Syensqo Q4/FY2024 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 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, Christopher 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 the fourth quarter and our full year performance in 2024.

Chris will then go into more details on our financial performance, before turning the call back to Ilham who will discuss our priorities and outlook for 2025.

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, everyone.

2024 was a milestone year for Syensqo, and despite the challenges and the uncertain demand environment that continues to impact our industry we operated with increased purpose, focus, and agility, to meet our customers evolving needs and to help them win.

Indeed, since we became a standalone independent company at the end of 2023 we have been driving the necessary changes to our ways of working to help us recalibrate how we think about driving growth and delivering value. And our increased agility was also demonstrated by the capital allocation decisions we made during the year, leveraging our strong balance sheet, and financial position to increase direct shareholder returns.

In contrast to the lack of end-market visibility that characterized much of 2024, we gained tremendous clarity on how to adapt and implement the steps we will take to structurally outperform our markets, become an even purer-play Specialty Company, and allocate capital to drive long-term returns.

And indeed central to all of this are our 13,000 people or as we call them, our Explorers. And I would like to thank them from the bottom of my heart for what we achieved in 2024. And it is through their dedication, passion, and creativity that we will continue to advance our strategy and deliver on our targets.

Chris will take you through some of the details of our quarter four performance a bit later but at a high level, we delivered 2% net sales growth and mid-single digit EBITDA growth led by Technology Solutions and Specialty Polymers.

Our gross margin performance was again resilient despite stronger growth in Consumer and Resources. And as expected our cash flow generation was the highest of any quarter of the year.

The combination of our cash generation and strong balance sheets also provides us with more optionality to both invest in our organic growth and reward our shareholders.

During the fourth quarter we completed more than 20% of our EUR 300 million share Buyback Program. We have since completed the second tranche of the program, totaling EUR 100 million and will commence the third tranche later today.

Finally, you will have seen in our separate release this morning that our Board of Directors has approved the exploration of a potential dual listing in the U.S. As you all know the Americas are our largest region, representing more than 40% of our net sales and is home to more than half of our industrial sites.

With the added potential benefit of expanding and enhancing our investor base, it's logical for us to explore a U.S. listing. We have already started the initial assessment a while ago and now we will accelerate the feasibility work over the coming months before making a final decision on whether we will proceed. And we will update you of course on the progress we are over the coming months and quarters.

The timing also coincides with the start of the rebuild of our Digital Architecture which will also be an important part of our evaluation, replacing the current systems manage and transition service agreements with Solvay.

Turning now to the segment highlights for the fourth quarter on slide 6. As a reminder Syensqo's mix of revenue and earnings reflects our position as one of the leading pure-play specialty companies. Indeed in quarter four, almost 75% of our EBITDA was generated by our high-margin Material segments. On a year-on-year basis, Specialty Polymers saw mixed end market dynamics with a return to growth in Healthcare and Construction offset by weaker demand in Auto and Electronics.

In Electronics we saw higher than expected levels of customer destocking in the quarter as well as the impact from delays to Semiconductor Fab construction. This is also expected to impact our growth in the first half of 2025. And I'll come back to this when I cover our outlook for the year.

Turning to Composite Material, where the growth was driven by double-digit growth in Space and Defense applications. Our performance in Civil Aerospace was impacted by the strike action at Boeing, and outside of Boeing Civil Aerospace saw mid-single digits year-on-year growth.

So at a Material level, EBITDA was modestly higher, supported by tight cost control resulting in 120 basis points of year-on-year margin expansion.

For Consumer and Resources, we delivered double-digit volume growth driven by growth in all businesses led by Novecare, and Technology Solutions. This also translated to strong year on year EBITDA growth with EBITDA margin increasing to 13.4%.

Briefly turn into our full year results. Year-on-year growth improved over the course of 2024 as volume momentum moved from negative to flat, to slightly positive. We had another year of gross margin resilience, reflecting the specialty nature of our portfolio, and included EUR97 million of net pricing give back, as well as unfavorable mix.

And from an innovation perspective we continue to increase our best-in-class Vitality Index with almost 21% of our sales generated from products that are less than five years old.

Adjusted EBITDA was in line with expectations, with free cash flow of EUR390 million impacted by slightly higher capital expenditure.

Chris, will cover shareholder returns in a separate slide but I'm pleased to report that the Board will propose a dividend of EUR1.62 per share which will be paid in Q2 of this year for the approval of shareholders at the upcoming AGM on May 6th.

As you can see on slide 8, we had a busy year in 2024, at least to say, bringing new and differentiated innovation to support our customers, being more sustainable and high performance solutions across the portfolio, complemented by a couple of bolt-on acquisitions.

I won't go into all the details as we have covered much of this over our last few earnings calls but I want to highlight the rollout of our Employee Share Purchase Plan which has seen a more than 20% participation rate.

Now our customer- led strategy also translated to a number of breakthrough wins and market-share gains in 2024 of which a few have been outlined on slide 9.

As you can see these wins have been across our key end markets further extending our leadership position and supporting our long-term outperformance goals. This included our first Thermoplastic Composites application for oil and gas customers and a new multiyear contract for heavy metal removal in Agro.

I was particularly pleased to see our market share gain in Electronics and Mining, testament to the growing Hunting culture, we are pushing in our commercial teams and the proprietary in-house engineer capabilities, we have developed over the past year and will continue, to better understand customer needs and support our growth ambitions.

Indeed over the last few years, we have demonstrated our ability to deliver superior volume growth across the portfolio. For example, in [peak], within Specialty Polymers, our high-performance Composite Materials and Adhesives, in Aerospace and Defense applications, as well as across Novecare, driven by our global presence, strong value proposition, and customer obsession.

