Syensqo Q1 2025 results

Analysts call transcript

15 May 2025

CORPORATE SPEAKERS:

Sherief Bakr
Syensqo; Head of Investor Relations

Ilham Khadri
Syensqo; Chief Executive Officer

Christopher Davis
Syensqo; Chief Financial Officer

PARTICIPANTS:

Matthew Yates
Bank of America; Director

Laurent Favre
BNP; Analyst

Martin Roediger
Kepler Cheuvreux; Analyst

Peter Clark
Bernstein; Head of Global Chemicals Equity Research

Tristan Lamotte
Deutsche Bank; Chemicals Equity Research Vice President

Thomas Wrigglesworth
Morgan Stanley; Head of Chemicals Europe

Chetan Udeshi
JPMorgan; Analyst

Alex Stewart
Barclays; Director

Aron Ceccarelli
Berenberg; Analyst

Sherief Bakr - Syensqo - Head of Investor Relations

Thank you, Bella. Hello, everyone. And welcome to Syensqo's First Quarter 2025 Earnings Call.

I'm Sherief Bakr, Head of Investor Relations and I'm 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'd also like to remind you that during this call we'll 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 quarter. Chris will then go into more details on our financial performance before turning the call back to Ilham, who will discuss our 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. Good afternoon. And good morning to everyone. The first quarter of the year saw us deliver and slightly exceed our outlook in a challenging market environment. Chris will take you through more of the details of our quarter one performance in his usual financial review.

I'll then share some thoughts on our unchanged outlook and some context relating to the evolving tariff and global trade dynamics.

Turning back to the quarter one highlights.

As Chris will demonstrate in his comments, we delivered resilient sales growth with stable pricing despite the headwinds we flagged last quarter in Specialty Polymers.

Our performance was led by Composite Materials and Technology Solutions, which on a reported basis, both delivered 10% growth with 7% growth in Novecare.

While gross margin was impacted by lower volume in Specialty Polymers, we saw 160 basis points sequential improvement supported by higher pricing and margin expansion in both Materials and Performance & Care. An underlying EBITDA of EUR 311 million increased by 5% sequentially, with EBITDA margin increasing by approximately 60 basis points to 19.2%.

The first quarter of the year also saw us make excellent progress to fully separate our systems and IT infrastructure from Solvay. And in early May, we successfully completed a key milestone with the cutover of our ERP systems, which are now fully owned and operated by Syensqo.

We also continued to execute our EUR 300 million share buyback program, repurchasing an additional EUR 56 million in the quarter, which took us to approximately 40% of the total program. And taking into account the repurchases in the first six weeks of quarter two, we are almost at 50%.

Turning to our updated segment reporting on Slide 6.

As you would have seen from our press release earlier this week, and in our quarter one results, we have updated our segment reporting, creating two new segments to replace the former Consumer & Resources.

By separating the businesses we intend to divest, we now have two segments, Materials in one hand and the newly created Performance & Care. They are both better aligned with our pure-play strategy as well as providing better visibility to the investment community into the profitability of Novecare and Technology Solutions. Excluding Oil & Gas and Aroma, the underlying EBITDA margin of Performance & Care was more than 350 basis points higher than the previous Consumer & Resources segment in 2024 and much closer to its best-in-class peers.

What you see on the left-hand side of the slide is a simpler, higher margin and more focused specialty company with approximately 3/4 of its EBITDA generated by the higher-margin Materials segment.

Starting with Specialty Polymers, our largest and highest margin business unit, Composite Materials, which is exposed to a broader range of civil and defense customers and programs with strong underlying demand and has increased its EBITDA margin over the last five years from low to double digits to above 20%. Novecare with its portfolio of surface chemistry focus on the home and personal care, coatings and agricultural end markets; and Technology Solutions, a global leader in specialty mining reagents and technical services, which is our second highest margin business.

Now let's turn to our segment highlights for the first quarter.

Starting with Materials.

As I mentioned earlier, Q1 performance was led by double digit growth in Composite Materials with broad-based growth in both civil and space and defense applications.

As expected, our performance in civil aerospace was impacted by destocking at Boeing following the strike action at the end of last year.

On a year-on-year basis, Specialty Polymers performance saw mixed end market dynamics.

As we referenced on last quarter's call Q1 was impacted by specific headwinds in Electronics, where sales were down by approximately 30% year-on-year, primarily due to temporary customer destocking in semiconductors in the first half of the year and to a lesser extent, from lower sales in consumer electronics. Growth was led by Food & Pharma packaging with stable performance in Healthcare.

At the Materials level, EBITDA margin of 28% reflects the lower volume in Specialty Polymers and unfavorable mix given the higher growth in Composite Materials.

Turning to Performance & Care, where we delivered 8% year-on-year growth.

For Technology Solutions, we continue to see strong underlying demand supported by market share gains. Growth was also supported by an easier year-on-year comparison.

For Novecare, growth was driven by Agro and to a lesser extent, by Home & Personal Care, supported by share gains as well with a slower start to the year in coatings.

At segment level, underlying EBITDA margin of around 18% saw a healthy sequential increase, up 140 basis points.

