Syensqo Q4 2023 results

Analysts call transcript

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Sherief Bakr - Syensqo - Head of Investor Relations

Hello everyone and welcome to Syensqo's fourth quarter and full year 2023 earnings call. I am Sherief Bakr, Head of Investor Relations, and I am joined today in Brussels by our CEO, Ilham Kadri, and our CFO, Chris Davis.
As a reminder, today's call is being recorded and will be accessible for replay on the investor relations section of our website later today, at syensqo.com/investors. I would also like to remind you that during this call we will be making forward looking statements regarding our future business and financial performance that are subject to risks and uncertainties.

The slides related to this presentation, along with today's press release, are also available to download from our website. Ok…turning to today's agenda… Ilham will begin with an overview of 2023 and Chris will then go into more details on our financial performance, before turning the call back to Ilham who will touch on how we are executing strategy, as well as our outlook for 2024. We will then be happy to take your questions. With that, I'll turn the call over to Ilham.

Ilham Kadri - Syensqo - CEO

Thank you Sherief and good afternoon, good morning to everyone. Today marks the first earnings call for Syensqo, following our separation from Solvay, and along with our teams, we are fully focused on unleashing the full potential of our growth strategy, which we believe will unlock significant value for our stakeholders.
Indeed, I have been inspired by the renewed sense of purpose and energy that the separation has fueled, which is already providing new opportunities to better serve our customers and allocate capital more effectively.
And this all comes after a historic and somewhat hectic 2023. You may have heard me say in the past that we have to focus on both the microscope and the telescope, managing the short-term headwinds and uncertainties, not wasting a good crisis, while ensuring we are prioritizing our investments that will generate the most long-term value.
This was truly tested in 2023, and I am proud to say that we were able to do both, meeting the full year targets we set,
delivering on all the key milestones, throughout our separation journey, as well as accelerating the execution of our longer-term growth strategy, which we shared with you at our Capital Markets Day.

While 2023 was a challenging year for our industry given the weaker macroeconomic environment, customer destocking and ongoing geopolitical dynamics, we ended the year with improved momentum across a number of our businesses and with a balance sheet that is even stronger than we presented at the Capital Markets Day.
I'll come back to our 2024 outlook in more detail, but we believe that Q4 2023 clearly marks the low point of our quarterly EBITDA performance, with improvement already visible in the first quarter of 2024.

Turning to our highlights of the year, as I mentioned earlier, 2023 was a milestone year as we successfully completed the power of 2 separation project, creating a new Specialty leader - SYENSQO - born out of a vision of innovation and growth. Over the past two years, we have significantly outperformed our industry and our peer group, and this remains our ambition over the coming years. While Chris will take you through some of the details of our financial performance, the right hand side of the slide gives you some of the headline numbers.

Although year-on-year volumes were impacted by the broader macroeconomic environment, as well as our record performance in 2022, we demonstrated good margin resilience, a reflection of

our strong value proposition to our customers, as well as an ongoing focus on costs and improvements in our commercial discipline.
To give you some context, over the last three years we have generated more than €850 million of net pricing gains, with approximately €250 million in 2023 alone.

We believe that this is predominantly sticky, reflecting the Speciality nature of our products and solutions, and I'll come back to this when I take you through our outlook for 2024. Given our strong cash generation, we also took the decision to significantly accelerate our investments in 2023, with an even sharper focus on projects that will drive our longer-term growth.
These investments will also allow us to respond to the increase in demand and capture growth more quickly than others, as and when there is a recovery in volumes, building important foundations that will also support the delivery of our mid-term targets.

This is also supported by our strong balance sheet, and we ended the year with a healthy net leverage ratio of 1 times.
When combined with our growth strategy, this gives us tremendous scope for structural outperformance AND an acceleration of future value creation. One example of this is our greenfield expansion in Augusta, Georgia for EV battery grade suspension PVDF, creating the largest capacity in North America - a highly attractive market that is expected to show significant growth in the coming years.
Crucially, and what differentiates this project from our peers, is our joint venture with Orbia, which will give us both the security of supply of critical raw materials as well as a superior cost positioning. We will also benefit from the tariff policies in North America.

Also the project has been significantly de-risked from a return on investment perspective as it is being partly funded ... in fact more than 40% funded… with the support from the US Department of Energy.
And from an innovation perspective, we continued to increase our best-in-class vitality index, with almost 21% of our sales generated from products that are less than 5 years old.

During 2023, we also achieved an important milestone on another innovation story, reaching a settlement with the State of New Jersey which resolves PFAS claims and provides clarity on an important topic for many stakeholders, including some of you on the call today.

Finally, we launched new and ambitious sustainability goals, accelerating carbon neutrality by 2040, and have already made strong progress in this strategically important area.As I mentioned, 2023 was a historic year as we successfully completed our separation last December, following more than two years of hard work and focus. On a personal note, I would like to thank our teams for their dedication throughout the journey, delivering on all the key operational milestones as well as achieving our financial targets.

Since last summer, we have been running to the finish line, opening our new headquarters in Brussels, appointing a new leadership team and board of directors, as well as hosting our Capital Markets Day. And in early December we secured the overwhelming support of our shareholders, before listing on Euronext. From an operational perspective, we have been working as a separate company since last July to ensure a smooth start on Day 1, not only in terms of our internal processes, but also ensuring we didn't miss a beat with our customers.

Three months into this new chapter, the change has already been tangible. The sharper focus we now have is leading to better and faster decision making. We now have greater clarity in our purpose with new ambitions that prioritize profitable growth. I have no doubt that the best is ahead of us!

At the heart of our vision is the ambition to be the innovation leader, centered around customers and the value that we create for them and with them. This is how we live each day what has already made us a leader in our markets, building long-lasting relationships and making our customers win.

