# Syensqo Q2 2024 results

## Analysts call transcript

1 August 2024

### Sherief Bakr - Syensqo - Head of Investor Relations:

Hello everyone, and welcome to Syensqo's second quarter 2024 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.

Turning to today's agenda. Ilham will begin with an overview of the second quarter 2024. And Chris will then go into more details on our financial performance before turning the call back to Ilham, who will discuss our outlook. We will then be happy to take your questions. With that, I will turn the call over to Ilham.

### Ilham Kadri - Syensqo - CEO:

Thank you very much, Sherief, and good afternoon. Good morning to everyone.
Syensqo's second quarter saw us deliver results in line with the outlook we provided on our last call; Continue to execute our customer and innovation led strategy focused on outperforming industry growth, as well as further sharpening our capital expenditure and research and innovation priorities aligned with our commitments to drive profitable growth and improve shareholder returns.

Chris will take you through some of the details of our quarter two performance a bit later, but at a high level. And as expected, we saw improving volume momentum compared to the start of the year, particularly in the consumer and resources segments, resulting in flat year on year volume growth at an overall company level.

From a demand perspective, we continue to see stabilization without tangible signs of a real recovery. The exception remains aerospace and defense, where we continue to see healthy volume and pricing dynamics and the benefit of our diverse mix of customers and programs. In other markets, where we have seen a return to year-on-year volume growth, for example, within Novacare - this has generally been met with lower pricing, and we continue to press harder on where we can differentiate and defend our margin, while remaining disciplined in areas where we cannot.

As an innovation leader, centered around customers and the value that we create for them and with them. The good news is that the second bucket is relatively contained, reflected in our net pricing and margin performance.

Now turning to the highlights for quarter two. The improvements in volume momentum in quarter two also translated to our financial performance, with underlying EBITDA up 4% compared to quarter one. And despite the impact of lower year on year sales and unfavorable mix, we demonstrated strong gross margin resilience.

As mentioned, we demonstrated strong pricing discipline, leading to net pricing in line with expectations. A focus on cost control resulted in lower year on year fixed costs, an area we will continue to manage tightly given the uncertainty in the overall macroeconomic landscape. We also continued to deliver strong underlying cash conversion. Excluding the one-time €167 million payments to the New Jersey Department of Environmental Protection, cash conversion was 88%, slightly ahead of the 85% we achieved in 2023.

And in early June, we successfully completed the placement of our debut at 1.2 billion US dollar denominated bond offering with an order book that was more than four times oversubscribed.

On last quarter's call, a reference to how we were working with our teams to focus on prioritizing investments that generate the most attractive returns and create the most value. This included analyzing and validating the pace and trajectory of our key capital projects. And as responsible stewards of capital, this exercise has been carried out to ensure they continue to meet our criteria for shareholder returns, taking into account evolving macro and industry dynamics.

With slower near-term growth in demand for electric vehicles, as demonstrated by recent announcements across the value chain, we have re-evaluated our planned installations of PVDF capacity necessary to serve anticipated customer demand, specifically the investments we have planned in North America.

As a result, we have been in constructive discussions with our partners and the Department of Energy and our current analysis shows that we may need to slow down the cadence of investments by up to two years, aligned with broader customer demand trends and the terms of the DoE grant. We would like to thank the Department for Energy for their collaboration and continued support.

With this proposed change, combined with the ongoing capacity expansion in Tavaux, we will be able to rephase our overall capital expenditures over the coming years to IMPROVE our financial performance and shareholder returns, as well as serving our customers' growing needs for Syensqo's high performance battery grade materials.

As you can see on the slide, it has been a busy few months for Syensqo since last quarter's call, as we continue to accelerate the pace of how we are executing our strategy. This has included: bringing new and differentiated innovation to support our customers in the areas of clean mobility, both on the road and in the air. With our new range of polyphenylene sulfone (PPSU) films, replacing conventional paper slot liners for e-motors, providing greater sustainability and energy efficiency to our automotive customers; as well as a new grade of high performance epoxy-based structural adhesives for our aerospace customers, to support higher rate assembly and joining

Moving to the Consumer & Resources segment following the bolt-on acquisition of JinYoung Bio at the end of April, we launched CERAFY - a range of biomimetic natural ceramides for skin care and hair care applications, aligned with our renewable materials and biotechnology growth platform.