As a reminder we already have the capacity to support this growth as volumes recover and where we don't, we are making investments to unlock additional growth. And I'll come back to this later.

As I mentioned at the start of the call, the past year has given us more clarity around how we will fine tune our pure-play Specialty Company to outgrow our markets. These choices are reflected on slide 10.

By focusing on the four Business Units on the left-hand side of the slide, we will become a stronger, simpler, and more resilient company, aligned with secular growth trends exposed to a broad range of markets where we are already a leader today.

Turning to the right-hand side, you can see the two businesses Oil and Gas, and Aroma, which made up approximately 11% of total net sales in 2024. Fundamentally we don't believe that we are the right strategic owners of these assets but in the hands of the right owners, these remain attractive and profitable businesses.

We have a clear strategy to divest both businesses, and look forward to sharing more on this as we go through the year.

With Specialty Polymers Composite Materials, Novecare, and Technology Solutions, we have four businesses which provide a healthy balance of markets, and geographic exposures, as well as different levels of capital intensity.

Our focus on increasing returns is at the heart of how we allocate capital. And before I turn the call over to Chris, I want to spend a couple of minutes to explain how our thoughts have evolved and what you should expect from us going forward.

Simply put, we are moving away from bigger and more longer-term mega projects, to brownfield ones that are smaller and faster; smaller in terms of size; faster in terms of their payback and higher returns; with lower risk obviously.

If there is a lesson that can be learned from 2024, it is the importance of being able to adapt to changing industry trends and customer needs. For example, EV Adoption and Global Infrastructure Projects have been slower and pushed out relative to prior expectations. And as difficult as it was to delay our flagship North American Battery Materials Projects it was clearly the right call to make.

In addition to freeing up capital to reward shareholders with the Buyback Program, it also helps us take a broader perspective and reassess our approach and priorities around growth projects.

What we now see is the opportunity to do better more with less for both sustenance and growth Capex with the potential to provide a clearer line of sight to their returns.

Let me explain it. For sustenance Capex which we expect to be around half of our spend in 2025, we have undertaken a zero-based redesign to drive more efficiencies and reduce our longer-term Capex requirements for each of our 64 manufacturing sites. For growth Capex, we will focus on projects that are closer to home, leveraging existing products and solutions, to meet the needs of our existing customers as the capacity comes on stream.

We plan to come back during our Quarter One Earnings Call with more specific details and metrics but a few examples include, first, production expansion needs for [Galden]. This is our market-leading fluids for semiconductor customers where industry capacity is tight, we have taken market share and we will continue taking market share and we have recently secured new long-term contract wins.

Second, expanding our capacity for high-performance Adhesives which represents around 20% of our Composite Material sales, where there is a multiyear qualification process for any new entrants, and we have a leading market position to meet customer demand.

And third, debottlenecking our current capacity constraints in one of our key production plants, for Mining Solutions, where we again have a leading position and demand from existing customers.

So with that, I'll turn the call over 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.

As Ilham referenced 2024 was a year where our industry saw numerous challenges and an uncertain demand environment.

Despite this, I am pleased to report that we ended 2024 in line with expectations.

With that in mind let us turn to Slide 12 which looks at the "4th quarter and full year summary of our 2024 financial results".

Looking at the 4th quarter results, net sales of 1.6 billion EUROS improved marginally against the 4th quarter of 2023. Whilst gross pricing had an adverse impact on sales, this was more than offset by the improvement in volumes and mix.

Within Consumer & Resources sales in Novecare and Technology Solutions both increased by 7% compared to the prior comparable period.

Agro sales continued the positive momentum experienced in the 3rd quarter, with sales in the 4th quarter improving by 14% on the prior comparable period. The impact of lower pricing was more than offset by improved volumes as a result of the end of destocking across the value chain along with the replenishment of the market as demand returns to a more balanced level.

Home & Personal Care sales increased 6% due to share gains in targeted business across Asia.

Technology Solutions benefitted from customer wins, stronger demand for re-agents in Mining, and the adoption of new products.

Revenue from Composite Materials remained steady in the quarter compared to the prior year.

Increased sales to Airbus, COMAC and Space & Defence applications, alongside improved pricing, helped offset the impact of lower sales volumes to Boeing as a result of the anticipated strike activity.

This demonstrates the strong value proposition of our range of products and our exposure to a mix of customers and programs within both Civil Aviation and Defense applications.

Within our Specialty Polymers business sales reduced by 4%, driven largely by Automotive and Electronics.

Whilst the lower demand in Automotive is well publicized, the impact of the recent delays in Fab construction at certain large semicon producers led to a larger than expected destocking in the value chain in the quarter, which, as Ilham indicated, we expect to continue in the 1st half of 2025.

At 1.4 billion EURO, underlying EBITDA for the full year 2024 is in line with expectations.

Taking into account the Profit Attributable to Syensqo Shareholders for the year ended 31 December 2024 of 553 million EURO this results in underlying Earnings per Share of 5 Euro and 28 cents [5.28].

Turning to the EBITDA Bridge on slide 13.

As I have already mentioned, a look back at 2024 reveals a year of significant uncertainty.

Geopolitical tensions combined with high inflation and high interest rates have impacted customer investment projects and consumer confidence.

Volume weakness on the back of excess capacity and lower demand from customers as they actively manage their supply chain to preserve cash, was also a notable feature during the period, which impacted our Specialty Polymers business.

Despite the softness in the market, we saw improved volume momentum in Consumer & Resources, and Composite Materials.

Looking at the final quarter of the year, volumes had a positive impact of 13 million EURO in the quarter driven by Consumer & Resources

Specifically, the fourth quarter of the year saw a strong improvement in volumes and mix in Agro within Novecare, and strong sales to Mining customers in Technology Solutions, more than offsetting lower volumes from the Materials segment in the quarter.