While 2023 was a challenging year, our commitment to our customers in the form of key wins and prestigious recognition awards. These successes are a testament to the hard work, dedication, and innovative spirit of our entire team. Let me share a few examples with you;

In Specialty Polymers, we earned the 2023 Supplier Appreciation Award by one of the world's largest semiconductor manufacturers. This is a recognition of the quality of our services and technical support with brands like Galden, Solef, Halar & Tecnoflon.

We were also awarded a supplier excellence award by Northrop Grumman related to our collaboration in the aerospace and defense industries, and an award from Panasonic Energy for our collaboration with them in the field of batteries.

In terms of partnerships, we secured a long-term supply agreement with Zotefoams, a world leader in cellular materials, for advanced solutions in Aerospace; and signed a long-term supply agreement with Agru, a leader in engineering plastics, for the supply of high-performance PVDF, continuing a long standing relationship spanning over four decades.
In the exciting area of advanced air mobility, we entered into new partnerships with Schiebel and Manna, who will use our advanced composite materials for new unmanned air systems and drones.As Syensqo, we also aim to be our customers' innovation partner, co-developing new and disruptive solutions.
This was very much the case with Xiaomi, one of the world's leading smartphone companies. Together, we jointly developed the first casing to use our newly launched Swyft-ply brand of composite materials tailored for electronics and smart devices, to create the back cover of their new flagship smartphone model, which was launched last summer.
Syensqo's materials enabled a thinner and lighter phone design while maintaining exceptional strength.

Another example is in our Novecare business, where we were asked by a leading North American personal care brand to jointly develop new solutions across a range of products and resolve their unmet needs.

Now turning to our performance by end market on slide 8, as a Specialty leader, we benefit from having a Top 3 market position across 90% of the markets we serve. We also have a healthy balance of exposures, aligned with our strategy and the megatrends that will fuel our growth for many years to come, such as sustainable mobility, including lightweighting and electrification, advanced connectivity, resource efficiency, and sustainable sourcing
We really like this combination of leadership and diversity of our markets and customers.

This is also reflected in the balance of our geographic mix across the three major regions, led by the Americas where we generated more than 40% of our sales in 2023. Without going into each and every market on the slide, you can see how we performed along with the key industry and customer dynamics.

The highlight was Aerospace which saw double digit growth, and remains on a clear growth trajectory. In automotive, volumes were significantly impacted by destocking from our battery customers, particularly in the first half of the year. In addition, given lower prices due to falling raw material costs, we saw lower PVDF revenues within Specialty Polymers, but a very resilient contribution margin, which remained flat year-on-year. To give this some context, our automotive PVDF revenues, which represent less than half of our overall PVDF business, were approximately € 200 million in 2023, a level we expect to grow off in 2024. Building was impacted by the global interest rate environment and lackluster new build projects, although we have started to see some encouraging signs that the worst is behind us.

In Resources, our performance was impacted by customer disruptions, which overshadowed positive structural demand. Finally, the agro market also experienced longer than average customer destocking as they manage for cash in the short term

Now turning to our segment performance in 2023. As Syensqo, our mix of revenues and earnings reflects our position as one of the leading pure play specialty companies.

Indeed, in 2023, more than 80% of our total EBITDA was generated by our Materials Segment, a very different profile to our past. Overall, the Materials segment made strong progress in 2023, delivering strong growth in Composite Materials in response to demand in both civil aviation and defense, as well as expanding our margin.

And as Chris will discuss in more detail, Specialty Polymers experienced a relatively softer second half of the year, following the record-high sales levels we achieved in 2022.

At a segment level, we delivered another strong year of positive net pricing, driven by both Speciality Polymers and Composite Materials, which helped to deliver more than 100 basis points of EBITDA margin expansion to almost 33%.
Given lower demand and strong competitive pressures, particularly impacting Aroma and Novecare, our focus in 2023 for Consumer & Resources was on the quality of market share, rather than simply being the lowest cost provider.

On a more positive note, we started to see some sequential stability in Q4 in a number of markets, which has continued into the beginning of 2024.

Finally, I wanted to share the progress we have continued to make on our ONE PLANET roadmap. For Syensqo, sustainability is not just an ethical obligation to our stakeholders and our planet, it is also a strategic advantage as it aligns with the evolving values of our customers and employees. Simply put, we make our customers MORE sustainable. At our Capital Markets Day, we presented an ambitious set of commitments, accelerating our pathway to carbon neutrality and raising the bar for circular sales. Fundamental to the ONE PLANET program is our commitment to our people and their safety, including gender parity and delivering on our living wage promise. Overall, I am proud of the progress that we have made across all three pillars - Climate, Growth and Better life.

As you can see on the slide, we are already halfway to achieving our 2030 greenhouse gas emissions reduction targets for Scope 1, 2 and 3 in 3 years. Not only does this fast start give us confidence that we will meet the 2030 objective, but it also gives us a strong basis to achieve our more ambitious 2040 goal, which is to achieve carbon neutrality.
Turning to our Growth pillar, wWe also continued to drive a higher share of sales that enable circularity, reaching 13% of total sales in 2023.

During the year we launched a range of new products with increased circular and renewable content. For example, we have created a range of circular mass balance solutions in Specialty Polymers that utilize upcycled circular raw materials, targeting healthcare, smart devices and automotive customers. In addition, we launched a new solution for the personal care market, which is derived from wood waste and carbon capture, contributing to circularity and providing lower carbon footprint body washes and shampoos to end users. This is real innovation! I'll now turn the call to Chris to go through our financial performance in more detail.

Christopher Davis - Syensqo - CFO:

Thanks Ilham. Good morning and good afternoon to everyone on the call. It has been 4 months since I commenced my journey at Syensqo, this being my 1st earnings call. During this time I have embarked on a journey that has allowed me to visit 10 sites, including our Research Centers, meet customers in the Composite Materials business, speak at 5 town halls reaching more than 500 employees; and allowing me the privilege of meeting numerous colleagues in our operations across the globe. The energy and passion of each interaction has reinforced my belief in Syensqo's future.