And continuing on the theme of how we make our customers more sustainable, we also expanded our ECHO portfolio of circular polymers for household appliances and consumer goods.

With our customers at the heart of everything we do, I was delighted to be able to visit a number of our partners in Asia during the quarter, to better understand how we can work together to win in our markets.

Building on our existing cooperation, we announced that we are partnering with NIO, a leader in the premium smart electric vehicle sector, in a state-of-the-art joint laboratory in Shanghai to explore how we will together bring new material innovation to future products.

In addition, we also announced a partnership with Allozymes in Singapore, to leverage the power of enzymes to deliver cleaner and higher performing biosolutions for home and personal care applications, in particular for the skin care market.

And last week, we announced an exciting partnership with Orbex focused on the development of next-generation aerospace technologies with greater durability and sustainability.

Following the bolt-on acquisition of Jinyong Bio, we continued our "buy and build" strategy for Consumer & Resources, completing another small acquisition in July, this time with a controlling stake in Azerys, a specialist in rosemary extraction, which will allow us to replace chemical food additives, aligned with consumer demand for more natural food ingredients.

In addition to meeting with our customers in Asia, our leadership team also took the opportunity to spend time at our sites and innovation centers in our key countries.

Together with our recently appointed Chief Asia Officer, we were able to engage with around 95% of our 2,800 employees, or as we call them "Explorers", learning and sharing new ideas of how we can better serve our customers and accelerate the execution of our regional strategy.

Indeed, in the first half of the year, the leadership team has visited 35 sites, and engaged with over two-thirds of our global workforce. As I have always said, it's all about people, people and people

Before turning the call over to Chris, I wanted to make some high level comments on our segment performance in Q2.

As a reminder, Syensqo's mix of revenue and earnings reflects our position as one of the leading pure play specialty companies. Indeed, in Q2, more than 70% of our EBITDA was generated by our high margin Materials segment. This was led by another strong quarter of year-on-year growth in Composite Materials, driven by demand in both civil aviation and defense, as well as healthy margin expansion. As expected, Specialty Polymers saw year-on-year declines, driven by lower volumes to customers in the Industrial, Oil & Gas and Healthcare markets. Battery volumes were up slightly year-on-year. On a sequential basis, Specialty Polymers net sales increased by 4% compared to the first quarter, driven by higher sales to semiconductor customers. At a segment level, Materials' net pricing was approximately flat, driven by Composite Materials.

For Consumer & Resources, we saw improved volume momentum, up 10% year-on-year, driven by Novecare, and to a lesser extent, by Technology Solutions.  And while volumes in Agro showed healthy year-on-year growth, this was more than offset by lower pricing. Nevertheless, with a 5% sequential increase in revenues, combined with improved margins in most business units, resulted in an underlying EBITDA margin of 17.4%, an increase of 250 basis points year-on-year.

I'll now turn the call over to Chris, before we discuss our outlook for the balance of the year. Chris, the floor is yours.

### Christopher Davis - Syensqo - CFO:

Thanks Ilham.  Good morning and good afternoon to everyone on the call.

As Ilham has already mentioned for the 2nd quarter in a row we have delivered a set of results in line with expectations, despite the uncertain market conditions. With that in mind let us turn to Slide 9 which looks at the "summary of our financial results".

As expected, the 2nd quarter of 2024 saw a sequential improvement in performance, with Net Sales and EBITDA in the quarter increasing 5% and 4% respectively versus the 1st quarter of 2024, driven by stronger volumes and improved performance, particularly in the Composite Materials and Consumer & Resources segments.

Looking at the 2nd quarter results for 2024, net sales of EUR 1.7 billion was down 6% against the 2nd quarter of 2023, driven by:  Reduced pricing; and To a lesser degree, adverse foreign exchange.

The impact of pricing remained in line with our expectations with the largest decreases in Specialty Polymers, most notably Automotive, Food Packaging and Construction, and in Novecare, within the Agro and Home & Personal Care markets. Volumes were flat year-on-year, with the lower volumes in Specialty Polymers, offset by increased volumes in Novecare, Composite Materials, and Technology Solutions segments.

The phase-out of products containing flouro-surfactants in Industrial applications, which Ilham referenced, and continued destocking in medical devices and pharma packaging have reduced sales volumes in Specialty Polymers.