As previously mentioned Volumes in Specialty Polymers decreased in the final quarter of the year, driven by lower sales in Automotive and Electronics.

Automotive markets remain under pressure amid a slowdown in vehicle demand which has impacted a number of OEMs.

Net pricing had an adverse impact of 26 million EURO in the final quarter of the year. This was experienced mostly in the Agro and Aroma segments within Consumer & Resources on price concessions to protect volumes, and within battery applications, notably in China, in Specialty Polymers.

This was partially offset by the continued benefit of stronger pricing in Composite Materials, albeit that the lower volumes in Civil Aviation, namely Boeing, did not allow the full extent of the pricing benefits to show in the quarter.

This brings the year-to-date net pricing impact to 97 million EURO, which is in line with our expectations. Whilst we do not expect material pricing impacts in 2025, the impact of price decreases in the latter part of the year will flow through into 2025.

Fixed Costs and Other had a positive impact in the quarter of 29 million EURO compared to the prior comparable period, and on a full year basis Fixed Costs and Other is an adverse variance of 22 million EURO, which better reflects the timing of spend in the respective quarters of the year.

At 22 million EURO for the full year, this is aligned with the planned increase in investment in Research & Innovation, as well as increased costs in Composite Materials to support volume growth.

The net result is EBITDA of EUR 298 million for the final quarter of the year.

Turning to slide 14.

Our position on net pricing has been consistent.

We believe that as a Specialty company we will price for value and defend our margins.

Importantly, the impact of net pricing on our high margin Materials segment has remained approximately flat year on year, with the impact of selective price reductions in Specialty Polymers offset by improved net pricing in Composite Materials.

Within Consumer & Resources, more than 20 million EURO of the net pricing decline is attributed to the Aroma and Oil & Gas businesses, where significant price pressures have been experienced.

Separating Aroma and Oil & Gas, the net pricing decline has been approximately 75 million EURO, largely in Novecare. These price decreases have been carefully managed, with the adverse impact of price within Novecare more than offset by the increased volumes.

We remain committed to defending our margins and with this in mind I would like to draw your attention to slide 15 which shows the evolution of our gross margins.

As is evident from the slide, over the past 5 years Syensqo has actively worked on managing its gross margins and to price products for value.

In this respect, and excluding Aroma and Oil & Gas, Syensqo has improved margins by 650 basis points over the period, with an increase of 410 basis points in the Materials segment and an increase of 760 basis points in Consumer & Resources.

Whilst the individual mix of products within each of the segments can impact the margins in any single quarter, the important message is the trend, and our ability to defend pricing and maintain cost discipline over the period, regardless of the impact of volumes in the demand environment.

By way of example, the Materials segment margin in 2024 was impacted by a higher mix of sales of Composite Materials and a lower mix of Specialty Polymers.

We believe that gross margin is a far more comprehensive measure of the quality of our revenue, how we manage our cost of goods sold, and is far better aligned with Syensqo's specialty value proposition to our customers.

Turning to capital expenditure … our total capital expenditure for 2024 was 671 million EURO, a decrease of 21% compared to the prior period.

Whilst the final capital expenditure is slightly above our guidance range, it is important to note that included within the 671 million EURO is 17 million EURO of non-cash capital expenditure items. Specifically, these include minority partner's interest in capital expenditure that is consolidated 100% and capital expenditure that is reimbursed in cash from joint venture partners.

With this in mind, sustenance capital expenditure of 293 million EURO for the full year included safety, compliance and maintenance expenditure to ensure our sites remain safe and reliable.

Growth capital expenditure of 378 million EURO included spend on Research & Innovation and spend on capacity expansions and operating efficiency.

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.

That said, and as mentioned by Ilham, we will also consider the pipeline of growth opportunities available to us, and invest in what she describes as projects that are "smaller and faster" and generate strong returns.

These are areas where we are currently operating at capacity and where customer demand exists.

Looking forward to 2025 we expect capital expenditure to be approximately 600 million EURO, or around a 10% reduction year-on-year.

Moving to our Operating Cash Flows on Slide 17.

The generation of strong operating cash flows remains a key focus for the business.

In the final quarter of 2024 operating cash flows were positively impacted by the release of trade working capital as planned which resulted in operating cash flow of 345 million EURO in the quarter.

This brings the full year operating cash flows to EUR 841 million EURO, which includes the one-off payment of 167 million EURO to the NJDEP in the second quarter and 122 million EURO of costs incurred to further separate from Solvay.

The payment to the NJDEP will not repeat in 2025.

Free cash flow to shareholders for the quarter was 159 million EURO, bringing the full year free cash flow to shareholders to 390 million EURO, which is in line with our guidance.

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 82%.

Turning to our Financial Position, I am pleased to report that we continue to have a strong balance sheet, with our net debt at 1.9 billion EURO, a gearing ratio of 21%, and a leverage ratio of 1.3 times, after taking into account some 73 million EURO of cash utilized to acquire shares in the market for our employee long-term incentive obligations, and the 64 million EURO of share buy-back activity in the final quarter of the year.

Despite these outflows, we continue to have low levels of gearing, and a balanced debt maturity profile.

We continue to have strong levels of liquidity available, as demonstrated by the 1.7 billion EURO of undrawn committed bank facilities and a further 800 million EURO of cash & cash equivalents and other financial instruments on hand at the end of 2024.

Turning to shareholder returns on slide 19.

As the market is aware, on 30 September 2024 we announced a share buy-back program to acquire up to 300 million EURO of our own shares in the market.

This program was supported by our robust financial position and our commitment to create shareholder value, while also maintaining a strong investment grade credit rating, as well as supporting an efficient capital structure.

The program is progressing well and, as at the end of the year, we had acquired some 843,000 shares at an average price of EUR 75.68 per share, thereby returning 64 million EURO to shareholders.

