Syensqo Q1 2024 results

Analysts call transcript

16 May 2024

Sherief Bakr - Syensqo - Head of Investor Relations:

Hello everyone and welcome to Syensqo's first quarter 2024 earnings call. I am Sherief Bakr, Head of Investor Relations, and I am joined today in Brussels by our CEO, Ilham Kadri, and our CFO, Chris Davis.

As a reminder, today's call is being recorded and will be accessible for replay on the investor relations section of our website later today, at syensqo.com/investors. I would also like to remind you that during this call we will be making forward looking statements regarding our future business and financial performance that are subject to risks and uncertainties. The slides related to this presentation, along with today's press release, are also available to download from our website.

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

Ilham Kadri - Syensqo - CEO:

Thank you Sherief and good afternoon, good morning to everyone. Today marks the first earnings call for Syensqo, following our separation from Solvay, and along with our teams, we are fully focused on unleashing the full potential of our growth strategy, which we believe will unlock significant value for our stakeholders. Indeed, I have been inspired by the renewed sense of purpose and energy that the separation has fueled, which is already providing new opportunities to better serve our customers and allocate capital more efficiently and effectively.

It has been 2 months since we last presented our full year financial results for 2023 and in that time I am pleased to report that we have, delivered results in line with expectations for the quarter, continued to improve our financial position, sharpened our capital expenditure and Research & Innovation priorities and last but not least, we did this without disturbing a single customer.

Syensqo's first full quarter saw us deliver on the outlook we provided YOU at the time of our full year results. Chris will take you through some of the details of our Q1 performance a bit later, but at a high level and as expected we saw improving volume momentum compared to the fourth quarter of last year, particularly in Novecare and Specialty Polymers consistent with the trends we referenced in March.

While the overall demand environment has improved in a number of our end markets from the lows of last year, confirming our view that Q4 of last year was the bottom of our quarterly EBITDA performance, it is too early to call it a trend. Indeed, we continue to see it as more of a stabilization of demand, primarily driven by the absence of destocking, rather than being due to a significant improvement in underlying demand. I'll come back to this when discussing the outlook for the year.

Turning to the highlights for Q1, the improvement in momentum in Q1 also translated to our financial performance, with underlying EBITDA up 23% compared to Q4 2023, with a strong sequential margin improvement to 22.3%, which we believe to be best in class.

Gross margin, another important metric for a specialty company, also saw strong sequential expansion, reaching 35.9% in Q1. And despite the impact of lower year on year volumes, we demonstrated strong gross margin resilience, down by only 70 basis points. Our Q1 gross margin performance also compares favorably to the full year 2023 gross margin of 34.8%, up by 110 basis points, reflecting the specialty nature of our business, and a higher mix of high margin Materials net sales. Over the last few years, this is a metric that has shown consistent and steady improvement, and not just in the years of inflationary tailwinds, up by more than 500 basis points since 2019.

We also continued to deliver strong cash conversion, reaching almost 90%, which helped us to further deleverage our balance sheet, with a leverage ratio below 1 times at the end of Q1. The first quarter of the year also saw us accelerate the execution of our growth strategy, which has brought a new energy and focus across the organization. We see it in the engagement of our people, and how we are already better serving our customers.

We have also taken the opportunity with our teams to drill down and sharpen our innovation and commercial pipelines, to ensure we are prioritizing our investments and strengthening our commercial practices to deliver value to our customers, and support our growth. In conjunction with these initiatives, we are developing what we call the hunting culture, which will allow us to capture incremental share at a faster pace than before.

As you can see on the slide, it has been a busy first few months as Syensqo, including the announcement of a number of exciting partnerships, which will advance the next generation of our clean mobility innovations. In January we announced a partnership with the DS PENSKE Formula E team, part of Stellantis group, giving us the ideal opportunity to showcase our high performance materials for lightweighting and battery technologies for electrification in the world's most sustainable sport.