Turning to the presentation, the numbers that are presented today are based on audited combined financial statements as if Syensqo had been in existence for the full year under review. With that in mind let us turn to Slide 12 entitled Top Quartile Performance,The numbers presented on this slide demonstrate Syensqo's proven track record of delivering strong profitability and creating value.

Moreover, looking at the last 2 years to 2023 Syensqo has consistently outperformed the majority of its peers, delivering top quartile Sales and EBITDA growth, growing at 16% and 26% respectively, as well as delivering a 29% improvement in Return on Capital Employed.

Across all 3 metrics we have outperformed and it is our intention that this outperformance will continue over the next 5 years in-line with our mid-term plans. With that in mind let us turn to the summary of our financial results for 2023.

As expected, the 2nd half of 2023 was challenging with the 4th quarter of the year impacted by a reduction in volumes. Whilst the 4th quarter of the financial year is historically the lowest performance quarter, volumes declined more than usual in the semiconductor, medical and distributor channels due to destocking in these specific value chains.Following significant destocking in battery PVDF in the 1st half of the year, the 2nd half saw stabilization. Underlying battery demand remains robust and this is expected to grow in 2024.

Additionally, demand from customers in the Agro sector remains muted with inventory levels below that of pre-COVID. Until such time as demand improves, we expect these customers to maintain these low levels of inventory to preserve cash.

Looking at the full year results for 2023, net sales of EUR 6.8 billion was down 13% from the prior period, driven by:-
A reduction in volumes and mix of over EUR 800 million; and foreign exchange, which reduced sales by approximately EUR 200 million. Lower volumes and adverse mix were experienced largely at Novecare, and to a lesser extent, Aroma and Specialty Polymers.

As Ilham mentioned, Composite Materials was the standout performer driving 15% revenue growth as a result of better volume delivery and increased pricing discipline. This strong growth in Composites is expected to continue into 2024.At EUR 1.6 billion, underlying EBITDA is in line with expectations, which I will outline in more detail on the following slides. Importantly, despite the impact of lower volumes, our focus on pricing discipline and costs within our control means that we have been able to increase our EBITDA margin against the prior period to 23.7%.

As announced in November last year, we are pleased to confirm a full year dividend of 1.62 EURO per share, which represents a payout ratio of 23%.

We remain committed to paying a dividend to shareholders in line with sustainable free cash flow generation. Turning to the EBITDA Bridge on slide 14. Considering the basket of currencies in which Syensqo operates, the impact of the strengthening EURO on the translation of our foreign currency earnings has had an adverse impact of EUR 53 million compared to the prior period, most notably from the translation of the United States Dollar and the Chinese Renminbi.

As we have already mentioned the specialty chemicals sector in 2023 was impacted by destocking, which impacted all our segments. During the year, uncertainty related to a global economic recovery, heightened geopolitical tensions, and high inflation and interest rates, has resulted in a slowdown in customer investment projects, as well as them adapting their supply chain to carry less inventory, thereby managing for cash. Reduced volumes had an impact of EUR 387 million compared to the prior period. Higher inflation and interest rates have had an impact on demand in Novecare, specifically in Construction and Auto, thereby impacting our Coatings and Industrial business lines, while end consumers in Home & Personal Care have adapted their spending patterns to lower cost products.

Weak demand in China and structural overcapacities has significantly impacted Aroma volumes and pricing throughout the year with no signs of improvement in the near term.The impact of destocking was most pronounced in the Specialty Polymer business. In our Distribution sales we saw in late 2022 / early 2023 overstocking by customers of PEEK, which in combination with lower demand levels, is taking a longer time to unwind out of the system.

Similarly in Medical and Semiconductors after building inventory though 2022 and early 2023, the industry value chains reversed course and acted to remove surplus stock, impacting sales into these segments. Whilst the PVDF battery market experienced significant destocking in the 1st half of the year, the PVDF market outside of Auto, in other high end segments, experienced growth in 2023.

The average contribution margin from the Specialty Polymers business are higher than average, and as a result lower volumes in these end markets have a disproportionate impact on EBITDA compared to other parts of the business. That said, when demand improves, and it will, we are well placed to service that demand with our customers and will benefit from the operating leverage that comes with increased volumes.

Finally, Technology Solutions experienced reduced volumes. Specifically, the temporary closure by the Panama government of the Cobre Panama mine and strikes by employees at Penasquito in Mexico, led to a reduction in demand at these customer sites. Additionally, destocking by a large customer in Phosphorous led to lower purchases in the 2nd half of the year. Importantly, Composite Materials experienced strong volume growth as the business improves its operating efficiencies and continues to address the challenges associated with labour tightness.

Specifically within the Aero and Defence sectors the order book remains strong for at least the next 12 months. The key issue remains the effectiveness of the entire supply chain to these industries. As Ilham has already mentioned over the past 3 years Syensqo has generated more than EUR 850 million in net pricing benefits with 2023 being no exception. In 2023 net pricing benefits amounted to a further EUR 248 million, albeit largely in the 1st half of the year when net pricing benefits were EUR 230 million. This was largely driven by Specialty Polymers, which had net pricing benefits across all segments except batteries, Composite Materials where strong demand and contract renewals allowed for increased pricing; and Technology Solutions.

Whilst the benefit of net pricing in the 2nd half of the year was still marginally positive at EUR 18 million, selective price reductions in in the 2nd half in Batteries, Home & Personal Care, Coatings and Agro have been given to customers to defend market share and optimize the price / volume equation to maximize profits.

Both the Aroma and Oil & Gas segments experienced price reductions throughout the year driven by lower demand and competitive price pressures.

Whilst fixed costs increased, our focus on structural cost savings within our control allowed us to offset the increased investment in Research & Innovation, increased fixed cost spend at our plants, and the impact of inflation on our cost base. Finally, the Other category reflects a year-on-year EBITDA impact of EUR 30 million and includes costs associated with hyperinflation accounting for Argentina. The net result is that EBITDA finished the year in line with expectations at EUR 1.62 billion.

