

# **Solvay SA (SVYSF) Q2 2024 Earnings Call Transcript**

Seeking Alpha - Earnings Call Transcripts

July 31, 2024 Wednesday

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**Length:** 8007 words

**Byline:** SA Transcripts

**Body**

Solvay SA (SVYSF)

Q2 2024 Earnings Conference Call

July 31, 2024, 08:00 AM ET

Company Participants

Geoffroy d'Oultremont - Head-IR

Philippe Kehren - CEO

Alexandre Blum - CFO

Lanny Duvall - COO

Conference Call Participants

Chetan Udeshi - JPMorgan

Martin Roediger - Kepler Cheuvreux

Matthew Yates - Bank of America

Peter Clark - Bernstein

Jaideep Pandya - On Field Research

Sebastian Bray - Berenberg

Jonathan Chung - Morgan Stanley

Alex Stewart - Barclays

Tristan Lamotte - Deutsche Bank

Presentation

Operator

Hello and welcome to the Solvay Q2 H1 Results Call. My name is Laura and I will be your coordinator for today's event. Please note this call is being recorded and for the duration of the call, your lines will be on listen-only mode. However, you will have the opportunity to ask questions at the end of the call. [Operator Instructions]

I will now hand you over to your host, Geoffroy d'Oultremont, Head of Investor Relations, to begin today's conference. Thank you.

Geoffroy d'Oultremont

Good afternoon. Thank you, Laura. Good afternoon, everyone, and welcome to Solvay second quarter 2024 earnings call. My name is Geoffroy d'Oultremont, Head of Investor Relations, and I'm joined here today on the call by our CEO, Philippe Kehren, our CFO, Alexandre Blum, and our COO, Lanny Duvall. 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 risks and uncertainties. The slides presented in today's call are also available on our website.

With that, I'll turn the call over to Philippe.

Philippe Kehren

Thank you. Thank you, Geoffroy, and hello, everyone. As always, we start with safety, a top priority for all of us, as you know. I like to say that safe companies are successful companies. Over the course of 2024, we've seen continuous improvement and a downward trend in Solvay's safety record.

I told you at our Q1 results that we have a target, to increase management time spent on the shop floor at every level, and this is happening, and this contributes to reinforcing the importance of safety across our businesses. My team has put in place clear measures as part of our Star Factory program, also supporting safety improvements. And we recently reiterated our commitment to safety as a founding element of our values and purpose at Solvay. Our target is very clear. It is zero accidents.

Now, moving to the second quarter results on Slide 5. Solvay has continued to perform well despite the challenging market environment. This is due to our continued financial discipline, as well as our continued focus on what is within our control.

Let me give further details. And first, an update on the market environment. You will remember that market demand deteriorated in the second half of 2023, with most probably the trough in demand that was reached in Q4, '23 last year. Following a slight improvement in the market environment in Q1 due to restocking and some green shoots, the underlying demand stabilized in the second quarter.

We were also able to capture some opportunities to generate additional EBITDA in cash. Solvay has a very resilient portfolio, and we serve multiple end markets. That helps navigate the current challenging conditions. For instance, in soda ash, construction in general and container glass in Europe remains soft. But this is offset by a continued growth in solar panels and lithium carbonate.

In our Performance Chemicals segment, which serves many different applications, our second quarter benefited from a favorable product mix, as for example, in our autocatalysis rare earth applications. So, taking a step back, we see our order book stabilizing during the quarter, but remaining fragile as well. And I will come back on this in our outlook later in this call.

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So, in this context, we focus on what we can control. Our transformation, which will deliver cost savings, and discipline in capital allocation. The transformation of the new Solvay is well underway. We clearly set out who we want to be and what are the foundations of our culture. We continue to deploy our new operating model across the organization, and the progress we have made in our transformation is best demonstrated in the delivery of €46 million of cost savings achieved since the separation.

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

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

Lanny Duvall

Thank you, Philippe, and good afternoon, everyone.

During our Capital Markets Day in November of 2023, we told you that one of the key drivers of Solvay's EBITDA growth would be the delivery of our cost savings program of €300 million. Seven months after the demerger, it's the right time to dig a bit deeper into the program, and also explain where and when we will deliver these savings.