With that, I turn the call over to Chris to go through our financial performance in more detail. Chris?

Christopher Davis - Syensqo - CFO

Thank you, Ilham. Good morning and good afternoon to everyone on the call.

As Ilham has referenced, 2025 is a year that has commenced with a great deal of uncertainty. Whilst we did not expect any near-term recovery in demand as we commenced the year, the impact of tariffs by contrast has introduced friction and volatility into global markets.

Ilham will cover this in the outlook section of her remarks.

Despite this, I'm pleased to report that we finished the first quarter of 2025 slightly above expectations.

With that in mind, let us turn to Slide 9, which summarizes our first quarter financial results.

For the quarter, net sales totaled EUR 1.6 billion, in line with the prior comparable period. Volumes were down 1% due primarily to the expected lower demand in our Specialty Polymers segment.

I will talk more about the drivers of sales by each business segment in a later slide.

As I have previously mentioned, we remain committed to defending our gross margins as this reflects our value proposition and how we manage both our sales and cost of goods sold.

In this respect, our gross margin at 32% continues to reflect our specialty value proposition and improved by 160 basis points on a sequential basis, driven by strong volumes and pricing within Composite Materials and generally a better pricing environment in the first quarter. 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.

At EUR 311 million, underlying EBITDA for the first quarter is slightly above expectations.

Turning to operating performance by segment on Slide 10.

As Ilham mentioned and aligned with the announcement to divest both the Aroma and Oil & Gas businesses, we have created a new segment named Other Solutions so as to provide a better picture of the true underlying performance of our Performance & Care segment.

Within our Specialty Polymers business, sales revenue reduced by 11% compared to the prior comparable period, primarily due to the expected lower volumes in Electronics and to a lesser extent, in Automotive.

As Ilham referenced and as we saw in the fourth quarter of last year, the lower volumes in Electronics primarily relates to sales to certain semiconductor customers who have delayed in new fab construction projects. This has resulted in an extended period of destocking in the value chain, which we continue to expect will impact our growth in the first half of the year.

In addition, year-on-year volumes were also impacted by the design change we referenced last quarter in consumer electronics.

On the plus side, volumes improved in packaging applications on the back of strong demand across all markets in the quarter. Net pricing in Specialty Polymers remained broadly flat with modest declines in the Automotive and Battery applications.

Revenue from Composite Materials continued its strong improvement totaling EUR 317 million, a 10% increase compared to the prior period. Despite the expected impact on sales to Boeing, increased sales to other commercial aviation programs and space & defense applications drove a strong performance in the quarter.

Sales to commercial aviation improved by 9% compared to the prior comparable period and sales to space & defense improved by 14%, resulting in our EBITDA margin in Composite Materials exceeding 20%. 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.

The net result in our Materials segment is EBITDA of EUR 254 million in the quarter and a strong EBITDA margin of 28%.

Novecare delivered sales of EUR 371 million and Technology Solutions sales were EUR 169 million, a year-on-year increase of 7% and 10% respectively.

Within Novecare, Agro sales increased 19%, representing the third consecutive quarter of strong year-on-year growth. Whilst we have seen a shift of product mix to lower-margin products in the Agro market, stronger demand and a return to a more balanced level has driven the improvement in sales in the quarter.

Home & Personal Care sales increased 11%, driven by share gains in targeted businesses across Asia, increased demand for premium products from key customers in Europe and a rebound in the North American sales via distributors.

Technology Solutions benefited from new business and customer wins and a higher reagent consumption in copper mining.

The net result is that Performance & Care delivered an EBITDA of EUR 96 million in the quarter and an EBITDA margin of 18%.

Within the Other Solutions segment, EBITDA improved to EUR 17 million on the back of positive net pricing and lower fixed costs. The net effect of what I've just described is reflected on Slide 11.

As mentioned on the previous slide, all businesses with the exception of Specialty Polymers and to a lesser extent Aroma experienced improved volumes compared to the prior comparable period. The lower volumes in Specialty Polymers, more specifically Electronics and Automotive, is the single largest driver at a Syensqo Group level of the year-on-year decline in EBITDA when compared to the first quarter of 2024.

Absent the lower volumes in Electronics & Automotive, Specialty Polymers volumes were flat year-on-year basis, reflecting the shorter-term headwinds in Electronics and slower overall industry growth in Automotive. This was partially offset by savings in fixed costs and flat year-on-year net pricing as well as the improved performance from composite business, as already described. The net result is a decline in EBITDA of EUR 60 million in the Materials segment compared to the first quarter of 2024.

In Performance & Care, the strong sales from Technology Solutions and Novecare was offset by higher input costs, most notably oleochemicals as well as an unfavorable mix in Novecare. This resulted in a year-on-year EBITDA decline of EUR 1 million in the first quarter of 2025.

Other Solutions improved by EUR 5 million compared to the prior period as a result of savings and fixed costs in the Aroma business.

Whilst we will no longer report net pricing, I am pleased to say that at a Syensqo Group level, net pricing in the quarter was marginally positive. The net result is EBITDA of EUR 311 million for the first quarter of the year.