Turning to capital expenditure, we have continued to maintain a disciplined approach to capital management and capital expenditure in particular. As outlined at the recent Capital Markets Day, Syensqo has a strong pipeline of organic growth opportunities over the next 5 years. With this in mind, and in light of the strong cash generation in 2023, we accelerated investment in growth projects, spending EUR 496 million, including approximately EUR 350 million on capacity expansions and operating efficiency capital; and a further EUR 150 million in Research & Innovation. Key growth capital expenditure included Capacity expansion at the Augusta and Marietta sites for sulfones, and an investment in a pilot plant in India for the next generation of sulfone production PVDF expansion at Tavaux; as well as Investment in Energain and LiFSi for higher energy batteries, as well as investment in Solid State batteries.

It is important to note that, given the longer term nature of the investment cycle these growth projects will contribute to increased earnings in 3 to 4 years’ time, ALBEIT that these assets under construction will increase our asset base in the short-term. Importantly, this increased allocation of capital to growth in 2023, is fully aligned with our 2028 targets as set at our Capital Markets Day. We strongly believe that continuing to invest in the growth opportunities available to us will position us well in the future to respond to, and capture growth and market share, as demand levels improve.

Looking at the sustenance capital expenditure of EUR 352 million, this includes spend on Health & Safety and Maintenance to ensure our sites are safe and reliable, spend on our ONE Planet initiatives; and the cost associated with leasing contracts. Given the acceleration of growth capital in 2023, we are targeting to spend between EUR 600 to EUR 650 million in 2024 on capital expenditure, without impacting our long term targets.

With effect from 2024 we will commence investment in a new single S.A.P. system, as we decouple our reliance on the Transitional Services Agreement with Solvay, and work towards systems and master-data harmonization and efficiency improvements aligned with our growth strategy.

Moving to our Strong Operating Cash Flows on Slide 16, The generation of strong operating cash flows remains a key focus for the business. In this respect, I'm extremely pleased to report strong cash generation, with positive cash flow from operating activities of EUR 1.3 billion and cash conversion of 85%. As you can see on the right hand side of the slide, we have adapted our cash conversion calculation, to better demonstrate our strong cash generation, before investments in growth capital. In calculating cash conversion we now include the movement in trade working capital and sustenance capital expenditure only, as these represent non-discretionary outflows of cash and are a reflection on how we manage our assets.

It is important to emphasize that the choice, the choice to invest in growth capital expenditure is one of the pillars of our Capital Management Framework and, as a growth company, will drive higher returns for our stakeholders in the medium-term. Going forward we expect this cash conversion metric to remain above 70%. After adjusting for the EUR 496 million spent on growth capital the cash generated, as previously reported, was 48%.

Turning to our Strong Financial Position, I am pleased to report that, as we commence our journey as an independently listed company, our net debt is in line with expectations at EUR 1.6 billion, even after taking into account the increased capital expenditure in the final quarter of the year.

This results in gearing of 18%, and a net debt leverage ratio of 1.0 times, which gives us the firepower to execute on our growth strategy and create value. We continue to have strong levels of liquidity available, as demonstrated by the EUR 1.6 billion of undrawn committed bank facilities and a further EUR 1.2 billion of cash on hand. Following our independent listing on Euronext, both S&P and Moody's have confirmed our strong investment grade credit rating at BBB+ and Baa1 respectively. With that, I'll now hand you back to Ilham. Thank you!

Ilham Kadri - Syensqo - CEO

Thank you Chris. It has now been a few months since we started our independent life, and I wanted to spend a few minutes to remind you of what you should expect from Syensqo as we look into 2024 and beyond. Simply put, the separation will accelerate value creation. It gives us a sharper focus on how we allocate capital and pursue new growth opportunities. We are accelerating our decision making to better serve our customers, and are intensifying our innovation-led culture. We have the most differentiated portfolio of technologies in our industry, with the leadership position, customer relationships, and the balance sheet strength that will allow us to outgrow our markets.

Not only are we ready to deliver on our vision… our customers are telling me they have already seen a change.
And as you can see from our medium-term targets, our goal is to deliver superior revenue growth, strengthening our margin and improving returns.

So what should you expect from Syensqo over the medium-term? What makes us unique? Well this is it! A virtuous circle of innovation, growth AND superior returns. Pretty simple, but very powerful. So let me tell you how we started to execute our strategy? As we outlined at our Capital

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Markets Day we have four strategic pillars that give us the framework to deliver on the targets we have set. First, we are a growth company and we will extend our existing leadership positions.

Since the end of last year, we have established growth committees who are rethinking how we will capture growth, what we should prioritize and how to develop new and repeatable growth algorithms that allow us to capture incremental share, at a faster pace than before. It's what we call the hunting culture.

From a geographic perspective, we appointed a new Chief Asia Officer, with the mandate to develop a dedicated strategy to further enhance our position to win in this important market. And since the start of the year, we have executed at pace to create our own proprietary GenAI incubator, called Syensqo.ai, to increase productivity/ efficiency and disrupt our way of working, enhance our decision making and do research. Innovation leadership and creating more sustainable solutions are at the heart of our strategy.

Since the start of the year, our teams have sat in lockdown sessions to refine and refuel our innovation pipeline, reviewing every single project and answering two simple, but fundamental questions, can we win? and is it worth pursuing it?

In addition, we are driving even higher levels of circular sales, for example, using green solvents and more natural ingredients, while also accelerating our journey to carbon neutrality. Finally, this is all governed by a religious capital discipline, supported by strong cash generation to invest AND reward shareholders. Given the uncertain environment, you can expect us to continue to manage our costs with discipline, as well as adapting our capex and footprint to increase our agility.

As this is our first earnings call, I wanted to spend a few moments to help you understand our framework and approach, which is to build trust and confidence with our stakeholders. Paramount to this is delivering on our targets, using all the levers that we can control, while being transparent and balanced around what we can-not.