Moving to Slide 7. First and foremost, this is about transforming Solvay. We're a new company with a more focused portfolio and different priorities than the old Solvay. Consequently, we need to transform and to adapt our processes. Today, you will hear me use two words that are key in this transformation, simplification and digitalization. The demerger has allowed us, to leverage these areas in ways that were not possible before.

Let's start with our plans. In last year's Capital Markets Day, we explained how Star Factory will help us shape the plans of the future. Today, I'm very happy to say that 90% of our plans, have started their Star Factory journey. And their roadmaps cover all dimensions of safety, productivity and sustainability. For our plans, Star Factory is the central in our transformation.

Now the organization. We've evolved the organization from one that was designed to manage the complexity of both a specialty and an essential business. In the new Solvay, we aim to create a new organization that has a lower cost base. We're able to move towards creating a more cost-effective organization and continue to optimizing our industrial footprint.

And later, with the new ERP, will allow us to even further simplify our organization. To be able to deliver these savings, we need the right people with the right capabilities. And the really good news, is that the people in Solvay are very talented and dedicated to transforming Solvay.

Moving to Slide 8. In terms of timing, we see two phases. The first phase has already started and we focus on our plans. Mainly fixed and variable cost savings with some optimization within Solvay's central SG&A functions. After two years, we expect to deliver €150 million of the €300 million target. This is not based on vague plans. This is supported by a set of initiatives that, are already proving to generate value.

And digital plays a significant role. In the second phase, we'll continue to work on the efficiency in our plans, but you will see an acceleration of the savings related to SG&A. The second phase will be made possible by the end of the transition services agreement with Syensqo and the implementation of the new ERP. I have strong confidence in our cost savings plan. We have a significant pipeline of savings projects. We have invested in our digital infrastructure, and the focus of our people is clear.

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Let me give you some concrete examples in the next Slide 9. We have structurally changed the way that we're managing our industrial data. And this has allowed us to implement several of these initiatives at scale. The first one is around condition-based monitoring of our assets in our plans. We have now implemented 800 IoT devices in our plants. By the end of the year, we expect to have 2,000 devices installed.

And within the period, we expect to have greater than 5,000 devices installed in our plants. This allows us to fundamentally change the way we manage our assets. And we know from examples already within Solvay that every one of these IoT devices saves us money. The second example is around how we manage our operation. We're setting new standards in the way that we manage our operations, through a process that we call process control excellence.

This program is really transforming the way we manage our processes, leading to improvement in productivity, cost savings, and equally important in sustainability. In this example, we changed the way that we're managing a turbine. And we built a model around how we're managing the constraints, and also maximizing the energy production. In this one example, it has allowed us to increase the amount of energy production from this turbine, generating more than €600,000 per year of savings.

Last but not least, in SG&A, we're taking advantage of the split to review, and simplify the number of legal entities that we have. We're also looking at our office footprint and optimizing both our offices, and our industrial footprint. We recently decided to stay in our current campus, but refocus into one building, allowing us to regroup all of our people working in Brussels into one unique building. These are only a few examples of a pipeline of more than 1,000 concrete measures that we are implementing across the company.

Moving to Slide 10. We have already delivered €46 million in the first half. We've accelerated and worked quickly on these savings measures after the spin-off. This is why I'm confident that we will reach €80 million over the course of 2024. We intend to update all of our stakeholders and the market regularly on our progress. We will update you again during the Q4 earnings call.

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

Alexandre Blum

Thank you, Lanny, and good afternoon, everyone.

Moving to financial, let me start by reminding you the two important elements we have to repeat through 2024. First, following the partial demerger on December 9, the group present the specialty businesses a 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 in 2024, which are important to consider when comparing with last year. So I invite you to go back to the values communication that are available on our website. Let's now review our Q2 financials. And to add comparison, I will comment on the organic evolution, meaning a constant scope and currency unless otherwise stated.

Moving to sales on Slide 12. In the second quarter, they were down by 7% versus Q2 2023, mainly reflecting the lower prices in soda ash and the lower energy and input costs in some other businesses. But volumes were up 4%, continuing the stabilization trend we started to see in Q1 of this year.