Furthermore, as of yesterday we completed the second tranche of the program, having acquired a further 471,000 shares in the first two months of 2025, bringing the total repurchase program to 100 million EURO to-date.

With this in mind we have today launched the third tranche of 50 million EURO.

All shares acquired in terms of the program have been cancelled thereby reducing the issued share capital of the Company.

Taking into account the dividend in respect of the 2024 financial year, and the share buy-back activity completed in 2024, this brings the total amount returned to shareholders to 234 million EURO, an increase of 38% over the 2023 financial year.

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

Thank you!

Ilham Kadri - Syensqo - CEO

Thank you Chris

Looking ahead into 2025, we expect our sector to be impacted by many of the same challenges and uncertainties experienced throughout last year.

For Syensqo, our priority remains on focusing on what we can control and taking action to create value.

Slide 21 outlines our priorities for the year which can be segmented into three main areas……

FIRST: customer-oriented initiatives and investments to drive growth

SECOND: taking actions to become more efficient through cost savings and investments in our new digital architecture, and

THIRD: executing on initiatives to create and unlock value

Just to focus on a couple, starting at the top…….. which is fundamental to how we will better leverage our technologies to increase our share of wallet with existing customers, win with new customers, and drive incremental growth.

This “hunting” culture is a real shift, and 2025 will see us roll out new GenAI based tools to create new sources of growth.

Having rolled out an initial trial within Specialty Polymers, we have already seen this translate into new customer wins.

Turning to costs

Now, let’s turn to our outlook for 2025, on slide 22

Given the current uncertain environment, we are planning for our volumes to be flattish in 2025, with muted, if any underlying demand recovery.

This outlook also includes a net sales impact of approximately 80 million in Aerospace and Electronics.

Looking at third party forecasts, growth is expected in the Aerospace and Electronics end markets, with more modest growth in Healthcare, Mining, Agro as well as Home & Personal Care.

For automotive, the latest S&P light vehicle forecasts point towards flattish production in 2025, albeit with faster growth in electric and hybrid vehicles.

Turning to our segment outlook, starting with Materials where we expect mid single digit growth in Composite Materials as we continue to benefit from the diversity of our customer and program mix across both civil and defence applications.

This growth is despite our expectations that we will continue to see a revenue impact from last year's strike at Boeing on our first half results.

For Specialty Polymers we expect flattish volumes, with

lower volumes in Consumer Electronics, due to a design change at a customer program and the impact of delays to investments in new semiconductor capacity;

flattish growth in Automotive, Construction and Industrial with

GROWTH in Healthcare and Food Packaging

Moving to Consumer & Resources..... We expect to see low single digit growth in Technology Solutions, with flattish growth in Novecare.

For 2025, we expect underlying EBITDA to be at least 1.4 billion EURO.

Rather than providing you with a range, we want to provide you a floor in the context of the ongoing macroeconomic and geopolitical uncertainties, and what we confidently believe we can deliver.

And from a free cash flow perspective, we expect to generate approximately 400 million EURO, including capex of around 600 million EURO.

From a seasonality perspective, we expect the shape of the year to look quite different from the typical seasonal norms, primarily due to:

the scope and timing of the impacts I referenced earlier in Materials, which are mostly skewed towards H1, and particularly in Q1,

additional destocking semiconductors, which is expected to recover in H2; AND

the phasing of cost savings, which are expected to be more second half weighted

Putting this all together, we expect our first quarter EBITDA to be our lowest quarter of the year at approximately the same level as the fourth quarter of 2024.

Taking a step back, 2025 is set to be another year where market dynamics are likely to remain uncertain.

However, what you can be certain of is our focus on executing on the things we can control, accelerating how we can become more efficient and how we can unlock value, while investing in attractive organic projects which will position us for stronger growth and outperformance over the coming years.

With that, we are ready for your questions.

Thank you.

Sherief Bakr - Syensqo - Head of Investor Relations

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

Questions & Answers

Operator

We are now opening the floor for a question-and-answer session. (Operator Instruction)

Your first question comes from Laurent Favre from BNP. Your line is now open.

Laurent Favre - Exane BNP

Good afternoon. My question is on the Aroma exit, Ilham. I think Oil & Gas has been for sale for quite a while. And so, I was wondering if what you're communicating today is an intention to dispose or if you're actually confident you can announce a transaction this year?

Ilham Kadri - Syensqo - CEO

Thank you, Laurent. Well, I remind you that Oil & Gas has been already carved out. And the Oil & Gas, if you speak about it, we never actually pushed the business into discontinued operation. What you should read is that we always want to extract the right value of the assets we own. The reality is that we paused that investment of Oil & Gas and the investments plans at the time of the separation because we couldn't do the separation and continue selling as we were negotiating with different jurisdictions to have a tax free spin off. And we restarted over the course of the last year.

So fundamentally, as I mentioned, we don't believe we are the right strategic owners of both Oil & Gas and Aroma. And in the hands of the right owners, they remain very attractive businesses. By the way, they will be doing more and more well because these are favorable times for Oil & Gas and for Aroma. As you will see, a lot of anti-dumping tax barriers are in place, both in the U.S. and hopefully in Europe too. So, I cannot get into more details at this stage for reasons of confidentiality but what you can read is that Oil & Gas is more advanced because of the carve out which is already in place than Aroma. And I look forward to updating you on our progress over the course of the year.

Laurent Favre - Exane BNP

Thank you. And for my follow-up, Chris, you mentioned that you are moving away from big projects in terms of Capex. So, I was wondering if you could update us on the thought process on the PVDF investment in the US. Can you, I guess, reshape or rescope the project to a smaller site? Or should we assume that this is now, I guess, canceled rather than just postponed? Thank you.