Turning to capital expenditure.

Our total capital expenditure for the quarter was EUR 176 million. This remains in line with our expectations with higher planned maintenance and safety spend in the first quarter as well as spend on IT infrastructure as we separate from Solvay.

In terms of CapEx phasing for the year, we expect the first quarter to be the highest quarter in terms of capital expenditure spend and this remains within our envelope of EUR 600 million for the year, which is more than 10% lower than our spend in 2024.

Included within the EUR 176 million is growth capital expenditure of EUR 90 million related to the spend on the PVDF facility in Tavaux, France; investments in Technology Solutions in Welland, Canada; and Galden expansion in Spinetta in Italy.

Over the coming years and as capacity is filled, these projects are expected to contribute more than EUR 100 million of incremental EBITDA.

As you will have seen in a separate release today, we have secured more than EUR 150 million of PVDF contracts in the first quarter, which will be serviced by the Tavaux site in the future, a first step towards achieving this target.

As a reminder, 2025 is expected to be a peak year of investments driven by a significant reduction in both the spend on the Tavaux site and the transition to a separate digital and IT infrastructure from Solvay.

Our focus going forward is, therefore, on leveraging our existing capacities that we have today to meet future volume growth. This requires no additional capital expenditure.

We will also focus on investing in smaller and faster organic growth opportunities where the market exists and where we are at capacity, thereby accelerating our strategy.

And finally, we will maintain our investment-grade credit rating and reward shareholders in line with sustainable cash generation.

As with the decision to defer the spend on the North American PVDF facility, we will continue to evaluate all capital expenditure and only invest when we are comfortable that the market exists and that the returns are acceptable. In this respect, we will remain responsible custodians of cash.

Moving to our operating cash flows on Slide 13.

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

In the first quarter of 2025, operating cash flows were EUR 176 million. Based on the last 12 months, this results in a cash conversion of 80%. Free cash flow to shareholders for the quarter was EUR 37 million.

We continue to target free cash flow of EUR 400 million for the full year in 2025.

It is important to note that 2025 remains a year of transition from a cash perspective.

With the separation from Solvay in late 2023, there remains separation costs to be incurred so that Syensqo can operate as an independent company.

As we head into 2026, the situation will improve significantly with reduced spend on separation and a finalization of growth capital being spent on the Tavaux site. Together, these account for EUR 200 million to EUR 250 million of cash outflow in 2025 that will not repeat in 2026 and beyond.

Turning to our financial position.

I am pleased to report that we continue to have a strong balance sheet with our net debt remaining at EUR 1.9 billion, a gearing ratio of 22% and a leverage ratio of 1.4x.

We continue to have low levels of gearing and a balanced debt maturity profile.

We have strong levels of liquidity available as demonstrated by the EUR 1.7 billion of undrawn committed bank facilities and a further EUR 600 million of cash and cash equivalents and other financial instruments on hand as of the 31st of March, 2025.

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

Ilham Kadri - Syensqo - CEO

Thank you, Chris.

Looking into the balance of the year, I think it's clear that everyone's crystal ball is pretty cloudy.

In what was already an uncertain demand environment, the evolving and unpredictable tariff and global trade dynamics, as we have seen in the last few days, has made it even more challenging for global companies to operate and look too far ahead with clarity.

Indeed, in the process of preparing our materials for today's call we've had to adapt to the ever-changing situation.

For Syensqo, we believe that the combination of our balanced regional footprint and mitigation actions position us to see a limited direct impact from tariffs.

However, the broader consequences on end demand and the global economy remain unknown.

As we navigate this evolving period of uncertainty, our focus remains on executing on initiatives that we can control to help mitigate potential shorter-term headwinds and ensure we are taking actions to support our longer-term growth and value creation potential.

Turning to the full year outlook on Slide 16.

The high-level takeaway is that based on the assumptions we shared at the end of February, our 2025 outlook is unchanged.

Our quarter one performance was slightly better than expected and we continue to expect a stronger second half of the year than the first, supported by a number of more Syensqo-specific drivers.

Turning to tariffs.

At a high level, we believe the broader impact of the recent announcement has resulted in increased uncertainty, reduced visibility and increased operating costs, conditions that are fundamentally at odds with the interest of shareholders seeking steady long-term value creation.

For Syensqo, we believe our global manufacturing footprint and proximity to customers, coupled with the mitigation actions we are taking should serve us well as we adapt and manage our direct exposures. Mitigation measures already implemented include tariff surcharges, refining our supply chain exposures, redirecting capacity to serve local and regional customers that are affected by the higher tariffs and taking actions to further localize production and increase our flexibility, for example, using our compounding capabilities in China to qualify more volumes.

While the external factors related to tariffs including the impact on foreign exchange rates are out of control, we will double down on actions that we can including the acceleration of our restructuring and cost-saving initiatives to both offset the inflationary impacts on costs during the year and deliver more than EUR 200 million of run rate savings by the end of 2026, advancing our mitigation plans and actions to try and reduce potential direct cost impact in the coming quarters as well as completing our full separation from Solvay by the end of the year latest, which will also allow us to drive more efficiencies.