Composite Materials continues to be the standout performer delivering 14% revenue growth as a result of better volumes and increased pricing, in both commercial aerospace and defense applications.

At EUR 378 million, underlying EBITDA is in line with expectations, which I will outline in more detail on the following slide. Importantly, despite the expected impact of lower net pricing, as well as unfavorable mix, our focus on costs within our control resulted in an EBITDA margin of 22.1%.

Taking into account the Profit Attributable to Syensqo Shareholders for the 1st 6 months of the year to 30 June 2024 of EUR 315 million, resulting in underlying Earnings per Share of EUR 3.0.

Turning to the EBITDA Bridge on slide 10.  Uncertainty related to a global economic recovery, pending elections across the globe, heightened geopolitical tensions, and high inflation and interest rates, has resulted in a slowdown in customer investment projects, as well as customers adapting their supply chain to carry less inventory, thereby managing for cash.

Despite the uncertainty, and as already mentioned, we saw improved volume momentum in Consumer & Resources and Composite Materials offsetting the lower volumes from Specialty Polymers. As a result, the impact of these volumes on mix had an adverse impact of EUR 38 million compared to the prior period.

Looking at our Specialty Polymers business, whilst the 2nd quarter of 2024 saw some early signs of recovery in the Semiconductor market, with strong sequential growth, all major fab construction plans continue to be delayed. Industrial and Oil & Gas volumes were impacted by the discontinuation of 2 product lines in 2023, containing flouro-surfactunts, aligned with Syensqo's One Planet Sustainability roadmap. This was announced to the market in 2022 and reduced sales revenue by EUR 35 million in Q2. Sales in Healthcare continue to be impacted by the destocking effect in Medical Equipment and Devices and slower demand in EMEA for Pharma Packaging. Volumes in batteries remain stable, with positive net pricing driven by lower variable costs.

Importantly, Composite Materials experienced strong volume growth as the business improves its operating efficiencies. Our range of products within Composites and our exposure to a mix of customers and programs within both Civil Aviation and Defence means that we expect to see strong growth for the remainder of the financial year, and are not materially impacted by challenges at some major civil aviation customers.

In this respect, I recently attended the Farnborough Air Show, meeting with a number of our customers across civil, defense and advanced air mobility, and came away even more excited about our future growth prospects and how Syensqo can help them meet their goals.

Looking at Consumer & Resources, the 2nd quarter of the year saw a strong improvement in volumes and mix compared to the prior comparable period. Within Novecare this was driven by improvements in Agro, Coatings, AND Home & Personal Care, which more than offset the reduction in pricing as the business maximizes the price to volume equation. Finally, increased production capacity in Mining Chemicals allowed us to increase volumes and gain market share to large mining customers, AND increased demand and new product offerings within Polymer Additives drove increased sales to industrial durable goods markets.

Net pricing had an adverse impact of EUR 24 million in the 2nd quarter of 2024. This was experienced mostly in Specialty Polymers, on price concessions to protect volumes, notably in Construction and Food Packaging, and in the Agro segment within Novecare. This brings the year-to-date net pricing impact to EUR 59 million, which is in line with our expectations.

Looking at Fixed Costs and Other, our continued focus on structural cost savings means that we have been able to more than offset the impact of increased labor in Composite Materials, and inflation on our fixed cost base, with costs reducing by EUR 15 million compared to the prior comparable quarter. The net result is that EBITDA for the quarter finished in line with expectations at EUR 378 million.

Turning to capital expenditure, we have continued to maintain a disciplined approach to capital management and capital expenditure in particular. With this in mind spending of EUR 108 million on growth capital included: A further EUR 31 million in Research & Innovation; and EUR 62 million on capacity expansions and operating efficiency capital, with the largest spend on the final stages of the PVDF plant at Tavaux in France.

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.

As I have previously mentioned, we will remain responsible custodians of cash and as a result we continue to interrogate all capital expenditure plans to ensure circumstances have not changed. With this in mind, and as Ilham has already mentioned, given the uncertain demand environment in battery materials, we are rephasing the timeline for our investment in the North American battery facility. This will reduce our growth capital expenditure by approximately EUR 100 to 150 million per annum, with our working assumption of a delay of up to 2 years.