Continuing on this theme, we renewed our partnership with the Ellen MacArthur Foundation, focused on advancing the circularity within our sector. With over 80% of Syensqo's innovation pipeline dedicated to developing sustainable solutions, the partnership underscores our commitment to contribute to the transformation of value chains towards circular business models.

And in the field of truly groundbreaking, or should I say air breaking innovation, we announced that Syensqo will be the main technological partner for a new emission-free project, a green hydrogen powered airplane which will fly non-stop around the earth. The Climate Impulse project aims to revolutionize the aviation industry, using Syensqo's thermoplastic composite materials, membranes and adhesives to provide the required lightness of the aircraft and fuel cells, mechanical and thermal properties to maintain liquid green hydrogen at minus 253 degrees centigrade during the estimated nine days of flight.

Continuing on the theme of disruptive innovation, we launched Syensqo.ai in February. Only three months since its launch, we have already seen tangible benefits across the company, boosting our innovation, better equipping our sales teams to hunt and making our operations smarter and more responsive. This was then complemented by one of my favorite events of the year, our innovation week programme which took place in March, focused on the bleeding edge of science and how we collaborate with some of the leading start-ups and institutions in the world.

During the first quarter, we also launched a number of new innovations into the market, covering both our specialty materials and consumer segments. In Composite Materials, we launched our next generation of epoxy-based structural adhesives for our customers in advanced air mobility, commercial aerospace and defense, which will support higher rates of assembly and joining.

We also launched new polyphenylene sulfone or PPSU films for our automotive customers, to increase energy efficiency and sustainability in e-motors. And for our Novecare business, we added a brand-new specialty additive for waterborne architectural paints, as an alternative to fluorosurfactants. Additionally, we launched a new-generation specialty monomer, designed to improve adhesion and provide excellent corrosion protection in waterborne direct to metal coatings.

A fundamental leg of our strategy is to solve the unmet needs of our customers, and to do that, we need to master their application processes better than anybody else, working in lock step with them to align our roadmaps, deepen our relationships, and enhance our value proposition.

At the end of Q1, we announced the opening of a new state-of-art application development lab in Bollate, Italy, dedicated to Specialty Polymers, which complements the other application labs we have today in the US, South Korea, China and in Belgium. This has translated to a significant increase in the number of customer visits, particularly at the CTO level, covering multiple end markets and technologies, creating new opportunities to win more business with them.

This was quickly followed by more groundbreaking, in this case relating to our production site at the heart of the American battery belt in Georgia. Together with our joint venture partner, Orbia, and with more than 40% of the project funded by the Department of Energy and local incentives, the site will be the largest production facility in North America, enabling the long-term growth of the EV and hybrid mobility industry with our differentiated suspension-grade PVDF technologies. Indeed, we were also joined by a number of the largest automotive OEMs, who we look forward to supporting over the coming years.

And finally, we recently announced a bolt-on acquisition of JinYoung Bio, which will extend the portfolio within Novecare to high value specialty dermocosmetic, skincare and haircare applications. And from a sustainability perspective, their flagship ceramides products are produced through biotechnology, aligned with one of four major growth platforms.

Before turning the call over to Chris, I wanted to make some high level comments on our segment performance in Q1. As a reminder, Syensqo's mix of revenue and earnings reflects our position as one of the leading pure play specialty companies. Indeed, in Q1, more than 85% of our total EBITDA was generated by our high margin Materials segment. This was led by another strong quarter of year-on-year growth in Composite Materials, driven by demand in both civil aviation and defense, as well as healthy margin expansion.

Following a record performance in Q1 2023 when year-on-year revenues grew by 16%, Specialty Polymers saw year-on-year declines, albeit with slight growth in batteries. At a segment level, and as expected, net pricing was modestly lower (-2%), primarily driven by Specialty Polymers, partially offset by an increase in Composite Materials.

Combined with strong margin improvements in Composite Materials, this supported healthy EBITDA margin expansion compared to Q4 2023, reaching 33.1%.