Ilham Kadri - Syensqo - CEO

Great question. Well, listen, first of all, we had a lot of conversations back in quarter two. When we look back at the view with the team, and we were discussing it this morning, frankly, we don't regret our decision. It was the right decision to make, right? Absolutely. Because at that time we were in the middle of the elections. Nobody knew what's going to happen. So listen, I think a lot of uncertainty is still out there, and I just talked to many customers and partners yesterday and during the Antwerp gathering around the new legislative framework in Europe. And everybody is still uncertain about the new administration and the impact on the broader picture: IRA, the EV value chain etc. As a consequence, investments are just delayed. That's what we see. Our customers are telling us this.

So we will consider any project that creates value. We know the business case extremely well, Laurent. Frankly with all these challenges around the world and geopolitics, our strategy of onshoring and being in the region for the region is more than ever a strong value proposition. We like smaller and faster as well which we've been doing. We are doing, for example, Galden. This is a heat transfer fluid for connectivity. With Gen AI coming in, you will see more demand for fluid transfer products. And Galden is our flagship trademark. And we have consolidation in the market. One of our competitors is exiting that market.

So we are expanding in Galden. This is still small. It's going to be around EUR20 million EBITDA at maturity in the coming years. We have adhesives as an opportunity for aerospace. Our customers don't need only composite carbon fiber. They also need adhesive to glue all the parts together. We are one of the few who can do it. And those are different competitors than the carbon fiber ones. It needs qualification. It takes a lot of time. So our customers are really approaching us to augment that.

And mining, which Chris loves as a market and a business. We also have a brownfield opportunity where we can expand our sold-out capacity. So we will see this year as a year where we will close the Tavaux investment, it will be behind us. The good news is that the envelope of Capex can be replaced with this smaller and faster going forward, making the 600 more than viable. I invited the team and that's what we are doing. In the half of sustenance, we're going to see how we're the right size and do more with less in sustenance. More to come. And the other half will be dedicated to growth and research. Back to you.

Laurent Favre - Exane BNP

Sorry. So the point on 600 being viable and the end of Tavaux freeing up some capital, does that mean that 600 is a good number for 2026 as well?

Ilham Kadri - Syensqo - CEO

That's what we believe. I think, in the current environment, you remember at the Capital Market Day, Laurent, we told you that 60% of the growth will come from existing technologies with existing customers. The reality today is we have the capacity to cater the growth. We don't need to invest as many others. So we have the capacity. And where we see that there is demand, that the customer is ready to put a contract on the table, the market is consolidated. Like the fluid transfer. I love it because it's very high margin. One competitor is leaving the industry and we can do it. So, we already started actually a little bit last year. We will be full steam this year. And as I told you, I gave you the EUR20 million bucket of impact at maturity. So yes, we'll continue. Tavaux this year will end and will be replaced continuously with small and fast.

Operator

Your next question comes from Alex Stewart from Barclays. Your line is now open.

Alex Stewart - Barclays

I have a question on this EUR80 million impact in 2025. It seems or I understand that a chunk of that is in your Electronics business. And you've said it as being a first half impact. What I'm interested in understanding is if this is indeed in Electronics, and why is it concerning the first half? Is it just because the customer historically only bought the product, the polymer in the first half? And then related to that, has the customer replaced the polymer part with some other material.

And then, secondly, the digitalization investment I guess that's an ERP investment of some sort. Would you mind giving indication on how much that sort of cost? Perhaps how over the years that would be spent.

Ilham Kadri - Syensqo - CEO

Listen, in terms of many of our customer contracts, first of all, they don't allow us to reference them, or the specifics of a program. So, my comments will not include any names here. What I can share is that this relates to a change in design, Alex. Made by one of our customers in electronics. And this is not about replacing a polymer with another polymer. In general, either they manage the content or they would move to an extreme case to design choices moving from a polymer to a metal application, for example. Because it's pure design-driven rather than lower total cost of ownership, etc. And the total remaining business because that's probably the big elephant in the room, what you have in your mind, is this going to happen, again? The application space in our business for this type of business is less than EUR 100 million out of revenue base, as you know, EUR 6.6 billion. And overall, we would expect even this application to

grow over time as we expand the range of customers and programs, including in the Asian brands.

And this is something, you can look at even before I joined, my predecessor and predecessor CFO, when they talked about smart devices and consumer electronics, we had a higher type of revenues in the past. But I like it and I didn't like it because as you said, when there is a designer making calls between polymer and metal, the value proposition of lightweighting, recyclability, etc., it doesn't hold on because it's purely design-driven. So, we wanted to be very open with you to ensure that you know what we see already. On the numbers, this will be spread over the year, Alex. It's not about the customer buying in H1 versus H2. But the number we have given you is also heavy because of the Boeing impact. Does it make sense?

Alex Stewart - Barclays

Sorry, Ilham, just to be clear, so the consumer electronics portion of that EUR 80 million is spread over the year, it's the Boeing bit which is concentrated in the first half, is that correct?

Christopher Davis - Syensqo - CFO

So the Boeing bit is concentrated in the first half as they slowly destock so that they don't impact their suppliers. The customer design change is probably spread evenly over the year. And then you've got some general weakness in the first half of the year from semiconductors with the delay in fab investment that I said in my speech. And then I think you know what's happening in automotive, and that we're not going to necessarily bank on an automotive recovery, but we'll just wait to see. And that's probably more spread through the year.

Alex Stewart - Barclays

So on the ERP and digitalization. Could you remind me?