Moving to EBITDA on Slide 13. It amounted to €272 million in the second quarter. This is minus 17% below Q2 last year. Volume had a 9% positive impact thanks to the stabilization trend, we continue to see in Q2 and some favorable product mix, and opportunity captures such as in Special Chem as Philippe previously mentioned.

As expected, net pricing year-on-year was negative, mainly due to the lower prices in soda ash. Cost saving also contributed to the EBITDA resilient performance as already highlighted by Lanny. This quarter includes a provision of €18 million in relation with our coal phase-out project in Dombasle, France. These provisions come on top of €11 million in Q1 and €49 million in 2023.

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This project started in 2019. And since then, we had to face several headwinds such as the COVID, the European energy crisis, and the consequences of the conflict in Ukraine, which all resulted in difficulties for our contractors and subcontractors. The provision reflects the recent full assessment, reassessment that we performed, and we can now confirm that the project is expected to be completed by the end of 2025.

Let me remind you that this project is one of the largest CO2 reduction projects in Europe, and that it will mark the complete coal phase-out of Solvay in France. We remain completely focused on our energy transition, and the ongoing projects in the U.S. and in Germany on time and on budget. Overall, for the corporate EBITDA in H1 and Q2, the negative impact of this provision has been more than offset by both the non-structural and structural savings.

Looking at the segments now, and starting with Basic Chemicals on Slide 14. Sales were down in this segment by 6%, with higher volumes of 9% being more than offset by the negative price impact of minus 15%. In soda ash and derivatives, we saw higher volumes, including in bicarbonate, but sales were lower by 11% for this quarter due to prices.

For soda ash, demand continued to be strong in the seaborne market, but this was partly offset by the reduced demand from container glass in Europe. As for bicarbonate, the continued progression of volume was supported by the feed and flue gas treatment application. Peroxide sales increased by 5% organically and by 29% if we include the consolidation of our JV Peroxidos do Brasil sales from 2024.

Volumes were up year-on-year in all end market, merchant, HPPO and electronics. The EBITDA of the Basic Chemicals segment amounted to €194 million, down 27% in Q2 2024, following lower net pricing and despite the positive volume impact and lower fiscal. The EBITDA margin reached 27.3%, decreasing 10% point compared to the record high of Q2, 2023.

Moving to Performance Chemicals on Slide 15. Payment sales in the quarter were down 7%, compared to Q2, 2023, mostly from lower prices in line with price indexation. Silica sales decreased by 8% with formula indexation impacting prices. Volumes were higher in the tire application as well as in consumer and industrial goods markets. Coatis sales were down 5% as well, but so improved market conditions.

Net pricing improved year-on-year and sequentially in a lower cost environment. Special Chem sales were lower by 9%. Overall product mix improved with volume up in rare earth and fluorine automotive market and in rare earth healthcare application, while they were down in the other fluorine end market.

In electronics, volumes were down year-on-year, but improving sequentially. EBITDA of the segment was plus 11% to €101 million, thanks to the favorable product mix in Special Chem and the lower fixed cost, while net pricing was essentially flat. The EBITDA margin increased by 1 percentage point to 21%.

Before moving to cash, I would like to put in perspective our second quarter performance, focusing on the sequential evolution of our EBITDA performance and EBITDA margin on Slide 16. I remind you that the first half of 2023, was still very strong, while the second half saw clear contraction, both in price and volume.

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

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

Moving to the free cash flow on Slide 17. Our free cash flow was again strong in the first half. Let me highlight the following elements behind this performance. First, the EBITDA of €538 million.

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

Third, the working capital. We continue to be very disciplined in managing it. The €60 million cash out that you see in H1 being mostly explained, by the seasonality linked to the bonus payment that you see every year in Q2. Philippe will come back on what we expect to see for the second half, but I can tell you that we have already accelerated our investment, which will translate into cash out in the coming months.

In H1, our CapEx amounted to €108 million. We certainly remembered our capital allocation slide from the Capital Market Day, where we explained that our essential CapEx, which includes safety, maintenance, leasing, regulatory CapEx, and energy transition, is between €250 million and €300 million every year.

Besides, considering our good cash management, we will also have the opportunity to invest very selectively in some discretionary projects. To put it simply, it means that our CapEx in H2 will be directionally two times what you saw in H1.