Finally, a few words on quarter two. The evolving tariff dynamics have made it even more challenging to provide a specific outlook for quarter two as the entire value chain is now adapting to the news from earlier this week and the trade relations between the U.S. and China. Nevertheless, what we can say at this stage is that we expect quarter two to show sequential improvement in EBITDA.

Starting in quarter two and for the balance of the year, we should also start to see greater benefits from cost savings.

Combined with the easing of headwinds in the first half in Electronics and aerospace, this will also help to support a higher net sales and EBITDA in the second half of the year than the first, consistent with the full year outlook we provided in February.

In closing, While we continue to operate in these uncertain times, our focus remains on what we can control, accelerating how we can become more efficient, hunting for new growth opportunities to drive more profitable volumes, and how we can unlock value.

With that, we are ready for your questions.

Thank you, and back to you, Sherief.

Sherief Bakr - Syensqo - Head of Investor Relations

Thank you, Ilham.

We'll now move to the Q&A session. Bella, 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.Your first question comes from the line of Matthew Yates with Bank of America

Matthew Yates - Bank of America

Maybe it's principally for Chris. If I understand correctly, you're reiterating the EUR 200 million cost savings plan, but are now trying to accelerate the realization of that. Can you just be a bit more specific as to what the latest thinking is on the actual contribution in 2025 itself and maybe contextualize that with whatever the original sort of budget was when you gave the guidance?

And then as a sort of related follow-up, within your commentary on Novecare, you're talking about both fixed and variable cost inflation and that weighed on the margins. So when we think about the overall cost base of the group in 2025, what do you think the net change is given those two dynamics of the restructuring versus the underlying inflation that you're seeing?

Ilham Kadri - Syensqo - CEO

Thank you, Matthew.

I'll start with the costs and then, Chris, you take the other one.

Yes. Indeed, Matthew, you remember, we have been targeting over EUR 200 million run rate cost savings by the end of 2026, which equates more or less to offsetting roughly three years of fixed cost inflation in two years. And this is what we've been working with our teams since last year.

We continue to expect cost savings for the reasons you know to be phased towards the second half of the year, aligned with our full year outlook. So nothing changed there.

In the first quarter of 2025, actually, the cost savings offset the fixed and variable cost inflation, in line with our expectations and what we told you earlier in the year. You've seen it probably in the financial report.

We're accelerating cost actions. For those who followed us for the past six years, we are not wasting a good crisis.

We have announced that we will have 200 additional full-time equivalent reduction on top of the 300 to 350 announced in November 2024. And obviously this is going to start with the social dialogue and it's going to impact next year. Next one, Chris.

Christopher Davis - Syensqo - CFO

Yes. Let me take it. And Matthew, apologies if I don't fully understand the question.

But at a group level, as I indicated in my call or in my speech, net pricing was marginally up.

If you look at it specifically around Performance & Care specific to Novecare, given the impact of oleochemicals, they had a bit of margin squeeze in the quarter.

And then, when I look at the fixed costs across the group, it's marginally up. And the bulk of that sits in our Composite Materials business as we put extra resources on board to increase the output and the efficiencies given the very, very strong demand environment that we have in Composite Materials. The rest where there's fixed cost increases is not material to talk about.

Operator

Your next question comes from the line of Laurent Favre with BNP. Mr. Favre with BNP, your line is now unmuted.

Laurent Favre - Exane BNP

Two questions, please. The first one is on the Rearm EUR 800 billion plan in Europe. I was wondering if you could talk about what are the key relevant areas of this plan that could impact your business in Composites over the next, let's say, three years? And if you could help us dimensionalize the upside.

The second question maybe for Chris is on specific guidance on corporate costs. If you could talk about how the ERP integration is now done, how we should think about corporate costs for the rest of this year, but also as we go into the clean 2026 year?

Ilham Kadri - Syensqo - CEO

Yes, Laurent, there is a potential for higher defense spending, specifically in Europe. But frankly, not only in Europe. I just came back from India and it's the same. It represents a major growth opportunity for Composite Material.

Europe, as you mentioned, is driven by the "ReArm Europe" plan. There is a broad political consensus and the EU and European defense budgets are increasing sharply with over EUR 800 billion in new spending expected by 2030.

Obviously we have a good resume. We have a good resume as a company in the U.S., in Korea with the fighter jets there. And as I told you, we see other opportunities in India. Too early to get into specifics.

Obviously, the budgets have to be approved by member states, allocated to specific programs. But it's clearly a tailwind over the coming years post-2025, 2026.

I cannot comment on a specific program, but we are sitting in all those rooms, from Brussels to member states, the main countries who are now building up the value chain and broader range of future fighter jets and defense materials. So stay tuned.

Christopher Davis - Syensqo - CFO

Laurent, let me take your next question about the corporate costs.

So I think you know corporate costs last year were around EUR 220 million. This year, we expect it to be approximately EUR 200 million.

Now what you need to bear in mind, albeit that we transitioned the systems in the last week or so, we've had an element of duplication of costs because we still run on the TSA from Solvay up to a certain point.