Christopher Davis - Syensqo - CFO

So, in reality, Alex, our current system that we have in place isn't supported beyond 2027. So, what we did in 2024 was look at the conceptual design of the ways of working, how we want to operate the systems we need, the applications we need. In the second quarter of this year, we're commencing the detailed design. Now under the new accounting standards, and I don't want to get into the details of that, some of it will be treated as Opex and some of it will be treated as Capex. But what we will do as we start spending that money, we will separate it and make sure you're aware of how much is Capex and how much is Opex. In reality, programs of this nature will go over a period of four to five years, so we'll come back to you in due course as to the spend in that period.

Operator

Your next question comes from Matthew Yates from Bank of America. Your line is now open.

Matthew Yates - Bank of America

I'm probably going to follow up on the things Alex just mentioned there. So thank you for the gross margin chart. Very interesting and reassuring yet again that net pricing for specialty polymers continues to look robust. However, has your commercial strategy played any part in pricing you out of the electronics contract or are you pretty confident that that is just a kind of esthetic design decision from the customer?

And I guess on a related matter, as it pertains to Novecare, it sounded like you're guiding the volume flat in 2025. Is that a conservative view on the macro or an admission that you still haven't cut prices enough to be competitive, despite those extra concessions you made in the latter part of 2024.

And if I can ask a second question, I don't know if it's for Ilham or Chris, but at the time of the spin or leading up to the spin, Ilham, you talked about EUR 500 million of separation costs. Now I have to admit, I've lost track about how much of that EUR 500 million has been spent. I see Syensqo spent EUR 122 million itself last year. And when in your cash flow bridge, you talk about another EUR 150-200 million of separation-related costs. Is that already within the EUR 500 million scope? Thank you.

Ilham Kadri - Syensqo - CEO

Thank you, Matthew. Chris will walk you through the separation costs. No, on the net pricing in polymers, definitely not. This has nothing to do with pricing again. And without repeating myself, the change is in design, not in polymer. And actually, the lower total cost is to stay with polymers. So, that can happen.

But listen, design choices can move from polymer to metal. I think at the peak, this application - before I joined the company - and probably you can read some of the old transcripts of Solvay at the time - was up to EUR 300 - 400 million. Now it's below EUR 100 million. And we can, depending on the design choices, see changes in the future. But frankly, it's happening. We will recover it. I mean, it's for this year, and there will be other programs, and we are working with other Asian customers on that.

Christopher Davis - Syensqo - CFO

So within Novecare, we're not assuming that there's a recovery in building and construction at the moment. I mean, that market remains subdued. A lot of it will depend on what happens in inflation because obviously, consumers won't necessarily do renovations. Similarly, for home and personal care, which we are assuming will be reasonably flat over the period. Where we are expecting an element of growth is in agro, given the fact that the destocking is behind us, and we see more normalized levels today. And then in mining, we expect growth. Obviously, bearing in mind we are capacity-constrained and largely the growth is aligned with our customers, generally happens at a roundabout GDP.

Ilham Kadri - Syensqo - CEO

And on the pricing, Matthew, you remember well, these businesses manage volume pricing elasticity as a guideline. If you look at our volumes since 2019, if you compare us to our competitors and the most formidable ones, you will see that from the volume perspective, we actually outperform competitors. So we are looking at that very, very carefully. We are looking at our gross margin per asset level at Novecare. So this is the business where we look at the pot and how to fill it rightly. But we're not going to go into the old strategy, is the first-in-first-serve or fill the pot, because you remember one of the biggest improvements actually we've done through Solvay transformation was actually in Novecare, prune the portfolio, sell businesses which are not specialty, more commodity, and we continue to upgrade this business.

Christopher Davis - Syensqo - CFO

Looking at the spinoff costs, at the end of 2023, to get to the point of the split, just over EUR 400 million of costs were incurred by what was then the old Solvay. In 2024, Syensqo incurred EUR 122 million, and in 2025 we're guiding a further EUR 150-200 million. I will remind you that in June 2023, the communication was that the separation was estimated at around EUR 400-500 million, encompassing taxes, IT, and separation fees, with an additional EUR 300-400 million relating to other items that create value and further de-risking the new companies. The largest portion of the separation costs relates to IT infrastructure and IT dual costs incurred during the handover. It relates to taxes for the separation, and it relates to redundancy costs of people that do not stay either in the old Solvay or in the new Syensqo, because those costs are borne by Syensqo.

Finally, included in the number, there's almost EUR 100 million of costs incurred to acquire new buildings, including offices, to fully separate from Solvay. Importantly, this represents assets that are on our balance sheet and we can monetize at any point in the future. So 2025 is the largest part of the remaining transition, given that the IT cutover takes place in May or June of this year, and the shared service environment is being set up as a standalone entity, with all services to be transitioned by December 2025.

Now, as I said, these costs are in line with what was communicated to the market in June 2023, and importantly, are in line with the benchmark transactions of this nature. When I look at it from a benefits perspective, once Syensqo is operating on its own platforms, it will allow both Solvay and ourselves the opportunity to further streamline the organization and allow the systems to drive increased benefit and improved decision-making. So for example, we will have lower operating costs once the TSA completes, as there will no longer be a profit margin paid to Solvay, and then the redundancy costs that we're starting to incur already will result in less employment costs going forward in both organizations. So, I'll pause there and then hand it back to you.

Operator

Your next question comes from Chetan Udeshi from J.P. Morgan. Your line is now open.

Chetan Udeshi - JP Morgan

The first question, and I'm sorry if this is a very direct question, but at the time of the split, Ilham, you had talked about outgrowing your end market by two times. And I think you will agree with me that we've not seen that outperformance in the last two years, at least in the group numbers. You may have outperformed in one or the other division, but we've not seen that outperformance consistently, and now we're talking about cutting costs. So, is this the strategy of Syensqo, to some extent becoming more or less like the other diversified chemical companies, including Solvay, where when things are good, you grow, when things are not good, you struggle? How is this strategy any different? I'm just curious, in your view, than what we see elsewhere in the sector.