Finally, turning to net debt on Slide 18. Two comments here. You see that the free cash flow that we generated in the first half of the year, is pretty much covering the dividend outflow. Secondly, you see that we have over €70 million of cash-out that were still related to the separation project.

I expect that number to reach approximately €100 million for the full year. As a consequence, our financial debt and long-term provision remain very well aligned with what we committed to during the Capital Market Day presentation last year.

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

Philippe Kehren

Thank you. Thank you, Alex. So, where do we go in the second half? I will start with the demand. First, as already said, we don't see a recovery yet in the market. Overall, demand is expected to be stable in H2, compared to H1. Second, the visibility of our order book continues to be relatively short, which adds a level of uncertainty.

Now, with this in mind, on the pricing side, nothing new. Prices are in line with what we expected, lower in soda ash, and resilient in the other businesses. On the cost side, the savings first, we generated €46 million of savings in the first half. We expect to generate €80 million over the year, as Lanny set out earlier.

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We started the year in a very prudent way, and reduced the discretionary spending to a strict minimum. We now expect to spend a bit more money in the second half of the year, for our transformation and especially for our digitalization programs, which are key. Consequently, all this leads us to tighten the range of our guidance of organic growth of EBITDA from minus 10% to minus 20% to minus 10% to minus 15%, which translates into a range of €975 million to €1.04 billion of EBITDA for the full year 2024.

Beyond that, we decided to upgrade our guidance of free cash flow to Solvay shareholder's, from continuing operations from more than €260 million to more than €300 million. And this includes an acceleration of our CapEx to reach between €300 million and €350 million of investment for the full year. This acceleration is explained by the investments we intend to make for our transformation, and also for some growth projects on top of the essential CapEx that you now know.

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

Thank you for listening, and now I think we'll take your questions.

Geoffroy d'Oultremont

Thank you, Philippe, Alexandre and Lanny. For the Q&A session, may we ask you to ask one question so that - we have some time for everyone. So, Laura, now you may open the line for questions.

Question-and-Answer Session

Operator

Thank you very much, Geoffroy. [Operator Instructions] Thank you. We will now take our first question from Chetan Udeshi of JPMorgan. Your line is open. Please go ahead.

Chetan Udeshi

Yes, thanks for taking my question. Sorry, Geoff, I am first. I'll try to ask two if possible. Just in terms of Q1, sorry, Q3 now, how do you see the trends as we think about EBITDA from Q2 to Q3? I mean, the struggle we have at the moment is just to understand what, is the seasonality of the new Solvay. And so, if you can just update us on how you see Q3 when we look at EBITDA versus Q2, and also what is the typical seasonality do you have in mind that you have in mind for Q4, given that most companies in the sector, tend to have pretty sharp reduction in earnings in Q4 versus Q3. The second question was on these provisions that you have taken for the cost overrun. It seems quite big, because it has been ongoing since last year, and it seems it is totaling more than €100 million already. And if I am not mistaken, the cost of this project was like €200 million. So, can you remind us what exactly happened here, and why we should not be worried that this might be an issue with all your other energy transition projects? An associated question is, are these provisions now final? So, we should we expect no provisions in H2 anymore? Thank you.

Philippe Kehren

Thank you very much, Chetan, for the questions. I will answer the first one and then probably give the floor to Alex for the second one and complement if necessary on the broader question of the energy transition. So for Q3, very good question. I mean, what we see clearly today on our volumes is a stabilization. Clearly, Q4 last year was the trough. We had some green shoots, and in Q1 and we see Q2 in line with Q1.

And when we look at all the book, we see Q3 very much in line with Q2 as well. So, we do not see any big movement. Our cost savings, our cost saving program is delivering well, probably a little bit faster than we thought, and that is good. That is very good. On the other hand, as we said, we also have to spend a little bit of money, in the second part of the year for our transformation, for digitalization, for IT, digitalization and so on.

So, this will probably balance very much. And, yes, I think that is why we see, a sort of continuity. We cannot rule out some destocking effects. Let's face it. This can happen in particular during the summer, or at the end of the year. So, this is why today we, I would say, confirm the guidance and tighten it, tighten it, because I think we de-risked the first part of the year. We still have some uncertainty for the second part of the year.