Looking at the sustenance capital expenditure of EUR 68 million, this includes spend on: Health & Safety, One Planet and Maintenance to ensure our sites are safe and reliable; Digitalization; and The cost associated with leasing contracts.

Whilst we are doing a review of our capital expenditure portfolio, given the commitments already made in 2024 we do not expect that our capital expenditure umbrella for 2024 will change and as such we continue to target spend of between EUR 600 and EUR 650 million.

Moving to our Strong Operating Cash Flows on Slide 12. The generation of strong operating cash flows remains a key focus for the business.

As I communicated to the market at the end of the 1st quarter, we were expecting the one off payment of EUR 167 million to the NJDEP and the annual payment of employee incentives, which together amount to more than EUR 280 million. Despite this, we still managed to generate positive cash flow from operating activities in the 2nd quarter of EUR 43 million.

Setting these two one off payments aside, the cash generated at an operating level was approximately EUR 330 million, which compares favorably to the 1st quarter of 2024 when we generated EUR 244 million as previously reported.

As a reminder, we have adapted our cash conversion calculation, to better demonstrate our strong cash generation, before investments in growth capital and as such the metric includes the movement in trade working capital and spend on sustenance capital expenditure only, as these represent non-discretionary outflows of cash and is a reflection on how we manage our assets.

Based on the last 12 months, this results in a cash conversion of 77%, and this includes the impact of the one-off payment to the NJDEP of EUR 167 million. Excluding this payment, cash conversion is a healthy 88%.

Turning to our Financial Position, I am pleased to report that we continue to have a strong balance sheet, with our net debt at EUR 1.9 billion.

As you will recall from our 1st quarter results presentation, I outlined to the market at that time that we expected an increase in net debt in the 2nd quarter as a result of the one off payment to the NJDEP, the payment of the annual dividend in respect of the 'old Solvay' and the timing of the annual payment of employee incentives in respect of 2023. Together, these accounted for approximately EUR 440 million of cash outflows in the quarter, in line with expectations. Additionally, included within the net debt at the end of June is the accounting recognition of EUR 90 million as a liability to purchase shares in the market to meet employee long term incentive obligations. Despite this, our balance sheet remains one of the strongest in the industry with gearing of 21%, and a net debt leverage ratio of 1.3 times.

We continue to have strong levels of liquidity available, as demonstrated by the EUR 1.7 billion of undrawn committed bank facilities and a further EUR 900 million of cash & cash equivalents on hand at 30 June 2024. We expect gearing to reduce in the second half of the year, in line with our cash generation.

Finally, I am pleased to report that in the 2nd quarter of the year we successfully closed a senior bond issuance for US$ 1.2 billion split in two tranches, namely: US$ 600 million with a 5 year maturity, and US$ 600 million with a 10 year maturity.

The ratings for the bonds are aligned with our corporate ratings, being BBB+ and Baa1 with S&P and Moodys respectively. The transaction was met with strong interest with the participation of more than 125 institutional investors and an order book exceeding US$ 5 billion. The proceeds were used to repay the bridge facility set up by Syensqo at the end of 2023 in relation to the partial demerger from Solvay.
The net result is not only do we have a strong balance sheet with low levels of gearing, but also a balanced debt maturity profile.

With that, I'll now hand you back to Ilham. Thank you!

## Ilham Kadri - Syensqo - CEO:

Thank you, Chris. Before we take your questions, I wanted to touch on our outlook for 2024, and provide some color on how we see the second half of the year is shaping up.

On our full year results call in March, you may remember that the range we provided captured different end market demand scenarios.

The low end of the range assumed a consistent demand outlook and performance with what we expected in the first quarter, with the high end factoring in a recovery in demand in the second half of the year.

With the first half behind us, landing in-line with expectations, we are yet to see the recovery in demand that would support the higher end of that range, with a slower recovery in certain markets - such as Agro and Industrial, and softer demand outlook in others - for example Automotive and Medical.

As we look into the second half of the year we now see a mix of volumes weighted more towards Consumer & Resources than Materials. And within Materials, we continue to see growth being more weighted towards Composite Materials than Specialty Polymers.

In terms of net pricing, our first half performance was in-line with our expectations, and we are confident that we remain within the 50 to 100 million range we provided at the start of the year.

Putting this all together, we have narrowed our EBITDA outlook range for the year, and now expect to be between 1.4 billion euro, and the previous midpoint of 1.475.