We're in hyper-care with them today in a parallel process and then we switch over to our systems as we continue to go forward.

So yes, the costs will be lower relative to last year. I think the biggest impact you'll see is as we start going into 2026.

Laurent Favre - Exane BNP

So on that point, a more normal corporate cost for next year could be what, EUR 150 million, EUR 160 million, something like that?

Christopher Davis - Syensqo - CFO

At this stage, we haven't given any guidance on 2026 costs, but we will come out with something during the course of the year.

Operator

Your next question comes from the line of Martin Roediger with Kepler Cheuvreux.

Martin Roediger with - Cheuvreux

My one question is about the shift of the Oil & Gas and the Aroma Performance business into a separate segment. Chris, you said that the purpose for the new segment reporting was to show how profitable your core business, i.e., Performance & Care is. But why didn't you put both noncore activities into discontinued operations? Or will that happen once you have concrete negotiations with the bidder?

And my follow-up question regarding these two disposed candidates is, given the fact that the profitability of these activities are rather low and you do not earn your cost of capital, would you be willing to accept a negative enterprise value in case you find a buyer?

Christopher Davis - Syensqo - CFO

Yes, Martin, let me take the first one about discontinued operations, one of my favorite subjects here. But I do think you pretty much answered the question yourself.

We announced in the last quarter that we had made a strategic decision to divest of the Oil & Gas and Aroma businesses.

Now frankly, these businesses do remain attractive businesses, but in the hands of the right owner because we've obviously got a number of opportunities to look at.

We have, in the meantime, separated them into the Other Solutions segment so that our investors can really fully appreciate the quality of both Novecare and Technology Solutions.

And I think that has come out in a lot of the comments that we've had. You're right. The reporting of businesses as discontinued operations is really subject to strict accounting rules and criteria, not least of which is how close you are or have signed an agreement that is binding. And that's regulated under IFRS5, as you'll appreciate.

Now the biggest difference between the way we've treated it as an Other segment versus discontinued operations is nothing more than the stopping of depreciations once you classify it as discontinued.

So I'll stop there and then hand over to Ilham for the next question.

Ilham Kadri - Syensqo - CEO

Yes. And Martin, I acknowledge that probably that the Oil & Gas specifically was not the best acquisition this company has made. You remember, Martin, when I joined the company, I made an impairment shortly after my arrival, if my memory is right, probably quarter three 2019. At that time, it was a falling knife. And with COVID didn't help improving the macro in general.

We halted the conversations because, I heard it when I was on the road shows, that the process was that open. It's not true. We halted conversations with third parties due to the split as a tax-free spinoff required in many jurisdictions to freeze the perimeter. So, now we are where we are.

We have two businesses, which are not cash drains. The macros are specifically improving for Aroma. The U.S.-imposed duties on synthetic Vanneva and other natural vanillin of 213% effectively make Chinese import of vanillin prohibitive. This is already effective since early this year, January 2025.

I expect the EU, although hope it's not a strategy, to reinforce antidumping duties of around 100% plus, but bear with me probably between now and summertime. And this will have a long-term positive impact on Aroma.

So, the carve-out is being proceeded on the Aroma side, Oil & Gas is ready. And obviously it's too early to talk about our conversation with potential bidders.

Back to you.

Operator

Your next question comes from the line of Mr. Peter Clark from Bernstein.

Peter Clark - Bernstein

I just want to confirm that you said the composite margin has gone above 20% on EBITDA. And the reason I'm asking that is, obviously when it came in with Cytec 10 years ago or so, it was sort of just around 20%, just above on the aerospace side. And then obviously had trouble, ERP problems, et cetera, but then it started recovering.

It got back to a new peak, we thought. Then there was COVID, you ripped out a ton of cost and then started recovering again. So I'm really surprised, is it just a quarterly thing? Or is it very volatile in there? I'm surprised it was so low, just getting above 20%.

And then the follow-up with that, obviously is looking forward, clearly good momentum there, great visibility in terms of the business. You speak about India etc. Just wondering about the F-35 in there. Obviously there's a bit of uncertainty building on that. It hasn't happened yet apart from maybe one country, but that was a very profitable and is a very profitable plane for you. Just any comments you might want on that.

Ilham Kadri - Syensqo - CEO

Thanks, Peter. I'll take it. Yes.

The Composite Material, again, when I joined the company and you may remember the Cytec times, I mean was not at that level of profitability.

So, one of the objectives I have had, specifically during COVID times, we have been restructuring the Composite Material including actually was the first plant closures ever happening in the history of Solvay at that time right, where we removed some of the inefficient assets at lower return than the cost of capital. And with the COVID, it helped us to not lose market share. We also divested the industrial part, which was very low margin.

So I think the Composite Material, and that's the good news, has been really closing the gap in terms of EBITDA margin compared to some formidable competitors there. So I'm very proud of the team, proud of what they have been doing.

Now we are working on our efficiency. So the best is yet to come, I believe, because we are automating our manufacturing assets. And you've seen it even with the Boeing strike and destocking happening and impacting quarter one, quarter two, Composite Material is growing double digits in civil and defense.