So, I think the minus 10%, to minus 15% of organic evolution between 2023 and 2024, is reflecting today what we see for Q3 and Q4. Now, maybe I give the floor to Alex for the provisions on [Dombasle] energy and I can complement if necessary.

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Alexandre Blum

Yes, hello, Chetan. So, the total number - the total amount for the provision is €78 million. I will give the amount for - we want it to be transparent on the impact. We have done over the past few months a full reassessment of the project. So, obviously, we think - we estimate this is final. We have reorganized the project. We have re-stabilized the relationship with the main subcontractors.

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

Philippe Kehren

Absolutely. I mean, you said everything. I think, Alex, I just want to add that this is a great project. Really, it's the biggest of its kind in Europe. I think it's today probably one of the biggest CO2 emission reduction projects that we have in Europe. As you said, Alex, I mean it's complex, a lot of stakeholders. We are doing the EPC, so this is why - I mean, we are not investing ourselves, but we have a responsibility in terms of management of the CapEx.

So, this is why we decided to provision to the right level, I would say, and - as you said, we are today comfortable with this number. This is why we publish it, because we did our homework and did it, and it does not have at all the same - we don't have at all the same type of issues on the other projects, in particular the ones in Germany and in the U.S., which are on time and on budget.

Chetan Udeshi

Thank you.

Philippe Kehren

Thank you, Chetan.

Operator

Thank you. And we'll now take our next question from Martin Roediger of Kepler Cheuvreux. Your line is open. Please go ahead.

Martin Roediger

Yes, hello. Good afternoon. On net pricing, it was minus €102 million effect on EBITDA in the second quarter. Here I have a clarification question to Alexandre. What was the net pricing effect if you compare the second quarter, with the first quarter at group level? Was it stable, or slightly up and sequentially? I mean, and maybe if I allowed to squeeze in another small question on the depreciation/amortization charges in Q2, which are sequentially downwards Q1, is the Q2 number a good run rate for the upcoming quarters? Thanks.

Philippe Kehren

Alex.

Alexandre Blum

Yes, thank you. Thank you, Martin, for the question. I think you - yes, we'll continue with that question. Thank you. So, yes, hello, Martin. So for the G&A, I think the run rate should be around €330 million per year. I don't have the number in front of me for Q2, but €330 million is the right number for the full year. Regarding net pricing, it's hard to talk about net pricing sequentially.

But indeed if you look here on the net pricing of Q2, is much more negative, because Q2 2023 was the peak. So, I would say, broadly speaking, if you look really the fundamental of the market, the net pricing of soda ash, silica, where we have also a multiple - a multi-year contract, I mean, fundamentally it has not changed much. However, I would say the only thing that probably changed a little bit between Q2 and Q1 is the fact we have improved the product mix. So we sold a little bit more of products with high margins, and that has helped to probably overall improve.

Martin Roediger

Thank you.

Alexandre Blum

Thank you, Martin.

Operator

Thank you. And we'll now take our next question from Matthew Yates of Bank of America. Your line is open. Please go ahead.

Matthew Yates

Hi, afternoon, everyone. I'd like to take the opportunity to ask Lanny a question, if that's okay, about the details presented today, because I find it fascinating that you're probably one of the first companies in the sector, to talk about this idea of digitalization and what can be done. So firstly, from a financial perspective, can you explain how the cost of rolling out this program works? Is this a one-off investment in sensors and software, or is it more of a kind of recurring cost, whether that be licensing or something else each year? And then in terms of the benefits of this program, can you explain a little bit what part of collecting, or perhaps more importantly, using the data is seen as proprietary to Solvay, and something that your competitors wouldn't be able to replicate in due course? Thank you.

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Lanny Duvall

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

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

And the reason I say that is, because 70% of our assets are based upon repetitive technologies. So implementing an improvement in one peroxide plant allows us to then take that learning, and implement it in all of our peroxide plants. Implementing that learning in a soda ash plant in the carbonation section allows us to then take it to all of our plants.

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

Philippe Kehren

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

Matthew Yates

Thanks, Philippe.

Philippe Kehren

Thank you, Matthew.