The narrowing of the EBITDA range is also reflected in our free cash flow outlook, which is now expected to be in the range of 400 to 450 million EURO, with capex expected to remain between 600 and 650 million euro.

On capex, as Chris said, we will continue to adapt our plans to market demand, as you have seen over the last couple of years, governed by our strict returns criteria.

Moreover, we are doing everything possible to drive more efficiency from our existing capacity to achieve the Capital Markets Day targets.

To this extent we can achieve these targets with less capex investments, we think that is a fantastic outcome for our shareholders.

In closing, what can you expect from Syensqo in these uncertain times?

First, strong execution of what we can control, delivering value to our customers, managing our costs tightly and further improving our operating leverage as and when markets improve

Second, to be responsible custodians of our assets, prioritizing investments that have the most attractive returns and create the most value; AND

And third, continue to advance our customer and innovation-led strategy, accelerating our hunting culture to grow our share of wallet with customers and outperform our markets, all while maintaining a strong balance sheet and focus on cash generation.

With that, we are now ready for your questions. Sherief, back to you.

### Sherief Bakr - Syensqo - Head of Investor Relations:

Operator, would you like to begin the Q&A session?

# Questions & Answers

Operator: Thank you. If you'd like to ask a question or make a contribution on today's call, please press star one on your telephone keypad. To withdraw your question, please press star two. We'll pause for just a quick moment to allow everyone an opportunity to signal for questions. We will take our first question from Peter Clark Bernstein. Your line is open. Please go ahead.

## Peter Clark (Bernstein)

Yes. Good afternoon, everyone. Two questions please. The first one, it looks like mix is going to be a material drag on the Specialty Polymers in the second half. Composites, on the other hand, still seems to be improving, helped by the volumes. Just wondering if composites can catch Specialty Polymers on margin this year. Second question you talk about obviously focusing on your strengths in consumer and resources and looking at businesses that fit and do not fit and there are no sacred cows, et cetera. Oil and gas, I think, went up for review quite a while ago, and it is still there and no noises on oil and gas. So I am just wondering about the portfolio in consumer and resources. Thank you.

**Christopher Davis**: Peter, thanks very much for the questions. Just on the particular one around Specialty Polymers versus Composites on the margins. I think you've always known that our Specialty Polymers business is our highest margin business. What we are very proud of is as we watch those margins over a period of time, they are holding steady, which is good. I do not think we can expect Composite Materials to get to that high level of margins. But what we have seen over consecutive quarters is a constant increase in that margin, and we expect that to continue into the second half of the year.

**Dr. Ilham Kadri**: And Peter, you may remember, I think the Cytec business was lagging behind a formidable competitor at that time. And I must say I am extremely thrilled since 2019 when I joined the company. We have restructured the industrial footprint of Composites, as you may remember during the Covid times, two assets with the lowest return on capital employed. So we brought a lot of efficiency and productivity. We are getting into the happy land compared to Composites' peers. So, I'm extremely happy with the development in Composites.

And the question on oil & gas. As I told you, it was carved out. We turned around the business. It represents less than 5% of the group net sales. As you know, we are not a forced seller and will consider divestment to a buyer who appreciates the improved profile and offers a fair price. So, our door is open.

**Peter Clark (Bernstein)**: Got it. Thank you.

**Dr. Ilham Kadri**: Thank you.

**Operator**: We will take our next question from Tristan Lamotte, Deutsche Bank. Your line is open. Please go ahead.

## Tristan Lamotte (Deutsche Bank)

Hi. Thanks. I was wondering if you could maybe talk about your expectations for Q3 and just specifically what changes you expect quarter on quarter. Where in the order book do you see weakening specifically? And then relative to that, could you maybe give a comment on Q4 and your visibility into Q4? Thanks.

**Dr. Ilham Kadri**: Thank you for the question. Tristan, to walk you through Q3, as you saw in the press release and our prepared comments, we have now narrowed the EBITDA range for the year with different scenarios for volume, pricing mix and cost. We obviously continue to operate in an uncertain economic environment, which can obviously lead to some variability in our performance for quarter three and quarter four. But we believe this is well captured now in the implied second half range. We're not giving specific guidance for quarter three, but let me help you.