The second question was on, just coming back to the full-year guidance, you're guiding to EUR 300 million for Q1, and the full-year guidance is at least EUR 1.4 billion. So, we need a big step up through the year. I'm still struggling to understand the drivers of this step up. I can understand maybe the headwind from Boeing and electronics will ease through the year, but is that enough to see the run rate probably going from EUR 300 million to almost high EUR 300 million, EUR 400 million through the remainder of the year? I'm just curious, how should we think about the phasing and drivers of that?

And last question, sorry, for Chris. I'm just looking at your free cash flow bridge for 2025 and stripping out the separation cost and also one-time Edison payment as one-off, you are at roughly EUR 325 million. If I do the calculation, that implies about 23% of EBITDA, which seems very low compared to what I would guess Syensqo should have been thinking about, which I think from memory was always more than 30% cash conversion. I think within that, the provision numbers (restructuring) just seems way too high compared to the previous guidance. So, are these run rate numbers that we will have every year going forward, or are there any special items within these numbers for 2025? Thank you very much.

Ilham Kadri - Syensqo - CEO

Actually, I like your straight questions, Chetan, so that's okay. Listen, the macros have not been favorable. When we said we would do the capital market day numbers back in the autumn 2023, nobody knew how 2024 was going to turn out. Our expectation was that macro would be somewhat normal in 2024 and 2025. It is what it is. This is nothing we can do about. I think what you expect from us, and I truly believe Syensqo, we all believe in this room and more that Syensqo is a growth company driven by leadership positions, customer relationship, and exposure to megatrends and those drives like wind, electrification, connectivity, biotechnology. Those are megatrends. Even if some are delayed, like the EV, it's happening. And maybe the EV is not growing 50%, 40% for the last few years. It may grow double digits starting with two or one, but it still grows.

What we need to do, and that's what we are doing, Chetan, and I hope everybody sees it, is that we focus on what we control. Customer relationships, continue outperforming our peers. And if you've done a nice research on the volumes, if you look at PEEK, if you look at composite sales, if you look even at compounding, at Consumer & Resources, you can look at the volume over a cycle, because this is not a sprint, it's also a marathon over the cycle, we are outperforming.

Now, when the macros will be more favorable, we are ready. We are ready with capacities, technologies, and people. So in 2025, Chetan, rather than giving you a range and doing the same sport as last year. Because remember the range, we are one of the few who hit the range. It's the bottom side of the range. Rather than giving you a lot of math and hypotheses on the range for EBITDA, we are assuming for now flat volume growth, and the volume growth is muted, outside of aerospace, where we see a long and predictable growth trajectory ahead of us.

For the cost, for me, it's not one or the other. For me, it's both. We will always ensure, and I've done it with Solvay, we started at EUR 300 million, we ended up almost at EUR 500 million savings. We will always ensure that the organization is fit for purpose, regardless of the volume environment. And frankly, last year was our first-year as a standalone. We had to experience it. We entered it from Solvay to Syensqo, so we had to live one year, but we are entering 2025 with strong, actually, cost-saving programs. And those are not touching the muscle. This is to make us fitter, more agile, fit for purpose all around the world, and rebalancing our resources where they should be, according to our geographic exposure. And because we are a specialty company now, and we need more Gen AI, for example, we need to rehire, and we need to close some departments and open a new one. So, I trust you will be happy with us becoming leaner as we transform and rehiring when it needs to be aligning with our footprint to the right geographies.

Christopher Davis - Syensqo - CFO

Let me deal with your question about the EUR 300 million EBITDA in the first quarter and how that translates for the full-year step-up. I mean, from a seasonality perspective, we expect the shape of the year to look quite different from what we've typically seen in the past, and that's really due to the scope and timing of the impacts that I spoke about when I answered Alex's question, particularly as it relates to materials, which are mostly skewed to H1.

So that's your Boeing impact on the destocking in composite materials. It's the impact of the lower demand due to fab investment, and then for the full year impact, we're obviously expecting additional reduced demand from the customer design change, and then we're not expecting anything around the auto space.

Now, in terms of the cost savings that we've set up, we are expecting these to be weighted towards the second half of the year. We're currently in the social dialogue process with the trade unions, and so we have to, as a courtesy, go through that process and explore all the avenues. They obviously are more certain because you can know the heads and everything else, and then there's obviously operating efficiencies which come through as the plant's volume

improves. So, that explains the lift from a EUR 300 million, as you say, all the way to at least EUR 1.4 billion.

Now, when I look at Q1, which is approximately flat versus Q4, I mentioned it as part of the answer to Alex's question, which is the destocking in semiconductors, the consumer electronics and aerospace, and the unfavorable mix are just generally in the first quarter of the year.

From a free cash flow perspective, you need to take your EBITDA for 2025. Obviously, EUR 600m of Capex. We have tax normally in the region of EUR 170 - 180 million. We have the financing costs, net financial costs of EUR 110 - 130 million, and then we have a general provisions spend out of cash, and that relates to two areas. It's an environmental remediation spend and a spend on pension obligation, and that's typically around the EUR 90 million mark.

Now, what we have included in our free cash flow is roughly EUR 90 million of restructuring costs. That's part of the program we're going through at the moment. And then we've also included the Edison compensation. Now, the Edison compensation is a one-off, as is the restructuring costs of EUR 90 million. By and large, those two offset each other.

What we haven't included in there is the separation from Solvay, the EUR 150 - 200 million, and that is consistent with how we've treated it in prior years. And I think if you do the math on that, you'll get to your EUR 400 million.

Operator

Your next question comes from Tristan Lamotte from Deutsche Bank. Your line is now open.