Operator

Thank you. And we'll now move on to our next question from Peter Clark of Bernstein. Your line is open, please go ahead.

Peter Clark

Good afternoon, everyone. Thank you. I've got two, I'm afraid. First one on the CapEx, you say you brought it down to the bare minimum in the first half. I'm just wondering where we stand on the Green River expansion and what's going on in the space in terms of the soda ash. And then on the soda ash again, obviously, the seaborne market and the volumes there are helping the utilization rate. But looking at soda ash specifically, you're pointing at the container glass market still soft, as it's been for quite some time now, which is high margin. I'm just wondering how much of a mixed drag there is in terms of the margin drag you have. I know most of it's about pricing and volume pull stock, but I'm just wondering about the underlying mixed drag of that seaborne versus container glass as well? Thank you.

Alexandre Blum

Thank you, Peter. So on Green River expansion, we are completing the project. And let's face it, I mean, most of it is already spent. And so, it's when we say that we are trending towards €300 million to €350 million CapEx, the completion of our Green River project is included in this envelope. In terms of soda ash and container glass, it's true that strangely enough, container glass is relatively soft.

We still believe that this is a more of a short-term headwind, because container glass should do well in the mid to long-term. But in the short-term, it's facing some headwinds. This has, I would say, an impact, but a moderate impact on our soda ash business, because it's mainly compensated by the fact that other segments such as lithium carbonate, or solar panels are compensating, offsetting a little bit this downward situation on container glass.

Peter Clark

Okay. Thank you.

Alexandre Blum

The beauty of soda ash is that it's a variety of the end markets, really.

Peter Clark

Sure.

Operator

Thank you. And we'll now take our next question from Jaideep Pandya of On Field Research. Your line is open. Please go ahead.

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Jaideep Pandya

Thanks a lot. First question, apologies again on soda ash, but could you give us some indication how pricing has evolved in the first half between the three buckets you have? So seaborne, some of the long-term contracts, i.e. the multi-annual and the annual contracts. And given the fact that, not just for soda ash, but for a lot of chemicals right now, we are in a bit of a deflationary phase. Should we not expect another round of price decline in 2025, given the market looks like it's going to be balanced, or more than balanced? That's my first question. And then the second question really around your rare earths business, are you starting to see any changes to the strategy, also in terms of customer reception and pricing premium? I'm just trying to understand, the old Rhodia used to have a relatively volatile, but a relatively, larger exposure to rare earths. What is the new Solvay's view, especially under the current geopolitical backdrop for rare earths? Thanks a lot.

Philippe Kehren

Thank you very much, Jaideep. So how prices are evolving in 2024 on soda ash? I would say for us, they are not evolving significantly, because we've, prices are mostly locked on a yearly basis. So that's why we have, I think, a good visibility of what's happening also and what will happen in Q3 and Q4. And the variations and all the volatility, I would say, is only on part of the seaborne volumes.

And this is something that we know how to manage. We manage volume versus prices, depending on the situation and on the market, and the opportunities that we have. So I would say visibility is good '25, very early to say. What I can say is that in the longer term, soda ash is demand, it is will grow. We know that soda ash demand is supported, by the big trends of this world. Glass is needed. Detergents is needed.

Solar panels needed. Lithium carbonate needed. Even if we have a short-term headwind on batteries, electrification will not stop. And it can slow down for a few weeks or months. But in the next years and decades, it's absolutely necessary, if we want to reach carbon neutrality. In the same way, bicarbonate, depollution, pharma, all this is needed. So at some point, the market will tighten and, because the demand will recover.

At current level of prices, and I'm not talking about, the impact of deflation, because this is reflected in our prices and it's reflected in our costs. What matters is margin, right? It's not the price itself. Our margins are very robust on soda ash, but I can tell you that they are barely enough today to reinvest in capacity. So if we can demand - it's picking up and if capacities are again needed, margins will need to increase a little bit.

That's my only point. But today, clearly, for giving precise information about '25, I think it's a little bit too early. Very good question. So today, we are serving the auto catalysis market. So for internal combustion engines, car, we are serving electronics, and we're serving also to some extent the medical applications with high purity products. And on those markets, and particularly on the auto catalysis market, which is doing very well, right now, we are the leader, right?