For the second half of the year, the low end assumes around a 20% sequential decline in EBITDA in quarter four versus quarter three. Assuming, for example, we see customers managing their business for cash, for example, or we see stronger seasonal destocking than usual. Which brings me to the mid end, which assumes around 10% sequential decline in EBITDA in quarter four versus quarter three. And this is assuming a more usual seasonal trend, which we have seen in the past. And the high end assumes a probably balanced quarter four versus quarter three. Should we see a stronger seasonal demand and some unexpected demand in volumes. Anything to add, Chris?

**Christopher Davis**: No, nothing.

**Dr. Ilham Kadri**: Thank you.

**Operator**: We will take our next question from Chetan Udeshi, JP Morgan. Your line is open. Please go ahead.

## Chetan Udeshi (JP Morgan)

Hi. Thanks. I have three questions. Two are related and one is different. So maybe just on materials. I was just looking at the volume picture, and it seems your volumes have actually worsened in the second quarter to -6% from -2% decline year on year in Q1. The comms are not very different. So it is strange to see the volume decline worsened for Syensqo when, frankly, we are seeing a recovery for others in the sector, including some of your closest competitors.

Second related question is, can you help me understand why the EBITDA for materials was actually down sequentially by 10 million or so, when actually the sales are up close to €60 million, if I am not mistaken, quarter over quarter. And both specialty polymers and composites saw higher sales. So it seems the mix probably wasn't as much of an impact. So is this a pricing issue? And last maybe, I am sorry. This may be a tough question, but I couldn't keep myself from asking it. You mentioned at the beginning of the call that your commitment was to outperform your end markets. And I think the question today is, at least your Q2 and first half performance on volumes do not show any outperformance. If anything, you can question whether there is some underperformance given the comment I had on materials.

Dr. Ilham Kadri: Thank you. Chetan, shall I take one? Chris, you take two. And three was for me. Thank you, Chetan. You talk about the Materials performance in quarter two is worsening. I do not believe that we should draw conclusions from just one quarter's performance. First, I think we had another strong quarter of year-on-year growth in our Composite Materials, driven by demand in both civil aviation and defense. The margins are healthy. With regards to Specialty Polymers, I expect that the year-on-year net sales performance was challenging. The comparison was really tough versus last year.

Contribution margin, by the way, was flat compared to quarter two last year, and we have seen two consecutive quarters of sequential growth since quarter four last year, pointing to improved momentum. So looking at the year-on-year performance, which you talked about, it was impacted by three key factors. First, lower sales in industrial and oil & gas. Chris told you about partially driven by product phase out. We have announced it back in June 2022. This is aligned with our non-fluorosurfactant strategy. We prefer to lose that business rather than keep it, and we cannot replace it with non fluorosurfactant, that is one. Two saw softer demand and destocking in healthcare, in particular medical equipment and devices. Think about the headlines, most of you have been covering that. Three, lower sales in automotive, but primarily due to lower pricing rather than volumes. Our volumes were in a very low single digit decline. This is aligned with the automotive build rate. So this is not about share as well as some slower recovery in some volume aligned with the over industry production. I can give you another example on the opposite side: this was actually partially offset with strong growth in PEEK, for example, where we are gaining share of wallet in the market. Finally, and I think we shared it in our prepared comments, on a sequential basis, Specialty Polymers sales increased by 4% driven by strong growth in semiconductors. We are happy with that as we start to see the benefits from a pickup in fab investments as well as market share gains. Again, the contribution margin was flat sequentially.

**Christopher Davis**: Thank you very much. I will take your second question. It is Chris here. If you look at the revenue being 5% up in Materials and the EBITDA being down 3%, it is really a function of the mix. So we have got stronger sequential growth in Composite Materials versus Specialty Polymers. And I think, as somebody else asked earlier, with respect to the margins. Composite Materials have a lower margin than Specialty Polymers, but a fantastic margin nevertheless, as well as the mix within Composite Materials compared to a very strong performance that they had in quarter one. The big thing that I kind of look at the business and at is the margin. You are right, the Materials' contribution margin was flat quarter on quarter. So this is not about margin pressure. Ilham, you want to take the last?