So with that, let's move on to our outlook, starting on slide 23. Walking you through this slide, I'll start by taking you through our end market assumptions, the high level drivers of our segments, and before turning to the major cost drivers.

Overall, we continue to operate in a soft macroeconomic environment and expect demand dynamics across our major end-markets to reflect the trends we saw towards the end of 2023, with flattish overall volumes in 2024. More specifically, we expect to see another year of strong growth in aerospace. Order books are full and, as Chris mentioned, our growth is more driven by the broader supply chain environment, than by demand fluctuations. In automotive, the overall market is expected to deliver low single digit volume growth, with continued strong growth in hybrids and EVs, although we remain cautious regarding the near-term trajectory. Most of the end markets related to our Consumer & Resources segment are seeing increasing signs of demand stabilization, primarily due to the absence of the major destocking that has taken place over a number of quarters, as well as an uptick in orders, for example, in Novecare.

Turning to the segment outlook, we expect to see strong growth in Composite Materials given what I just said regarding Aerospace demand. For Specialty Polymers, we expect broadly stable volumes, with volume growth in automotive. Overall PVDF volumes, of which more than half are outside the automotive sector, are expected to show strong growth.

While it is not an exact science, we expect to keep the vast majority of the net pricing gains we have made over the last three years, given our specialty positioning and strong value proposition. Where necessary, and as we already started in the second half of 2023, we will give back some pricing, to defend or gain share, while continuing to generate healthy margins. Specifically for 2024, our outlook includes a 50 to 100 million EURO impact from pricing, or less than 10% of the net pricing gains we have achieved over the last three years. That said we will continue to fight for net pricing, leveraging our value pricing discipline and deep customer relationships.

In terms of other costs, we have provided some of the key drivers on the right hand side of the slide. We expect around 30 million EURO of dissynergies related to the separation, that we are aiming to offset over time through ongoing cost saving initiatives and footprint optimisations, for example in Aroma. In addition, we expect to make targeted investments in Research and Innovation to support our future growth, as well as investments to support our digital transformation as referenced by Chris.

Turning to our financial targets for 2024 Starting with the headline numbers, and given the drivers I just mentioned, we expect underlying EBITDA to be in the range of 1.4 to 1.55 billion EURO. The low end of the range assumes a consistent performance and demand outlook with what we see in Quarter One, rather than to assume there is material demand recovery in the second half, a topic I know many industry participants are debating. The visibility just isn’t there yet. The higher end of the range assumes a modest year-on-year volume recovery, predominantly in the second half of the year, subject to the overall macroeconomic and demand environment. From a mathematical perspective, our year-on-year comparisons will be easier in the second half of the year, given the softness we experienced in the second half 2023, which should support an improved growth trajectory as we exit the year. As I mentioned at the start of the call, we expect quarter 4 2023 to have marked the low point in our quarterly EBITDA performance, and we have already seen an inflection since the start of the year, and improving order books, especially in Composite Materials and an uptick in some markets within Novecare.More specifically, we expect quarter one 2024 EBITDA to increase by around 20% compared to quarter four 2023.

Our overall approach is to be grounded rather than hopeful, stay close to our customers, adapt our cost and investments to the macroeconomic environment, and be ready to capture growth and market share when demand returns.

And in terms of free cash flow, we expect to be in the range of 400 to 500 million EURO, excluding the previously announced $180 million PFAS settlement in New Jersey. As an update on this important topic, I am thrilled to announce that the settlement was approved by the New Jersey Court and became final as of March 1st.
For modeling purposes, please note that we expect to make the cash payment in Q2.

As Chris mentioned, given the acceleration of capex spend that we elected to make in 2023, and as we prioritize our investments, adapting to the demand outlook for 2024, we expect capex to be in the range of 600 to 650 million EURO.
If you take the two year average of our spend in 2023 and what we are targeting for 2024, our capex profile is in-line with the medium-term targets we provided at our Capital Markets Day.

So in closing, 2023 was another year of strong execution where we delivered on our targets and accelerated our growth strategy. We ended the year with improved momentum across a number of our businesses and remain fully focused on continuing to navigate through the short-term uncertainty, while accelerating our journey to unlock value. With that, Chris and I are happy to take your questions

Sherief Bakr - Syensqo - Head of Investor Relations

Thank you, Ilham. We'll now move to the Q&A session. Jess, can we please have our first question?

Questions and Answers

Operator: Thank you. As a reminder, if you would like to ask a question, please press star one on your telephone keypad and please ensure your line is unmuted locally as you'll be advised when to ask your question. The first question comes from the line of Martin Roediger from Kepler Cheuvreux. Please go ahead.

Martin Rodiger (Kepler Cheuvreux):
Good afternoon, and thanks for taking my three questions. First is on the EBITDA guidance. Ilham, you said on the one hand that net pricing power will be sticky, but you said on the other hand you expect 50 to 100 million net pricing reduction in 2024. That sounds a bit like a contradiction. What are your assumptions for the selling prices in 2024 and the input costs increase in 2024? That is the first question.

Ilham Kadri - Syensqo - CEO
Thank you, Martin. Well, it's not in contradiction. What I told you in the second half of last year is that we will defend net pricing. And I promised, or I guided flattish net pricing. It was positive; slightly positive last year. So, we defended pretty well our margins and you've seen them slightly expanding. For this year, what I'm telling you is that we will actually give back some pricing, up to 10% of the total pricing we collected in the past three years. So this is 90/10%. It's pretty sticky. 90% is very sticky and we'll do it selectively. We really need to balance price and volume elasticity in areas where we have less differentiation. That's for example, in the Novecare or in Consumer & Resources type of businesses and in others where we can expand share for profit. So, this is what we are telling you, and the 50 to 100 million is by the way baked in our guidance. So this is part of our guidance. Anything to add, Chris?

Christopher Davis - Syensqo - CFO:
No, I think the one point that's quite important is that split fairly evenly between Consumer and Resources and Specialty Polymers. And the Specialty Polymers space is probably closer to the batteries, but it's not a material number in the grand scheme of things when there's almost 900 million we've generated in net pricing.