So we have a good position on those markets. The question that we have today is to repurpose potentially our business and in particular our plant in La Rochelle that has been operating for 75 years. So here again, we have a strong expertise in this domain to repurpose it, to serve the permanent magnetic market. This is not the case today, but we have a plant, we have the know-how, we have everything in place.

Provided we invest a little bit of money to convert some of the units to produce rare earth elements for the permanent magnet. Today, this is exclusively supplied from China. It's a strategic value chain because again, this serves all electrification projects, and in particular, electric motors, wind turbines, and so on. So, we feel that there is a push today to de-risk this sourcing, and that's in particular the purpose of.

For example, the Critical Raw Material Act that has been voted in Europe. We are there. If we want to do that, we are there. We will start next year producing the first tonnes, so we are ready to invest a little bit of money to launch the process, and to work with our future customers to see if it works, and it will work, of course. And then investing more money, this will depend on whether the value chain exists, meaning if we have the right level of support from our customers and from the regulators.

Jaideep Pandya

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

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Alexandre Blum

Well, I mean, those are very critical markets. We just communicate on the speed of our top line and not of the EBITDA, so I will probably disappoint you with my answer, but stick to that.

Jaideep Pandya

No problem. Thank you so much.

Alexandre Blum

Thank you. Thank you very much.

Operator

Thank you. And we will now take our next question, Sebastian Bray of Berenberg. Your line is open. Please go ahead.

Sebastian Bray

Hello. Hello. Good afternoon and thank you for taking my questions. The first one is just to ask for a clarification of an earlier statement around the stabilization of volumes in Q3. Based upon what Solvay sees today, is it likely that the business environment in Q3 in volume and pricing terms resembles that in Q2, i.e., should we, is it reasonable to expect a fairly similar quarter in terms of profitability? And my second question is on the soda ash market more broadly. The China spot prices have come down more recently and I know that this is not necessarily immediately relevant for Solvay, but are there any indications that the issues that have beset, the capacity brought to market in Inner Mongolia in terms of iron contamination have been resolved? And is it still your base case assumption that we are going to see pricing inflation in the market in 2025, i.e. for 2024 was the trough year for soda ash and Solvay? Thank you.

Philippe Kehren

Thank you for the question. So yes, what we see clearly is in Q2 a confirmation of the volumes that we've observed in Q1 in all of our markets. And we see, from what we see today in our order book, Q3 is of the same vein. We were able to see some opportunities in Q2 on some of our markets, in particular in Special Chem. So we will see if this will continue in Q3.

But all in all, yes, don't expect big changes other than the ones that are, I would say, in our control when we decide to - take or not some of the volumes. For soda ash, frankly speaking, I'm not sure that the iron issue is solved. We will see. I mean, you can maybe also see with the analysts, if they have some information on this. Indeed, we're not very much impacted by what's happening today in China.

China has been importing. Now it's more balanced. I mean, we will see how this evolves. But I don't expect in the future to see more or less impact from China on the rest of the market.

Sebastian Bray

That's helpful. Thank you for taking my questions.

Philippe Kehren

Thank you, Sebastian.

Operator

Thank you. And we'll now move on to our next question from Jonathan Chung of Morgan Stanley. Your line is open. Please go ahead.

Jonathan Chung

Hi. I've got one question on your cash flow for second half. Looks like you're going to spend a bit more money on CapEx in the second half. So in what scenario do you see yourself landing in the upper end of that CapEx range? And similarly, what takes you to the lower end? Can you talk about the building blocks in your free cash flow bridge first half versus the second half after interest? And then related to the interest cost, I know that your net interest cost is €10 million higher in Q2 versus Q1. So can we assume the €28 million is the new run rate for the year? Thanks.

Philippe Kehren

Thank you. Thank you, Jonathan. I will let Alex take your questions.

Alexandre Blum

Okay. So first one, I'm sorry, the line was not perfect. So we intend to - but we have already started to relieve some investment, okay, but you know there is always a lag between the moment you really have investment and you have really the cash-out. So I would say the high end of our CapEx range is both that, okay, we are successfully carrying out all the investment, meaning we are able to mobilize the team and the suppliers to work on our project.