On the F-35, this is a nice program. We like it. And while I cannot comment on specific programs, the defense is poised to grow.

I remind you that civil aviation represents approximately 60% of Composite Material. Space & defense represents 36%.

In quarter one of this year, this sector grew 9% and 14% respectively, with EBITDA margin now exceeding 20%.

And as we announced at the end of last year or early this year, I don't remember, we are looking at smaller projects within Composite Material that increase capacity incrementally with strong returns, given the sector is likely to remain robust with a very solid order book.

And with all that you've heard from the recent U.S. administration's recent visit to the Middle East from the civil aviation with the 210 aircraft from Boeing to EUR 140-plus billion in defense. All of these are good tailwinds for our Composite Materials on top of what I said already on the European defense growing budget. Back to you.

Operator

Your next question comes from the line of Tristan Lamotte with Deutsche Bank.

Tristan Lamotte - Deutsche Bank

The first is on kind of phasing. I know you alluded earlier in your comments, but just looking to understand what drives the step-up through the rest of the year. I understand the cost savings impact didn't really hit Q1 that much. Boeing strike is kind of front-end weighted. Semis destocking is maybe kind of ending now. You gave an EUR 80 million sales impact.

So I guess that doesn't explain the step-up through the year in total. So just wondering if you could give a little bit more color on that sequential improvement and the second half weighting.

Ilham Kadri - Syensqo - CEO

Thank you, Tristan.

Listen, we expect quarter two EBITDA, as we said and Chris said it, to sequentially be higher.

Now, given all the uncertainty and evolving dynamics around tariffs, it's obviously difficult to be precise at this point. But we expect sequential improvement in Specialty Polymers obviously; an example is Automotive as well, which will also help the mix versus Q1. Also expect to see greater benefits from the cost savings. When you prepare for any restructuring, as you know Tristan, you have a social dialogue, you have implementation. And now we are in that wave one implementation. So this is going to happen in the second half. And all these cost savings are more balanced towards the second half and we told you that.

For the full year, we continue to expect a stronger H2.

It's driven by three things: 1) the absence of impact of the Boeing strike in H2, which we expect will be a headwind of around EUR 20 million in H1. 2) the end of destocking in semicons, we told you that, which we can see in our order book, by the way, it was 0 Q1, 0 Q2 and should be around EUR 40 million tailwind to the second half versus the first, not wishful thinking. We talk to our customers and this is going to happen. And 3), the phasing of the cost savings we talked about, which are balanced towards the second half.

That's it. Anything to add, Chris?

Christopher Davis - Syensqo - CFO

No. I think you hit the nail on the head.

Ilham Kadri - Syensqo - CEO

Thank you. Back to you.

Operator

Your next question comes from the line of Mr. Tom Wrigglesworth with Morgan Stanley.

Thomas Wrigglesworth

Kind of following on and thinking about 2026 free cash flow generation.

Can we identify the kind of the buckets or maybe headwinds that you're experiencing in '25 that won't reoccur in 2026? I'm not looking for a guidance on the kind of the cycle, more of the moving parts as you see them that will help support improved free cash flow generation in '26.

Christopher Davis - Syensqo - CFO

Yes. Tom, thanks very much for that question.

I mean I was quite clear that what we're not going to do is necessarily give full guidance on 2026 at this stage.

But what I'd like to try and help and frame for you in the discussion, in 2025, this is expected to be a peak year of investments, particularly from a capital expenditures perspective. So, we are expecting a significant reduction in both the spend on the Tavaux site and the transition to a separate digital and IT infrastructure from Solvay. So that's obviously been a fair amount that's built into our capital expenditure for this year.

In terms of the other free cash flow drivers, we expect lower restructuring costs versus 2025, albeit if there's opportunities to make savings in the future, those are things we will always consider.

Outside of free cash flow, we obviously also expect significant reduction in the separation costs.

As part of the 2024 year-end results, we announced that in 2025, there would be approximately EUR 150 million to EUR 200 million in separation costs in 2025 and these will not repeat as we go into 2026.

So I think putting all of this together, we expect to see higher free cash flow in 2026 and lower one-off cash payments outside of this.

Operator

Your next question comes from the line of Chetan Udeshi with JPMorgan.

Chetan Udeshi - JP Morgan

The first question was, I heard you say that your net pricing was positive in the quarter. If I'm not mistaken, I think this is the first time it's turned positive since the second half of 2023. As you think about the rest of the year, do you think you've turned the corner now on net pricing, that gradual unwind of peak pricing, is that behind us? Or you can still see that coming through in the next few quarters may not be a clear trend yet? So anything there would be appreciated.

The second question was, and I'm sorry if this is a bit straight, but on one hand, you are saying that the visibility is low and hence, you can't guide to the second quarter. But then, Ilham, I heard you say that in the second half, you have pretty strong visibility because of the order book. So I'm just trying to tie those two things together. If you have such good visibility in the second half, why not in the second quarter?