Martin Rodiger (Kepler Cheuvreux):
The second question is about again, in particular the higher end of the guidance range, the 1.55 billion in EBITDA that factors in a volume recovery in the second half of this year. What is the sensitivity between volume growth and EBITDA impact, including the leverage effect? Or in other words, is it right to assume that you need a double-digit volume growth in the second half with a high contribution margin to achieve that high end of the range?

Ilham Kadri - Syensqo - CEO
Well, it's a good question and not a simple one, Martin. So many variables to consider. If the volume increases even by mid-single digit in H2 of low comp with flattish prices, for example, you get towards the high end. It'll depend on how the second half is going to evolve, and we don't know today. As I said, and I hope you've seen one of the most transparent, straightforward guidance and range of guidance out there amongst our peers. The low end is the four times Q1, if the volumes in Q2, Q3, Q4 will stay as we see now in Q1 in our order book. And if in the second half we have a modest volume increase with flattish pricing, we'll get there to the high-end range so that's the best we can tell you today.

Christopher Davis - Syensqo - CFO:
I think just to add to Ilham's point on that, it really depends on where the mix of products comes from and then the operating leverage will be quite significant because we don't need to add extra capacity for this.

Martin Rodiger (Kepler Cheuvreux):
And my final question is on your midterm target. You reiterate your midterm target outline at the CMD, but you need to catch up in the EBITDA growth because in the first year 2024, you guide 4 to 13% drop in EBITDA. So what makes you confident that macro gets better after 2024?

Ilham Kadri - Syensqo - CEO
We remain confident that we will deliver on our midterm targets. A year is not five years obviously, which takes into account different demand scenarios. If you reduce it by one year, obviously and start at a lower base, you still achieve the low-end range even if you are at the higher end of the five, it’s seven percent. Also, I remind all that our customers and OEMs, and to some extent some of our peers, like in aero, for example, are also giving us guidance and market indication about their midterm plans. So this is not out of the blue or hopeful thinking. My crystal ball is the customers, end users, their customers' expectations in aerospace, in EVs, in hybrid, recovery of semiconductor midterm with gen AI, penetration of green solutions are all good platforms for growth.

Christopher Davis - Syensqo - CFO:
Martin, if I can just add to that, We said at the Capital Markets Day that the growth was not linear. We had always envisaged 2024 would be a muted year. So, that's not out of surprise for us. In some areas, it's significantly better in Composite Materials. In some areas, possibly in Novecare, it's probably not where we anticipated, but we still remain very confident on the long-term goal.

Operator: The next question comes from the line of Lauren Farve from BNP Paribas. Please go ahead.

Laurent Farve (BNP Paribas):
Yes. Hi, good afternoon. I'm going to ask a question on the CapEx side. Ilham, you talked about the Tavaux expansion where you accelerated CapEx. I was wondering if you could talk about the contribution that you're expecting from that expansion this year, and are you expecting any? And given I guess the comments you've made on pricing and on I guess normalization, what kind of returns should we be expecting for both the Tavo expansion but also the US project? Thank you.

Ilham Kadri - Syensqo - CEO
On the CapEx, Laurent, what we've done, and it's amazing, It's counterintuitive. In quarter four we were splitting the company. We realized that we have a strong cash position and I learned from one of my mentors in my career, in the downturn, accelerate your good growth projects, and that's what we've done. And as we said with Chris as a team, we had soft markets. Our engineers were at the JEC event and EPC companies were available to actually work for us. So we accelerated some good projects Chris mentioned. And those are aligned, Laurent, with what we told you on Capital Markets Day.

And indeed, if you add 2023, 2024 CapEx is still aligned, actually spot on of what we told you we will be doing at the Capital Markets Day. So those are EV, we are now finishing the investments in EV batteries in Tavux (France). THere are also the polysulfones around the world for healthcare and water treatment applications. We have pilot investments in solid-state batteries, as we expected on some application developments, which are going to really give us proprietary advantage and access to some customers who are really willing to partner longer term with us, thanks to this innovation powerhouse. There was another question.

Christopher Davis - Syensqo - CFO:
Sorry, on topic, it was about the returns. So I think you had asked what it would contribute in 2024. There's still some CapEx to go on that plant, so we are not expecting a significant contribution by 2024, but it's more a 2025 story. And then just from a returns perspective, well, we always look at returns on these projects to be at least 15%, and that still remains our position on investments.

Laurent Farve (BNP Paribas)

Okay, thank you. And if I can sneak in a second question on C&R, I guess this is an area where you may have been exposed to arbitrage in Europe against or from Chinese imports. I was wondering to what extent the situation in the Red Sea is actually, I guess, fostering maybe some restocking or maybe some improvement in your competitive position in C&R?

Ilham Kadri - Syensqo - CEO

Well, I think in C&R, as you know, is an important part of our growth strategy, and we like that low capital intensive type of leg. And when I joined Solvay five years ago, we've done a lot in the portfolio, specifically at Novecare. A lot of good work has been done by Michael Radossich and his team. And it has the potential to continue delivering healthier revenues, growth and margin improvements. You are right that throughout 2023, we've seen impact from destocking and macro challenges and home and personal care, coating material for waterborne paint, DIY specifically when real estate and single home markets and new builds in the US were soft, and definitely in China, as you know.

So we elected as business leaders to focus on quality of market share rather than just being the lowest cost provider. The area, obviously, where we got most competitive pressure is Aroma, which was impaired as you've seen, and Oil and Gas, with low demand, is cyclical as we told you. And those have been the most challenging businesses last year, and together they present less than 10% of our sales. Novecare was impacted by the shorter term macro dynamics that impacted construction and agro. Agro will still see some destocking in H1, but we started to see stabilization in the number of markets in quarter four. And Novecare today has seen improvements in orders, which we were very pleased to see since the start of the year. And this is baked in our quarter one guidance.