And second and most important, as you have seen, we are very reactive and we adapt with the environment. It's one it so different - the challenging in uncertain environments. I think the new company will win down. If we continue to see the stabilization that Philippe was mentioning earlier, we will be confident in releasing the CapEx. So I would say, yes, that's the two main factors that could lead us to the high end of the €300 million, €350 million.

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I think interest expenses, fundamentally the run rate of interest expenses from the - as you know, we have done some refinancing this year. We had bridge loan and so on. So I recognize it's maybe a little bit difficult to read the run rate, but fundamentally it should be around €100 million per year.

That's the number you need to keep in mind for interest financial costs. This year, because of the coupon phasing, the one-off payment, we probably be below that number. I hope Jonathan answered all your questions.

Jonathan Chung

Yes, okay, thank you.

Alexandre Blum

Now tell me if we forgot one, because the line was not good.

Jonathan Chung

Okay. Good. Thank you.

Alexandre Blum

Thank you.

Operator

And we'll now take our next question from Alex Stewart of Barclays. Your line is open. Please go ahead.

Alex Stewart

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

Philippe Kehren

Yes, absolutely. I think, yes, indeed it's a very good performance. We've seen, I would say, good volumes in specific markets, in particular in silica, clearly, silica for tires, but mostly in Special Chem. Autocatalysis was very strong. This was not necessarily completely expected, but you know what's happening today between electric vehicles and conventional cars.

So yes, autocatalysis was really strong. I mean there's probably a little bit of phasing in this, maybe a little bit of restocking. We don't know. And we also had some good sales in some of our niche markets like rare earth for medical applications. So I mean this is good. This is good. Will it repeat, frankly speaking, we don't know. We don't assume this will repeat every quarter. But obviously, if there are opportunities, we receive them.

Alex Stewart

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

Philippe Kehren

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

Alex Stewart

Okay. Thank you. And just one other question, if that's okay. Going back to this provision for the investment in France. I think at the time of the separation, you gave us the guidance that the corporate cost would be somewhere around €80 million to €100 million. You're on track to do that this year even though you've got several tens of millions of provision.

Should we therefore think about normalized corporate costs being more like €60 million, €70 million? In other words, 30% below what you had highlighted at the end of last year. Again, this is very hard for us to model properly because we don't have a track record. Thank you.

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Philippe Kehren

Alex --

Alexandre Blum

Thanks for that. Yes, sure. And I recognize that we are trying to put as much as possible the one-off elements in -- a nonbusiness-related one-off element in corporate, but that's created some volatility. €80 million, €100 million remain the run rate. As we will roll out our saving programs, this run rate should improve. But I think this is the right number today for the moment, probably closer to, hopefully, €80 million than €100 million.

This year indeed the Dombasle project had a negative impact in H1, but this was fully compensated, fully offset by nonstructural and structural selling. So I mean, when you take these two elements, it has a neutral impact on CBS. Then in CBS, I'm sorry, in the corporate segment, you have other elements that can create a little bit of volatility. So that's why for modeling purpose I recommend to you the €80 million to €100 million.

Alex Stewart

Thank you so much.

Alexandre Blum

Thank you.

Operator

And we'll now take one last question from Tristan Lamotte of Deutsche Bank. Please go ahead.

Tristan Lamotte

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

Philippe Kehren

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

But when we look at our order book today, it looks pretty much in line with what we had in -- since the beginning of the year. And again, keep in mind that our order book is more short term probably than in other types of activities. So we don't have a view over several months. So nothing really concrete today pointing towards destocking effects, but it's a risk and very limited seasonality generally speaking, in our businesses. Does that make sense, Tristan?

Tristan Lamotte

Yes. Great. Thank you.

Operator

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

Geoffroy d'Oultremont

Thank you, Laura, and thank you all for your participation today. After the summer break, we will be in different road shows and conferences in September, both in Europe and in the U.S. And we will issue our Q3 earnings on November 6. Thank you very much.

Philippe Kehren

Thank you very much.

Lanny Duvall

Thank you.

Operator

Thank you. This concludes today's call. Thank you for your participation. Stay safe. You may now disconnect.

**Load-Date:** July 31, 2024

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