilibrium in place and so on.

So, I guess your question is probably more towards the US from what I understand. Indeed transportation costs are extremely high from the US, because the US production sites are in Wyoming. So you need first to bring the product to the port and then you need to put it on a ship and sail it to Europe, right? So that's why you don't see a lot of US imports.

Today historically, you've had some imports to the UK but that's a very specific situation. You don't see a lot of imports coming from US to Continental Europe. It's really minor, because the logistic costs are too high. To give you an order of magnitude the cost to bring from Wyoming to Europe is much, much higher than the production cost in Wyoming to produce 1 ton of Soda Ash. So it's much more than $50 to answer your question.

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And our sites, after the reorganization that we've done over the past 10 years, all of our sites are the best ones on their market in terms of delivery cost. So, if you take a site in France, a site in Germany or site in Italy, it is better than an import on a delivered basis.

Now, your second question was on the evolution of the volumes, I think between Europe

Alexandre Blum

Pricing.

Philippe Kehren

It was on volume or.

Alexandre Blum

No, no. The fact that pricing went down 19% and long-term…

Philippe Kehren

Sorry, it wasn't pricing. So, on pricing indeed the prices went down more or less 19% in Q1 on soda ash. And by the way, the main variation of the group's EBITDA between 2023 and 2024 is mainly coming from soda ash prices. Half of it is coming from, I would say, the decrease of our -- of the energy prices, because we have since the European energy crisis in 2021, implemented energy clauses that automatically pass through increases and decreases on our soda ash prices and half of it is coming from, I would say, the supply demand equation to give you an order of magnitude.

Jaideep Pandya

Okay. Thanks a lot. And then just on your...

Philippe Kehren

What was another question? I'll let Alex maybe address your last question.

Alexandre Blum

No. I think the last question was about raw materials and energy impact in net pricing. Actually, you can see it after the bridge, if you look bridge and EBITDA bridge, you can see majority of the decrease in selling price is linked to energy and raw material.

Jaideep Pandya

Okay. All right. Thanks a lot.

Operator

Thanks a lot for your questions, Mr. Pandya. Our next question comes from Chetan Udeshi calling from JPMorgan. Please go ahead.

Chetan Udeshi

Yes. Hi. Thanks. I had a couple of questions. First one, just look, if I go back, and maybe this is for Alex, you mentioned at the March conference call that you had certain delays in your separation costs. And I think from memory I had in mind €200 million of separation costs, which were still to be paid out this year. It seems your actual cash out in Q1 has been much less than that. So can you remind me, if there are any pending separation costs -- if there are any pending costs, which will flow through the cash flow in the remainder of the year? How much is the magnitude of those costs?

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

Philippe Kehren

Thank you very much, Chetan, I think I let Alex answer the first question, and I'll take the second one.

Alexandre Blum

Sure. Hi, Chetan. So in fact, what I mentioned at the time, it was about €100 million when we were looking at the bridge at the net debt at the end of 2023, and I mentioned that were slightly lower, indeed, €200 million lower than what was announced at the Capital Markets Day, and that half of that was linked to a Tier 2 cost that moved to 2024. So it was -- we're expecting about €100 million. We are trying also to optimize that.

And in Q1, we've paid about €50 million in Q1. So we expect less than €50 million to be paid over the next quarters.

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Philippe Kehren

Thank you. So I'll take the second one, Chetan, your question on the margins. Difference in the Basic Chemical segment and the Performance Chemicals segment, and that's true. You're right to say that at the trough the basic Chemicals segment is at around 28% EBITDA margin. What you need to keep in mind is that this segment is much more capital intensive. So you need those EBITDA margins. And I would even say, you need more if you want to have investments in new capacities.

Today, I would say the conditions are not there to have big investments. And you might see, I mean except, of course, the investments that are taking place in China probably under different assumptions. Those investments are not taking place today yet in the US, I think the players are waiting for the conditions to improve a little bit.

So this EBITDA -- higher EBITDA margins are required to get the right level of profitability and return on capital for the new investments to take place because this business are more capital intensive.

On the Performance Chemicals, it's much less capital intensive. And you might see that we are launching some of the investments for example, in Rare Earth or in Silica. Even though I would say the EBITDA margins are lower because the return on capital is there. And keep in mind also that Coatis is today really at the trough and that when it will have recovered, and we hope to see that coming in the next months, then we will also get a positive impact on the margin for the Performance Chemicals sector.

Chetan Udeshi

Thank you.

Operator

Thank you very much. We'll now move to Frank Claassen call from Degroof Petercam. Please go ahead.

Frank Claassen

Yes. Good afternoon, all. Have one question left on the cost savings initiatives. You achieved the €19 million in the first quarter. Can you elaborate what we can expect for the rest of the year? Do you have targets? What are the main projects, maybe some phasing? Could you elaborate on this? Thank you.