Laurent Farve (BNP Paribas):

And you're not seeing any specific impact either way from the Red Sea situation that started earlier this year?

Ilham Kadri - Syensqo - CEO

From the Red Sea, Indeed, with some higher logistics cost, Laurent we can deal with it through our contractual terms and conditions and arrangements with our customers. We may see some longer lead times here and there. There may be some congestion in delivering Chinese commodities if this is what you have in mind. But not yet a firm trend, which can help some businesses like Aroma, if this is what you have in mind. But again, altogether, this has no material impact yet on our businesses.

Operator: The next question comes from the line of Chetan Udeshi from JP Morgan. Please go ahead.

Chetan Udeshi (JP Morgan):

Hi, thanks for taking my questions. Maybe, Ilham, just going back to your comments and thanks for the detailed presentation and also coming from on the heels of the Capital Markets Day in November. I'm a bit confused because on one hand you are saying that you've seen a good improvement or at least some momentum in many of your businesses from the end of the year. And at the same time, you're essentially guiding us to flat volumes for 2024 after seeing 11% volume decline in 2023. I mean, I would - my question here is simple as a growth company, you would've thought after already a pretty weak year of volumes in 2023 there should have been a bit more confidence to grow volumes in 2024, which doesn't seem that is the case.

So maybe just tying what you guys talk about in terms of outgrowing the market versus zero volume growth assumption in 2024, it just feels pretty inconsistent to me at least that that's the first question. The second question, just again, talking about your order books and trends that you see at this point, should we expect a decent step up again in Q2 from Q1? I know the second half visibility is probably limited, but just based on what you see at the moment, are you comfortable with that sort of an assumption?

And the third one, just a bit more technical for Chris. I guess Chris, can you give us some sort of color on what we should be thinking about in terms of underlying D&A interest costs, tax rate, and are there any separation costs that will leak out of the cash flow, besides the PFAS settlement? Thank you.

Christopher Davis - Syensqo - CFO:

So, let me deal with the easy ones. Just from a D&A perspective, Chetan, you should look at about 480 to 500, and that excludes the PPA amortization for Cytec which is approximately 130 million per annum. And included in that 480 to 500 is approximately 60 million, which relates to leases under IFRS16. So that's the D&A point. Under the net financial expenses, you should work on about 70 to 90 million, and that includes about 10 million being leases under IFRS16.

And then from a tax perspective, you should use an effective tax rate on underlying earnings of about 23% or approximately 200 million. Now, as we go into 2024, from a leakage perspective that you are asking, there'll be about 50 million that goes through the P&L due to restructuring and PO2 costs. But obviously those are below the line. That's how we've treated them consistently in the past. And then from a cash perspective, it'll be about 100 million.

Ilham Kadri - Syensqo - CEO,

Chetan, on the guidance actually, we wanted to be very helpful and give you transparency with a range of EBITDA guidance and going out of Q4, by the way, when we gave you a guidance for the full year the 1.6bn levels, in our Q3 earnings, part of the old Solvay. We knew a bit about the Q4 trends. And we did exactly what we told you what we were going to do as we saw demand stabilization in a number of markets in Q4. And improvements in our order book months after month, which supports the sequential improvements in Q1. So it's a 20% improvement quarter on quarter. We believe today that the worst is behind us.

I'm not going to be specific on Q2. At this stage, we have given you a range of the year, obviously a low end if the volumes in Q2, Q3, Q4 remain flattish as compared to Q1. And obviously in the second half, if the trajectory of the volumes are getting better, this is the high end. We remain focused on what we can control. In a soft environment like this one, you can expect from us to outgrow our markets. And obviously do the same versus our formidable peers, and that's what we are doing as an independent company.

Christopher Davis - Syensqo - CFO:

Just to further to that point, Q4 was really the bottom, and we are seeing that recovery from Q4 into Q1. As you know, I think you've pointed it out, there's a natural cyclical uplift, so we've got a good line of sight of our order book for Q1, but possibly less so for Q2. So we don't really want to get into the habit of guiding on quarters, but rather guide you for the full year. And as the certainty becomes greater, we will, we'll keep you fully informed.

Ilham Kadri - Syensqo - CEO

And by the way, the 20% is traditional uplift from Q4 to Q1

Christopher Davis - Syensqo - CFO:

Correct. And taking into account where we got on pricing that's happening. So we are pretty comfortable with it.

Operator: The next question comes from the line of Jaideep Pandya from On Field Research. Please go ahead.

Jaideep Pandya (On Field Research)

Thanks. The first question I just want to dive into a bit in materials. So for composites you had 22% organic growth. So could you just tell us how much of this was volume and how much was price? And then on the flip side, specialty polymers sales went down I think 16%. So again, how much was volume, how much was price? And then into 2024, how is the pricing environment looking for composites given, I guess you have annual contracts here? That's my first question.

Second question really is on consumer, on oil and gas and Aroma. I mean, you've seen a lot of competition in these two businesses. So what is the strategic relevance these days for Syensqo for these two businesses? I mean, are you trying to restructure them and potentially exit them, or are you trying to bulk them up? That's my second question.

And the third question really is around sort of the PVDF comment you made, so that I understand correctly. Did you say that the auto related sales were 200 million? And if that is the case, what is the overall sales for PVDF for you? If you can help us understand this and are you seeing any competitive pressure outside of PVDF in specialty polymers? Thanks a lot.

Ilham Kadri - Syensqo - CEO

Okay, great questions. so the first one was the composites?

Christopher Davis - Syensqo - CFO:

Also, I think the question was on Composites, how much of that was volumes and how much of that was price? It was actually a mix of both. We've got a strong order book on volumes, and as we renegotiate contracts and contracts come to the end, we've had the ability to increase pricing and we intend to continue to do that into 2024.