For Consumer & Resources, we saw improved momentum in most end markets, particularly in coatings, industrial applications and personal care, consistent with the trends we called out on last quarter's call. The exception remains agro, where we, like many of our peers, continued to see soft demand. Nevertheless, with a 5% sequential increase in revenues, combined with improved margins in all business units, which resulted in an underlying EBITDA margin of 15.5%.

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

Christopher Davis - Syensqo - CFO:

Good morning and good afternoon to everyone on the call. As Ilham has already mentioned we have delivered a set of results in line with expectations. With that in mind let us turn to Slide 9 which looks at the summary of our financial results.

As expected, the 1st quarter of 2024 saw a significant sequential improvement in performance, with Net Sales and EBITDA in the quarter increasing 3% and 23% respectively versus the 4th quarter of 2023, driven by stronger volumes and improved mix, particularly in the Materials segment. Looking at the 1st quarter results for 2024, net sales of EUR 1.6 billion was down 10% against the 1st quarter of 2023, driven by reduced pricing; a reduction in volumes and mix; and adverse foreign exchange.

The impact of pricing remained in line with our expectations with the largest decreases in Specialty Polymers, most notably Construction and Food Packaging, and in Consumer & Resources, particularly in Agro and Home & Personal Care. Lower volumes were experienced in both segments. Specifically, Electronics and Medical within Specialty Polymers, and Agro and Technology Solutions within the Consumer & Resources segment. Composite Materials was the standout performer delivering 16% revenue growth as a result of better volumes and increased pricing, particularly in commercial aerospace and defense applications.

At EUR 363 million, underlying EBITDA is in line with expectations, which I will outline in more detail on the following slides. Importantly, despite the impact of lower volumes year-on-year, our focus on pricing discipline and costs within our control means that we have been able to achieve an EBITDA margin of 22.3%, a significant improvement on the 4th quarter of 2023. Taking into account the Profit Attributable to Syensqo Shareholders of EUR 156 million this results in Earnings per Share of EUR 1 and 48 cents.

Turning to the EBITDA bridge on slide 10. Considering the basket of currencies in which Syensqo operates, the impact of the strengthening EURO on the translation of our foreign currency earnings has had an adverse impact of EUR 10 million compared to the prior period, most notably from the translation of the Chinese Renminbi, the Argentinian Peso and the US Dollar. Uncertainty related to a global economic recovery, pending elections across the globe, heightened geopolitical tensions, and high inflation and interest rates, has resulted in a slowdown in customer investment projects, as well as them adapting their supply chain to carry less inventory, thereby managing for cash.

As a result, reduced volumes and mix had an adverse impact of EUR 39 million compared to the prior period. Looking at our Specialty Polymers business, the 1st quarter of 2023, was the highest 1st quarter on record. Despite that, sales into smart devices were strong as a result of growth in the Electronics market. Additionally, positive volume momentum was achieved in PVDF, with strong demand in Auto in the 1st quarter of the year. Reduced volumes were experienced in the Industrial segment, with reduced volumes sold into Food Packaging.

Additionally, whilst we are seeing some early signs of recovery in semiconductor production, there remains delays in Fab investment, which has a meaningful impact on our volumes. Sales in Medical continue to be impacted by destocking in medical equipment and devices.

Our Channel & Distribution sales continue to be below the prior comparable period as a result of the destocking effect, with EMEA and the China regions being the most impacted. That said, our March sales volumes were the highest level since June 2023 and indicate early signs of improvement. On a positive note, sales into smart devices are strong with growth in the global electronics market. Positive volume momentum is evident in PVDF, with strong demand in Auto in the 1st quarter of the year.

Importantly, Composite Materials experienced strong volume growth as the business improves its operating efficiencies and continues to address the challenges associated with labor tightness in the USA. Specifically within the Aero and Defence sectors the order book remains strong for the remainder of the financial year.