Tristan Lamotte - Deutsche Bank

I'm just wondering a little bit on mix exposure in autos, and if you give a little bit of color on regional and maybe OEM exposure there because from memory, your EV exposure is about a third of that auto's exposure and two-thirds. And then a similar question on semiconductors. Could you maybe give a little bit of granularity on how your exposure splits out there and the trends you're seeing in your different end-market exposures?

Ilham Kadri - Syensqo - CEO

On auto I shared the S&P forecast on production. We are not looking at sales. We are in production. The more you move from an internal convention engine car to EV and hybrid, the better it is for us, medium-term and longer-term. Because obviously, when you go to a hybrid, there is a battery and there is an ICE traditional motor, so they need a lighter car. And there, we're not only a battery supplier. We are in an under-the-hood application for magnet, wires, and so on.

So, I think the value proposition goes from 6 kilo in ICE to 12 kilo in a hybrid and 9 kilo in an EV. So, as we have more of this mix and we qualify more solutions, we have one OEM recently with

whom we have lightened this vehicle, and we are now rolling out. So, it's going to take time to repeat that model, but we have a repeatable model there.

So in terms of exposure, we work for everybody with everybody. And we work with tier ones, you know the names, Bosch and others. We are agnostic to the brands and the OEM's origins. So we're not only with German manufacturers. We work for big names in the U.S. We work for Asian and Chinese brands equally. And when Chinese car manufacturers want to invest in Europe, for example, we do work with them and they will ask us actually to support them in that onshoring of their car's manufacturing.

The question on semicon, we also see a strong growth in the electronic component in general, like hard drive disc connectors, supporting the data center markets, which is booming, and we are positioned and actively growing these segments. And we primarily support data centers through the semiconductor chip manufacturing that is used for this center. So, although it's a bit uncomfortable because we are telling you there is a destocking in semicon and you've seen the big names delaying their fabs. I'm pretty bullish about the strong growth hypothesis on the semicon and in the area where we are acting.

The Galden story is really a cool story for us because we have one of our competitors exiting the market. This is the heat transfer fluids, where we have a unique capacity qualified product in Spinetta, in Italy. And as we speak, we are debottlenecking a high-margin business. We're exposed to AI-driven growth, specifically in the new investments for data centers, as I mentioned, and liquid immersion cooling, which is another market growing heavily. What was the other question? That was all. Okay, thank you.

Operator

Your last question comes from Peter Clark from Bernstein. Your line is now open.

Peter Clark - Bernstein

On the guidance you went for the floor plus. Just wondering what you have in there of the restructuring and if there's anything tangible you can really point us to that we can hold on to for the restructuring support. I'm going below the EBITDA line. I know seasonally, your D&A underlying picks up a bit in the final quarter, but it surged this year.

And then the follow-up, specialty polymers margin, you pointed to the fact it went up in the final quarter. It looks like, on my numbers anyway, it went up 200 basis points or something in Q4. Just making sure there was nothing particularly funny in that, that helped that Q4 margin. I know we can see under pressure in Q1, given what you've said, but just wondering about that Q4 margin in specialty polymers. Thank you.

Christopher Davis - Syensqo - CFO

Let me just deal with the D&A. There was obviously quite a bit in that question. I didn't quite understand the first one about the floor and the separation cost, but maybe you can repeat it. From a D&A perspective, yes, it went from about EUR 470 million up to about EUR 533 million. Part of that was some accelerated depreciation on some small assets, and part of it was some of the R&I and capital on growth projects that are starting to come in from the past.

What you should expect going forward is our D&A to be around similar levels to 2025. So, it will be around EUR 500 million going forward, and that excludes the impact of leases and it excludes the impact of those non-accounting measures, leases and the Cytec PPA adjustment. What was that first question about the floor and the EUR 1.4 billion?

Peter Clark - Bernstein

Last question was about the specialty polymer margin in the fourth quarter was up, on my numbers anyway, over 200 basis points. Just making sure there was nothing particularly funny in that number helped it.

Christopher Davis - Syensqo - CFO

You must be talking about materials and not specialty polymers because we don't disclose that. But in the final quarters of the year, we have a greater weighting of composite materials, which is a lower margin versus specialty polymers, which is higher, so that you can get a distortion in any quarter, but it's not material. And then on the EUR 1.4 billion, I didn't fully understand the question, but the restructuring costs are outside of the EUR 1.4 billion. It's not part of the underlying, and that's consistent with the way we've treated it in the past.

Peter Clark - Bernstein

The restructuring support you see out of that EUR 200 million you're guiding for the two years up to the end of 2026, how much is in 2025?

Christopher Davis - Syensqo - CFO

It's EUR 200 million of savings that are run right by the end of 2026. Roughly, that equates to about three years of inflation. If they start coming through in the second half of the year, you should plan that to a run rate to the end of 2026.

Ilham Kadri - Syensqo - CEO

That's the way to look at it, Peter. It's more or less three years of washing off inflation. And the run rate is December 2026. As I told you, when we entered into 2024, we were just getting out of the spin-off. Now we have one year under the belt. We know how we operate as a business. No business discontinuity, touch wood. We can be standalone.

With the systems we will have, we're going to be more efficient. And operationally, we are going to operate at lower cost than the one we are paying to Solvay. So I think you will see from us now an acceleration of our right-sizing program. And those are cost savings, which we are accelerating. And, as Chris said, we have a conversation with the unions as we speak. But the run rate of December 2026, EUR 200 million that you can put in your modeling.

Operator

We have reached the end of our Q&A session. I'd now like to hand back over to the management for final remarks.

Sherief Bakr - Syensqo - Head of Investor Relations

Thank you, everyone, for your good questions and participation. That ends the session for today. As usual, the investor relations team is here to answer any remaining questions. And we wish you a good day. Thank you.