Philippe Kehren

Yeah. Thank you very much. In fact, we launched immediately our cost saving plan and it's true that we already delivered €19 million. And I gave some examples earlier in my presentation. We expect more savings to come quickly as well, because we are just starting our digitalization initiatives in the plants. I said we've already invested in 200 IoTs in our plants, but we will continue and we will accelerate on this point.

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

Frank Claassen

Okay. That's clear. Thank you.

Operator

Thank you, Mr. Claassen. You next question is coming from Tristan Lamotte from Deutsche Bank. Please go ahead. Your line is open.

Tristan Lamotte

Hi. Thanks for taking my question. Just one question please. It's on PFAS exposure which I know largely went to Science Co. I was wondering, if you could possibly give some color on your level of remaining exposure to PFAS. Do you have any provisions outstanding for this now? And which businesses have used PFAS-related chemicals? And is it just the TFA business? Thank you.

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Philippe Kehren

Yes. Yes indeed, it's only the TFA. So of course, we don't want to minimize this subject. We are taking this extremely seriously. It's true that all the fluoropolymer business went with Science Co. And in the current scope of Solvay, we have one business line with one product and some derivatives which is the TFA. TFA today is produced only in one side of the group in France. By the way, it's the only site in Europe that is producing TFA today. TFA is considered as a PFAS technically on a chemical structure point of view, I would say, but it is a two carbon molecule. So it's not a polymer. And in that aspect, it does not accumulate in the body. So it's not the same mechanism as some of the fluoropolymers that are classified as key facts of concern. So this is not the case for the TSA.

That being said, of course, we are fully compliant. We've always been compliant on our side. We have invested to reduce the TFA emissions from our side. And we continue to invest in order to reduce. What you need to know is that, for us, it's a very small business. It's only -- as I said the production in France. And keep in mind also that, it's an essential product. And it's used to produce Agro and Pharma products. So we need also to take that into account.

Tristan Lamotte

Thank you.

Philippe Kehren

Thank you, for the question.

Operator

Thank you, Mr. Lamotte. We do have a follow-up question now. It's from Jaideep Pandya of On Field Research. Please go ahead.

Jaideep Pandya

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

Philippe Kehren

Thank you, Jaideep. I will let Alex answer your question.

Alexandre Blum

With pleasure. So energy hedging, I mean the general framework I mean, when we look at energy exposure, the first thing strategically is really to do the energy transition and move away from carbonized energy that's the best way to reduce the volatility. Then we will try to hedge through commercial agreement meaning that our selling price reflects variation of energy. That's especially true since the European energy crisis, which may be possible for producer like us to absorb the energy price increases. And on the other side, we give more to make profit on the big-swing down of energy prices. So we progressively changed our contractual framework to have more natural exposure. And I think you saw it today in the bridge of sales and EBITDA that now large parts of the variation of the selling prices is linked to energy and to a lesser extent to raw material. So that would – I would be – that's the main line of direction.

And this is why when we say net exposure really what we will hedge financially at the end. This is what remains between the purchase, the selling price and certain contracts we may have on site where we resell energy to industrial partner. So we will hedge that remaining piece.

We have the objective to be largely hedged financially for the coming year. We will target – yes to have to be largely hedged but that's only a remaining portion. And in Q1 results you don't have significant gain on hedging. This is more to protect us against spike of energy that could occur during a few months.

Jaideep Pandya

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

Philippe Kehren

Yes. I mean we are exploring a certain number of projects on this field. Probably not so much sequestration in Europe, because it's true that we have caverns. That we could use but those caverns are better used I think for more profitable activities like storage of energy with the development of renewable energy production, it's very much needed to be able to store energy in those cavities but we are looking at CO2 capture projects indeed. And in other regions outside Europe maybe potentially also sequestration. Yes.

Jaideep Pandya

Thanks a lot.

Philippe Kehren

Thank you very much.

Operator

Sorry to interrupt you, sir. We do not appear to have any questions at this time. I'd like to turn the call back over to Mr. Geoffroy d'Oultremont for any additional or closing remarks. Thank you.

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Geoffroy d'Oultremont

Yes. Thank you very much. And before we close, there was a question at the beginning from Martin I think about the ROCE calculation, the decrease of the capital employed and more specifically about the movement in investments in associates and joint venture Alex.

Alexandre Blum

Yes. No it's a good question. In fact this is what we thought. So it's linked to [indiscernible] of the return on capital employed is calculated as the average of four quarters our Russian joint venture down the pipe. You also have to note that with the stock of energy activities that have reduced also at the energy third-party activity that has also contributed to reduce our capital implant.

Philippe Kehren

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

Alexandre Blum

Thank you.

Geoffroy d'Oultremont

Thank you.

Operator

Thank you. That will conclude the presentation. You may now disconnect. Have a good day and goodbye.

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