Looking at Consumer & Resources, within our Agro markets we continue to see weak demand, particularly for green solvents and specialty surfactants, as customers manage their inventory levels. As I have previously mentioned the weak demand in China and structural overcapacities continues to impact Aroma volumes and pricing. As part of our restructuring plan we have effectively mothballed some production lines at Baton Rouge and Saint Fons.

Finally, the closure by the Panama government of the Cobre Panama mine in the 4th quarter of 2023 led to a reduction in demand for mining chemicals, which alongside lower sales to Alumina customers has reduced volumes in Technology Solutions. This is considered to be temporary in nature. Pleasingly, within Novecare, volumes improved, in particular in our Coatings business as a result of market share gains in North America, and in Home & Personal Care and Industrial Applications.

Whilst most of the analysis presented today is based on the prior comparable period, being the 1st quarter of 2023, which, as already stated, was a particularly strong quarter, I need to emphasize that versus the 4th quarter of 2023 we have seen improved sequential demand across all key sectors.

Net pricing had an adverse impact of EUR 35 million in the 1st quarter of 2024, in line with our expectations. This was experienced mostly in Novecare, notably Agro, and in Specialty Polymers, notably Food Packaging and Construction. This was partially offset by net pricing improvements in

Composite Materials, and Technology Solutions. The increase in Fixed Costs of EUR 10 million and Other of EUR 9 million includes the impact of inflation on our cost base and increased investment in Research & Innovation, partially offset by structural cost savings. The net result is that EBITDA for the quarter finished marginally above expectations at EUR 363 million.

Turning to capital expenditure, we have continued to maintain a disciplined approach to capital management and capital expenditure in particular. With this in mind spending of EUR 72 million on growth capital included, a further EUR 28 million in Research & Innovation, EUR 44 million on capacity expansions and operating efficiency capital. It is important to note that, given the longer term nature of the investment cycle these growth projects will contribute to increased earnings in 3 to 4 years' time, albeit that these assets under construction will increase our asset base in the short-term.

We strongly believe that continuing to invest in the growth opportunities available to us will position us well in the future to respond to, and capture growth and market share, as demand levels improve. Additionally, we continue to interrogate all capital expenditure to ensure an appropriate balance of returns over both the short and long-term. As I have previously mentioned, the use of cash to invest in growth capital is a CHOICE we make based on market demand, customers' needs and expected returns. In the absence of these we will not invest capital on the ground.

Looking at the sustenance capital expenditure of EUR 46 million, this includes spend on Health & Safety, One Planet and Maintenance to ensure our sites are safe and reliable; Digitalization; and the cost associated with leasing contracts. Our capital expenditure umbrella for 2024 has not changed, and we continue to target spend of between EUR 600 and EUR 650 million.

Moving to our strong cash conversion on Slide 12. The generation of strong operating cash flows remains a key focus for the business. In this respect, I'm extremely pleased to report strong cash generation in the quarter, with positive cash flow from operating activities of EUR 244 million. Based on the last 12 months, this results in a cash conversion of 89%, driven largely by the release of working capital. 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. Going forward we expect this cash conversion metric to remain above 70%.

Turning to our strong financial position, I am pleased to report that our balance sheet has further improved, with our net debt at EUR 1.5 billion. This results in gearing of 17%, and a net debt leverage ratio of just below 1.0 times, which gives us the firepower to execute on our growth strategy and create value. We continue to have strong levels of liquidity available, as demonstrated by the EUR 1.7 billion of undrawn committed bank facilities and a further EUR 1.2 billion of cash on hand.

As we have previously mentioned, the 2nd quarter of 2024 is expected to see a net outflow of cash as a result of the one off payment of US$ 180 million paid to the NJDEP, the payment of the full year 2023 final dividend in respect of the combined 2023 Solvay group of EUR 172 million, and the timing of the annual payment of employee incentives. This will see net debt in the 2nd quarter of the year increasing, with gearing expected at just over 20%. With that, I'll now hand you back to Ilham. Thank you.