And last question, sorry to squeeze one more in. Your Specialty Polymers volumes are down 10%, I think, roughly year-on-year. I mean maybe you can just help us break it down into how much of that is the business that you lost with, I think, Apple or whoever and then the semicon destocking? And why is semicon destocking just a factor or phenomenon for Syensqo? When I look at some of your competitors, they're all seeing pretty good growth in electronics and semicon included. So why is that destocking so much a factor for Syensqo and something that we don't see elsewhere?

Christopher Davis - Syensqo - CFO

Chetan, I'll start with the net pricing.

One of the things that we did over the course of 2024 is demonstrate quarter-to-quarter a consistent maintenance of our net pricing. You will recollect that of the 97, a significant portion was Aroma and Oil & Gas and the bulk of the majority was Novecare, which was more than offset in volumes.

We always said as we went into 2025, we were going to continue to defend our pricing and we are comfortable when you look at our gross margin that we've done that.

Now the only reason I chose to give you some numbers around net pricing is to continue to give you that comfort that we are maintaining net pricing over the period and that we will continue to defend going forward.

Ilham Kadri - Syensqo - CEO

And on quarter two, Chetan, I'm sure you can appreciate, and you are covering most of our peers and customers, visibility is challenging given the evolving macro dynamics. And frankly, this is a time where we manage business on a 90-days basis. You wake up a morning and you have one type of tariffs and the other day, another one. Anyway, in the middle of the quarter, tariffs have changed drastically between the U.S. and China, as you know. Some customers were on wait-and-see mode and then they start calling. So let's not go there.

I think we are focusing on what we control, accelerating cost savings. We expect that following news from earlier the week, we'll now likely go through a period of more changes. We are adapting our value chain, not only to mitigate the short-term tariff-wise, but actually, structurally, we are looking at what can be positive for us. As I said, we are redirecting, for example, some of our production from the U.S. to India, for example, as some of our customers in Electronics are moving from China to India. And while not importing from the U.S., we may actually import from India or Japan through, for some of our products, from our JV with Sumitomo to China. So anyway, those are things which can structurally make a difference short and longer term.

Nevertheless, I think we wanted to give you a bit of view on quarter two. That's why we told you we expect to see higher sequential EBITDA than quarter one for the balance of the year, a stronger H2 versus H1. I have given you the three pillars, the absence of Boeing strike, the destocking in semicons.

And the visibility, I didn't say the order book is visible. I said that in the semicon and the fab, the largest customers who were destocking in H1 told us they will buy in H2 and that's the visibility we have.

And the last pillar is cost savings. There was a last question. Specialty Polymers?

Ilham Kadri - Syensqo - CEO

Specialty Polymers. Without Electronics and Automotive, I think you said it right, Chris, in your comments, the volumes were flat year-on-year. And that's really positive on the Specialty Polymers side.

And first of all, on Electronics, we have not mentioned any specific customers. So let's put it straight in the record.

Electronics represents around 75% of the year-on-year decline in revenues and that's a lower sales to semicons due to destocking, as I mentioned. The balance is due to the design change and we alerted you. So that's happened. And looking ahead, again, the destocking on

semiconductors will come to an end in the first half of the year, and we will see much stronger H2, and we know it from our customers.

If you look at some peers, I think you mentioned them, you will find different product mix, Chetan, customer or regional exposure. So, it's not “apple-to-apple” or difficult to comment on their performance. And we are more focused on how to serve the customers and will drive this forward.

Operator

Your next question comes from the line of Alex Stewart with Barclays.

Alex Stewart - Barclays

One for Chris and one for Ilham, I think, if that's okay. Chris, you talked about EUR 200 million to EUR 250 million year-on-year respite from spending principally in CapEx rather than OpEx. Can I just push that number a little bit because your CapEx this year is about EUR 600 million. You include IFRS 16 lease payments within that, which are roughly EUR 80 million. So that's EUR 520 million of sort of hardcore CapEx.

If you take EUR 200 million of that, you're left with sort of EUR 300 and a bit million of CapEx with your D&A at sort of EUR 500 million. So I just want to check if that's what you mean because the CapEx number looks very low if I take EUR 200 million to EUR 250 million off.

And then, Ilham, maybe for you, let's say you sell these two assets, Aroma and Oil & Gas tomorrow for X. What do you plan to do with the cash? Because you're returning capital at the moment, you're arguably underlevered. Is the plan then to reinvest this into something which you think is a better long-term, more interesting investment than what those companies represented? That would be really interesting.

Christopher Davis - Syensqo - CFO

Alex, thanks very much for that.

I'll take the first one on your CapEx reconciliation and Ilham will take the second part around the divestment.

Yes. So what I said is the two big non-repeats that are EUR 200 million to EUR 250 million are made up of the separation costs. We noted as part of our year-end, we indicated the separation cost was roughly EUR 150 million to EUR 200 million and that's not included as part of the CapEx.

So, if you then know it's somewhere between EUR 200 million to EUR 250 million, you can calculate how much roughly is what we spend on Tavaux in 2025, which will not repeat going forward.