**Dr. Ilham Kadri**: Yes, definitely. So, it is about outgrowing the market or not in the first two quarters. Well, thanks for the question. Look, we are executing a strategy to deliver definitely sustainable value creation. That is the story and narrative of Syensqo, and this is not a quarterly basis story. You have seen, by the way, our track record over the past couple of years. And I am confident that this will continue in the future. Let's look at the year-on-year comparison in quarter one and quarter two. You also have to consider our strong performance in H1 last year, I mentioned it. So the comparison needs some context.

Now, if I look at the past, and for example, in quarter two 2023, last year, Materials grew by 7% year on year, if I remember well. Meanwhile, some of our peers were seeing significant double-digit declines, and you can look at the data. Taking an even broader perspective, let's look at long-term growth. Since I joined this industry and the company, we have outperformed other peers. If you look at volume strength through the cycle before and after Covid (we are monitoring data since 2019), we have grown faster.

I think at Specialty Polymers, we have demonstrated our capacity to gain share. And volumes are higher than 2019 levels, and improved our margin over the past four years and a half, which is not an easy thing to do. We have among the best, if not, one of the best margin businesses out there. In Q2, we saw an increase in PEEK and share gains here and there. Overall, for the second half of this year, we expect to see year-on-year volume growth in all businesses, including Specialty Polymers. But the comp is going to be easier.

On pricing, we focus on selling value and invoicing products. I do not see it as a constraint, but rather as a specialty company that demonstrates its value proposition to our customer. And if it is not sticky, then you call it a commodity. In commodity businesses, you should see ups and downs and you should align your pricing with raw materials and supply and demand curves. When we have stickiness, when our value proposition is strong, we should stick to it and win with our customers, and you see it. We stick with our range of €50 to €100 million net pricing give back. This is net pricing. And I hope you agree with me that considering the pricing we have generated in the past years, I will call it stickiness. Thank you. Back to you.

**Operator**: We will take our next question from Matthew Yates, Bank of America. Your line is open. Please go ahead.

## Matthew Yates (Bank of America)

Hey, good afternoon, everyone. Thanks for taking the question. I wanted to ask about the news surrounding the North American PVDF plan, which you only broke ground on the 25th of April. So here we are only three months later putting that on pause. I appreciate this demonstrates good capital discipline, but it also gives the impression of a business case that perhaps wasn't robust enough to justify such a large outlay in the first place. So I guess the first question is, can you talk about why your view on demand has changed so dramatically in such a short space of time? And maybe as a follow up to Chris's point now that Syensqo has freed up €200 to €300 million of capital, are there other growth projects that were waiting in the queue at the company that can maybe be sanctioned and support those midterm growth aspirations you gave at the time of the spin?

**Dr. Ilham Kadri**: Thank you, Matthew. Well, what has changed is what you read as well. The only thing that changes in my seat is that we continue to get more information from our customers and we adapt to this information. All our customers, and we are in direct contact with them, are reviewing their investments. By the way, Matthew, this is a delay, not a cancellation. Some of them are canceling the equivalent of more than two million cars worth investments in Europe. Some of them are switching to hybrids. So, the new trends clearly call for a slower growth in EVs, and you saw that across the value chain and accelerating, by the way, in the last few weeks and months. Third party market forecasts such as S&P, who have revised their forecast from flat before entering the year to up and now it is down and negative. We continue to believe in long-term growth.

In electrification, BEVs are announced to triple in 2030 versus 2024, and the unique opportunity we have as a company with others' support and our partnership to support our clients. So, this decision to rephase the project is not taken lightly, obviously. But we are good custodians of our capital. This is what our investors should expect from us. You have seen me doing it back in 2019 and canceling some real estate projects. And here it is a delay and it is the right thing to do with the business.

Our current analysis, Matthew, and we did it very granularly with many of our customers. With the capacity available today, and the one coming on stream in Tavaux, our analysis shows that we may need to slow down the cadence of investments by as much as two years, aligned with the customer demand and the terms of use of the grant from the Department of Energy. This will reduce our growth capital expenditure by around, as Chris said, €100 to €150 million per annum in the next few years. All in all, we believe we have the capacity available to address the growth as it stands today. We variabilize CapEx timing. I found it rather smart, and we will do more of this more dynamically. Chris, you want to address the second part of the question?