Ilham Kadri - Syensqo - CEO:

Before we take your questions, I wanted to quickly touch on our outlook for 2024, and provide some color on how we see Q2 shaping up. On a full year basis, we continue to target underlying EBITDA to be in the range of 1.4 to 1.55 billion EURO, with underlying free cash flow in the range of 400 to 500 million euro. As I mentioned at the start of the call, while we did see improved volume momentum in the first quarter of the year, it is too early to call it a trend, and the pace of a broader recovery remains unclear. Overall, we continue to base our outlook on flattish overall volumes, with similar demand dynamics compared to the first quarter of this year.

While there is much debate around a potential recovery in the second half of the year, we have based our outlook on what we have seen, rather than what we would like to see. Nevertheless, given our strong performance in the first quarter of last year and the softness we experienced in the second half of 2023, we should see our year-on-year comparison ease as we get into the second half of this year.

From an EBITDA perspective, we saw the inflection in our quarterly performance in Q4 2023, and expect that positive momentum to continue into Q2, aligned with current consensus estimates. And as Chris mentioned, we continue to expect our cash flow performance to be skewed towards the second half of the year, given the some of the drivers he referenced. On a full year basis, however, we have reiterated our underlying free cash flow outlook. With that, we are now ready for your questions. Thank you.

Sherief Bakr - Syensqo - Head of Investor Relations:

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

Questions and Answers

Operator: Thank you. Just as a reminder, if you would like to ask a question or make a contribution on today's call, please press Star one on your telephone keypad. If you change your mind and want to withdraw your question, please press star two. Please ensure your lines are unmuted locally as you'll be prompted when to ask your question. The first question comes from the line of Wim Hoste from KBC. Please go ahead.

Wim Hoste (KBC):
Good afternoon. I have two questions, please. The first one is the outlook for net pricing. You did 35 million in the first quarter and guiding for 50 to 100 million for the full year. Can you maybe elaborate what that means for pricing sequentially? Are you expecting to gain some back, or is it just because comparisons are getting easier that you can maintain that 50 to 100 million? So that's the first question.

And my second question would be on capital allocation, and its two parts, first is the US tax treatment of the separation holding you back in any way in doing acquisitions, or mergers. And also in light of the dividend approach that you take, can you maybe elaborate what the dividend approach will be post the one you already announced for 2023 results?

Christopher Davis - Syensqo - CFO:
Let me take the pricing question first. The first quarter of 2024 saw negative net pricing, as I explained in the chart is about €35 million. This is very much consistent with our expectations. You see that reflected in our quarter one EBITDA, which was slightly ahead of the outlook that we gave you in March. Looking at the full year, we do reiterate our Euro 50 to 100 million impact of net pricing, with the majority of that pricing impact in the first half of the year. This is very much consistent with what I said at the year end results.

Now we're not going to go into quarterly outlooks, but what you will remember from last year is that we had significant net pricing gains in the first half of the year. It was 230 million out of 248 million in 2023; and as a result, there was only 18 million in the second half of the year, which really reflected the selective price reductions we gave in the second half of 2023.

So, the year-on-year comparisons are less of a headwind for us in the second half of 2024. In addition to it, we are constantly pricing for value, most notably in Composite Materials. I will remind you, however, that over the course of the last four years, we've achieved net pricing benefits of €900 million. We would consider that a reduction of up to 10% is sticky pricing in our mind. And we will continue to selectively either gain or defend share whilst generating healthy margins.

Now, the last point I'd like to just end off on, you'll see that over the last four years, we've had a steady improvement in the gross margin percentage, which has increased by more than 500 basis points since 2019. That's a reflection of the specialty nature of our products and our focus on driving for value.