So it's not quite a EUR 200 million reduction, if that makes sense. And then what we will do going forward is, yes, our CapEx will be lower, certainly not EUR 200 million lower. And then we'll look at the smaller growth opportunities that prevail.

Ilham Kadri - Syensqo - CEO

Yes. And that's it. I think it's part of my answer. The focus will be on what drives value. We have optionalities.

First of all, I would like us to really focus on a strict discipline, rigorous capital allocation with our organic projects. You've seen us delaying projects with courage last year when there is no market demand or delayed market demand.

We focus on smaller & faster projects that are closer to home, leverage existing products and solutions to meet the needs of our existing customers. This is lower risk. So that's what we do.

Even on sustenance CapEx, believe it or not, we are 0-based redesigning all our maintenance and sustenance CapEx as we speak.

A full review of our 62 manufacturing sites have happened site by site, which allows us to do more with less and with digitalization as well and Gen AI, it's helping us as well to be even better efficient in the way we do our maintenance.

And the rest, we've been disciplined in M&A. So far, the company didn't have a great track record for the past six years. We did only bolt-on acquisitions. I think there is much focus now on stabilizing the company, separating from Solvay, which is important to us, getting into up & running to start hunting structurally in the next years. So that's the focus as we speak.

Back to you.

Operator

Your last question comes from the line of Aron Ceccarelli with Berenberg.

Aron Ceccarelli - Berenberg

I have two questions. The first one is actually a clarification. When I look at your 2025 outlook that you stated in your full year 2024 results, you mentioned that you were expecting Specialty Polymers net sales to be approximately flat versus 2024. Just wanted to understand if this is the case today.

And my second question is on Materials, in fact. And I was wondering, if I think about the Composites business, which is seeing an increasing margin, at a certain time volumes in auto should come back in Specialty Polymers. I was wondering what is the level of profitability, Ilham,

that would make you unhappy in the future for Materials? Is this still a 30%-above margins? Or would you be happy with high-20%s?

Ilham Kadri - Syensqo - CEO

You like to take the first one?

Christopher Davis - Syensqo - CFO

Yes. Listen, we remain very happy with the Materials business and we've consistently kept the margins at these levels over a period of time.

I think what you've seen in Composite Materials equally, as Ilham has indicated over the last five years, she's done a lot to improve the performance of this business to get it to the levels.

I'm not quite sure personally where the question is going.

Ilham Kadri - Syensqo - CEO

The Composite Materials, as I said, the team did a really good job in closing the gap in terms of margins, right, and really ensuring that we can flawlessly execute against the open order book, the healthy one we have. And you've seen us doing it again through COVID, restructuring our assets, the reorganization. And now it's about bringing more productivity alive through digitalization and getting products out of the gate. Obviously we're not the only one in this value chain.

So, the margin will become obviously bigger. But obviously you need more people to build those materials. So there are temporary fixed costs you need. But frankly, we're getting to a level which closed the gap against a formidable competitor. So my wave one of reaching the “happy land” has gotten there in Composites. The next one, we need some digitalization and automation, which we are working on and it will take a bit of time.

On the Specialty Polymers, our problem has never really been the margins after we did value pricing. And I think many of you have been following us on the value pricing, which touched mainly the Specialty Polymers side. We've seen the stickiness of it and I hope that everybody now has a conviction that we capture what we could and we are retaining it. The thing with Specialty Polymers is the volumes. You all know it. And without the Electronics and the Automotive headwinds, we see stabilization.

So going forward, the message is the hunting and the hunting and the hunting. That's why we have deployed Gen AI “SyGrow” we call it. This is the sales body. It's in Automotive actually and in Specialty Polymer first to really double down on the sales organization.

And even the tariffs, which are touching Specialty Polymers products import to China is an opportunity for us to review the whole infrastructure of the products flows for Specialty Polymers.

So I think the best is yet to come. A transition year here with a few headwinds here and there. But very happy the way the DNA and the culture is changing in Specialty Polymers to be able to now focus on the volume growth and profitable volume growth.

Christopher Davis - Syensqo - CFO

Aron, if I can just add to Ilham's comments there.

In Specialty Polymers, I don't recollect us giving guidance on the revenue for the year. But what we did indicate to the market that there would be some headwinds.

Now more specifically Specialty Polymers Electronics sales declined by about 30% in the quarter. And within this and expected 25% was from the design change in the consumer electronics.

Now as we go through the course of the year and as we expect the improvement in the semicons sales, sequentially, the revenue will increase over the quarter of the year.

So, over this year, relative to last year, you should see a modest decline in revenue out of Specialty Polymers, but it's driven by the headwinds that we previously indicated and sequentially, it will improve. Hopefully, that helps.

Operator

Thank you for all your questions. That concludes our Q&A session.

I will now turn the call back over to Mr. Bakr for the closing remarks.

Sherief Bakr - Syensqo - Head of Investor Relations

Thank you, everyone, for your participation and great questions.

As usual, the Investor Relations team will be here to answer any remaining questions and have a great day. Thank you.

Ilham Kadri - Syensqo - CEO

Thank you.

Operator

Ladies and gentlemen, that concludes today's call. Thank you all for joining. You may now disconnect.