**Christopher Davis**: Yes, please, if I can just take the second part of the question around €100 to €150 million. And I think you quoted the number right about €200 to €300 over two years. So, yes, the current consensus for 2025 is around €760 million of capital, which is broadly in line with what we said at the Capital Markets Day. As we have indicated during this call, we expect to have an impact of about €100 to €150 million per annum reduction. So the mathematics, I think, as we go into 2025 and 2026 is reasonably easy to look at, and this will result in stronger cash generation for us.

That said, and as I said in my opening remarks, as we remain responsible custodians of our capital, we are doing everything to improve our ROE in our plants to drive more efficiency from our existing capacity. And we really want to improve the returns. To the extent we can achieve those Capital Markets Day targets without the same level of capital investment, we think that is a fantastic outcome for shareholders who have come on to our register. We still believe in the value of this project, and we believe it will be delivered over time, but we have just delayed it. That is really in line with the macroeconomic factors that we are seeing at the moment. So it is just a delay of up to two years, and bear in mind also that the revenue of this project represents only about 15% of the growth in incremental revenue over the five years. So what you should expect from us is to be agile, disciplined stewards of capital and controlling the costs that we can, as Ilham mentioned, upfront and focused on cash generation. So I will pause there and hand it back to you.

**Matthew Yates (Bank of America)**: Thank you both.

**Dr. Ilham Kadri**: Thank you.

Operator: We will take our next question from Sam Perry, UBS. Your line is open. Please go ahead.

## Sam Perry (UBS)

Hi there. Thanks for taking my questions. I have two, please. On the materials segment, EBITDA declined by 62 million for Q2. And the commentary mentions net pricing for the division was flat. You've mentioned lower year over year fixed cost and FX is very small. So this €62 million decline is essentially volume led. However, if I look at your top line volumes only declined €67 million. So why is the drop through so high? Is that all mix or what am I missing there.

The second question sort of builds on Matthew's question and pushing out the plans to build the PVDF plant in the US, but the outlook for auto production in Europe and EV penetration growth is arguably worse. What does that mean for your utilization rates at your capacity expansion in France and at the battery seminar when you're part of Solvay, you went into a lot of detail about how suspension grade would be the material of choice for NMC customers, given LFP seems to be growing as a material of choice, how does that impact your cost position or addressable market? Thanks.

**Christopher Davis**: Let me deal with the PVDF facility in the US first, if you do not mind. So on the PVDF facility and the impact in Europe, on Tavaux, we have really got nothing to call out. We remind you that we expect to complete the project in late 2025, with the first full year of operation in 2026. I also remind you that the capacity can be used for multiple PVDF applications and not just batteries. And the plant expansion will serve growth needs across a range of industries. We are taking this into account both from a geographic perspective and from an ultimate end use.

Now, I am not going to talk about any specific customers, but as we look at Tavaux today, we are in the process of closing some significant contracts. The other question that you said on the revenue line that really is about mix, and I think you hit the nail on the head. So the net pricing, the mix of products, and that is really it. Is there something we missed in that call in that question, Sam?

**Sam Perry (UBS)**: No. It was effectively wise to drop on revenues or on volume mix. So high to EBITDA, but it is all mixed then. That is clear. Thank you.

**Dr. Ilham Kadri**: The next question was about the European EV environment, Sam. That is the growth outlook in Europe, worse probably than the US. On Tavaux, nothing to call out. And I remind you that we expect to complete the project by the end of 2025. The full first year of operation will be rather 2026. We also remind you that the capacity will be used for multiple PVDF applications. This is not just battery. Our business today is half automotive and half non-automotive, as you know.

The plant today and its expansion is serving growth needs across a range of industries as we bring capacity on stream. By the way, I cannot talk about specific specifics on customers, but we are in the process of closing some significant contracts, which will be supplied by this plant. All in all, we will also cater the needs of North America. If North America would restart a bit and accelerate back after the election, we can cater the needs of North America from Europe. So we feel very confident about our investments in Europe. Back to you.

**Operator**: There is no question. That is all the time we have for the Q&A session for today. So I will now hand you back to the company for closing remarks.

**Sherief Bakr**: Thank you very much, everyone, for your participation and good questions. That unfortunately ends our session for today. Conscious today is a very busy day for many of you on the call. As usual, the Investor Relations team will be here to answer any remaining questions that you have and have a great day. Thank you very much.

**Dr. Ilham Kadri**: Thank you.

**Operator**: Thank you for joining today's call. You may now disconnect.