Ilham Kadri - Syensqo - CEO:

Wim, your question was about our constraints due to the "Power of two" and the split impact on taxes with the IRS in the United States? When you do such transactions, we were aiming and succeeded to have a tax free spin off. You have some constraints which we don't believe that it's going to delay our organic growth nor M&A. For example, the carve out for Syensqo was on Composite Materials. That's one of the largest businesses we have in the United States of America. The rest, we were free to do whatever we want, within the framework of what has been agreed with the tax authorities.

When you see recently, we've done the acquisition of Jin Young, a relatively small deal as you'd say but frankly, a huge deal for us in terms of augmenting our expertise, technology and penetrating the profitable dermocosmetics personal care in the Novecare segments will drive value. And we remain focused on pursuing our organic growth opportunities. As we outlined at our Capital Markets Day, we have some €10 billion of opportunities. We will continue to be laser focused on effective capital management, like you've seen me in the past five years. We will consider all the levers, including opportunistically some M&A, bolt-on technologies, etc., like we did in quarter one.

Wim Hoste (KBC):

And how does the dividend approach fit into the capital allocation plan, If I can just ask that as a final question?

Ilham Kadri - Syensqo - CEO:

You've seen there was a big change post the split as you could expect between our former company and the new Solvay and us. We adopted a growth strategy. That's one of the reasons why we did the split. So far, we stay on what we announced at the split and we will consider all the levers on the capital allocation and management including dividends, share buybacks, as a further way to ensure the right level of leverage. This is the arbitrage we will do as we believe that we're going to generate solid cash in the coming years.

Operator: The next question comes from a line of Laurent Favre from BNP. Please go ahead.

Laurent Favre (BNP):

Good afternoon. I've got a question on mix and on Materials, or Polymers, actually. Chris, I think you've mentioned I don't know if Chris or sorry, but one of you mentioned I think a lot of areas that have been struggling and others that have been doing better. So PVDF is doing better in electronics, healthcare doing worse. should we be aware of any meaningful difference in margins between those different areas? In other words, as you see some recovery later this year, should we assume that maybe some of that recovery comes with a lower mix in terms of margins?

Christopher Davis - Syensqo - CFO:

I don't expect anything significantly to change in the portfolio. The biggest impact on your mix can be depending on what happens on the volumes, on Consumer & Resources going forward. As we know, Specialty Polymers is our largest margin business. So, when the Novecare volumes return, and when we see the growth in Agro and the return of mining, that will obviously change the mix. That's something we watch very carefully. We watch gross profit margin and EBITDA margin at each of the individual business units. Anything you want to add, Ilham?

Laurent Favre (BNP):

Just to be clear, my question was within Specialty Polymers. Between electronics and consumer packaging and PVDF and health care. I think you gave us a pretty detailed and granular lay of the land in terms of volumes. I'm just wondering if it has any implication on mix and margins within Specialty Polymers.

Ilham Kadri - Syensqo - CEO:

We were struggling to hear you. No, within Specialty Polymers, we are not a PEEK company, we are not a PVDF company, we are not a compounding company, we have the broadest portfolio in the market, the broadest in terms of technologies. Remember the slide we shared with you during the Capital Markets Day? On the compounding side, as we develop thermoplastic composites, we bring the composites know-how into the Specialty Polymers. The diversification of the sectors is equally interesting. We did our coming out on PVDF for Auto because it was a bit of a buzzing story for a few quarters. You have the numbers, even in PVDF we have diversification between auto and non-auto. In my business life, working now for 30 years in the industry, diversification is good, including in specialty companies. We like diversification of regions and sectors. The mix can change here and there if there is a softness here and there, but if a sector has a cold, we don't want to have a flu. We really want to have that diversification going forward.

Laurent Favre (BNP):

And then maybe my second question and I apologize in advance, but you mentioned that you had in March the highest level of sales in polymers in fact in June 2023. Has there been a reversal of that momentum into April?

Christopher Davis - Syensqo - CFO:

That was the highest level of sales in the Specialty Polymers channels and distribution business which was in March and it was the highest level since June 2023. We're not commenting on our April results at this point.