Ilham Kadri - Syensqo - CEO

As we told you that the Composites order book is pretty full. So we hope to get everything out of the gate as we speak. You talked about Aroma and Oil & Gas. So a relatively small business. Aroma, Oil & Gas, around 5% each. As I mentioned, they're both excellent businesses contributing to our Consumer & Resources segment. You remember the Oil & Gas when I joined the company, I put it in “intensive care” back in 2019. We turned the business around a few years ago. It has been, by the way, optimized and led very independently is the first business I carved out as part of Solvay. And it's value creating, cash generating profitable business.

We're not desperate to sell it at any price, obviously, as I told you. And we'll continue to look at strategic optionalities. We'll consider divestment only to the right buyer will appreciate its improved profile and offer us a fair price. At Aroma, the market remains challenging, with weak demand and aggressive pricing from Chinese competitors. And again, as the domestic Chinese market has been very weak, obviously the Chinese competitors are exporting. But we've seen some signs of stabilization in Q4, but we are not expecting a recovery in the short term.

So we have been lowering fixed costs, mothballing capacities, doing what it takes. It shows that for five years, and now with Syensqo, we are really adapting our footprint. In the blink of an eye in 2020, we didn't waste a good crisis. So we have now the muscle to do what it takes. But again, both of them are not going to change the trajectory this year. What was the other question?

Jaideep Pandya (On Field Research)

Well, so firstly, for PVDF, just wanted to make sure the 200 million comment you made related to auto sales. Did I understand it right? And what is the overall sales bucket for PVDF these days for you? And then if you're seeing any competition outside. Thank you.

Ilham Kadri - Syensqo - CEO

So the 200 million is the auto business. And it's half of our total business, more or less. It's less than a half actually. We just wanted to ensure we are doing our coming out probably today because there has been a lot of discussions on PVDF and its pricing. And by the way, our contribution margin, and I told you that in Q2 last year, and for the full year 2023, has actually slightly increased for the total PVDF business. Outside auto, we have seen stable to increasing our contribution margin. This is very sticky, with long term, multi-year contracts. And in PVDF for auto batteries, because r142b and other raw materials have been declining, we have given back some pricing. But at the end of the day, we defended and we kept our contribution margin which is stable for the full year.

There is always competition. But we are in the suspension technologies, as I told you. Our customers in the auto industry like our materials and we'll continue defending that and building barriers to entries, through vertical integration, both in Europe and in the US. We are not expanding our capacity in China as I told you that last time. So we will finish the French capacity for the catering the EU needs. And then in the United States of America, I told you how attractive these investments are both from the vertical integration, the cost competitiveness standpoint, with Orbia, as you know the fluor mining leader in the Americas. So fully fledged joint venture from A to Z raw materials and downstream solutions, which we bring with our suspension technologies.

The tariffs which are in place today are supporting the business against any Chinese product import, which is 30% tariffs that do not increase on Chinese emulsion or suspension PVDF imports. And then, the last one is the 40% confirmed IRA and Department of Energy subsidy covering our CapEx as Syensqo as part of the overall CapEx. We like that. It's a huge de-risking for our business. And I can tell you here, we have a lot of calls from our customers and OEMs who are building Gigafactories, here and there to also engage with us in multiyear contracting.

Jaideep Pandya (On Field Research)

Great. And congrats on the first quarter first results actually as Syensqo.

Operator: The final question comes from the line of Tristian Lamotte from Deutsche Bank. Please go ahead.

Tristan Lamotte (Deutsche Bank)

Hi, Tristan Lamotte here from Deutsche Bank. Two questions please. The first is could I just ask what the top end of the guidance for this year would assume on volumes, and is it fair to say that could be conservative? And the second question is a follow up to the previous question but asking for a little bit more detail. So you said 200 million for auto sales and PVDF this year. I'm wondering if you're able to give the comparable number for 2022. Thanks very much.

Ilham Kadri - Syensqo - CEO

So as we told again, visibility is not yet there for the second half. I think here it's a modest volume increase in the second half as compared to the year before. We believe the Composites growth plan is baked in our guidance. Obviously, we feel very comfortable with Composite Materials, with aerospace, civil aviation and defense, which is also growing very fast.

And our business for five years now, it's half defense, half civil aviation. We also feel very good about the uptake in order books in Novecare. It's getting better and better. The demand for formulations and specific formulations for home and personal care, coating materials in some areas, less in agro we see the first half of destocking. We may see an uptick, an uplifting H2 for agro. That's what some customers are telling us. But again, hope is not a strategy.

And then in Specialty Polymers, here we are expecting battery materials volume growth. We believe that healthcare is also going to have a very good year. The rest, we are still seeing a flattish year from the volume perspective as compared to Q1. If there is a modest increase, we'll let you know.

Christopher Davis - Syensqo - CFO:

Just adding to that, you asked what the 2022 batteries number was. It was just more than 300, but I think you've seen what's happened to battery pricings at the selling price level. I think the important point that Ilham made is that at the contribution margin level, we've largely held that steady and it's a good contribution margin.

Ilham Kadri - Syensqo - CEO

And on the batteries, most of us have been focusing on the PVDF story. But I remind all that we are also a light weighing under the hood application. So when we move from an internal combustion engine car to a hybrid and an EV car, we double the opportunity for Syensqo. Because under the hood applications, our OEMs are asking for metal replacement, non-metallic. Each time we bring a non-metallic, this is more products than just the battery products. So I think that's the algorithm I talked about, which we couldn't do as part of the old Solvay. Now we have launched those growth committees. And you know how we can make this repeatable model from one car platform to another. It goes back to Chetan's questions. It's going to take a bit of time to muscle. But this is why we believe that we have the right growth algorithm. We're building piece by piece with our sales and marketing organization. Thank you.

Operator: That is all the time we have for questions. I will now hand back to Sherief Bakr for some closing remarks.

Sherief Bakr - Syensqo - Head of Investor Relations

Thank you everyone for your participation and great questions. And as usual, the investor relations team will be here to answer any remaining questions, and we look forward to seeing many of you on the road on our upcoming roadshows. Have a great day.