Ilham Kadri - Syensqo - CEO:

We're a new company, Laurent, we still have a few days more to close our books.

Operator: The next question comes from a line of Aron Ceccarelli from Berenberg. Please go ahead.

Aron Ceccarelli (Berenberg):

Good afternoon and thanks for the presentation. I have two questions. The first one is on Composite Materials, which had another very strong quarter. At the beginning of the year, the FAA imposed a cap of 38 airplanes per month on the 737 MAX, but I believe that in March, the figure was around high single digit. And I believe that the F-35 is also going through a rough patch at the moment. So I just want to understand how we should think about the potential impact to delayed impact in your earnings from these issues?

The second question is about your Q2 guidance. If I'm correct, so you are expecting Q2 EBITDA showing a 4% sequential increase after 23% in Q1? I understand that you are not expecting continued restocking in Q2, but the comps base becomes much easier. So maybe can you elaborate a little bit about the moving parts of the different segments here, and why should we see this kind of deceleration? Thank you.

Ilham Kadri - Syensqo - CEO:

Thanks, Aron. In Composites, I'm very glad and frankly proud of the teams what they have done in the last five years. Our order books today are full and healthy, we don't see any material impact. I'm going to cite what I talked to Boeing's leaders and what they say publicly. We know that they want to ensure the supply chain is ahead of final assembly, even with the lower monthly deliveries of 737, for example, and the restrictions in place from the FAA. Lead times are very long, in this industry. So, we wouldn't see changes for a few quarters. There was a wakeup call in Covid times and I experienced it as I joined at that time at my former company, it is difficult to stop and restart. As you know, stop and go doesn't work in this industry.

Boeing has intentions to increase the rate plan over the next couple of years. While 737 is slower than anticipated, it's being offset by twin aisle aircraft sales that are building faster than expected across, for example, 787, 777-900 which have higher revenue value per shipset. Our focus remains on ensuring we can meet overall demand from Boeing, and other customers, as it's not only the Boeing story, as well as improving the efficiencies of what we control.

Christopher Davis - Syensqo - CFO:

Let me take the question on the quarter on quarter. I think what we're seeing coming out of quarter one is a stabilization of demand following some restocking at the beginning of the year. I think it would be incorrect to extrapolate the 23% uplift in Q1 to your expectations for quarter two. It is also important to note, as we mentioned as part of our year end results, the fourth quarter of the year is historically the lowest quarter as a result of seasonality and customer order patterns. Historically, we've always seen the seasonal lift between quarter four and quarter one has been in the range of about 15-20%.

Based on what we saw at year end, we guided the market to an increase of 20%, reflecting that cyclicality and improved outlook at the time. The market does remain uncertain at this point, as Ilham said as part of her concluding remarks and based on what we see today, we believe that the current consensus estimate for Q2 is appropriate. I believe this is what you refer to in the 4% uplift.
In terms of easing comparables, this is probably more likely to be a H2 driver than a Q2.

Operator:
The next question comes from a line of Peter Clark from Bernstein. Please go ahead.

Peter Clark (Bernstein):

Good afternoon, everyone. I've got two questions and just a clarification. First question coming back on the guidance again for the full year, I know it's very uncertain. You don't want to get carried away or anything, but you're obviously quite comfortable with close to three quarters of a billion of EBITDA in the first half. It's very difficult to gauge the seasonality of the business now because of everything that's happened in the last few years, but I don't think it's far off 50-50 with a slight weighting to the first half. So I'm just wondering why you didn't decide to lift the bottom end, particularly given the comments on the net pricing discussion when we look forward from here, most of the hit in the first quarter.

The second question just around the clarification, this on the free cash flow. Did you say, Chris, that you were expecting an outflow in the second quarter because Ilham likes delivering on that free cash flow every quarter, but with the dividend payment and the PFAS payment coming out.

And then thirdly, on Composites, obviously that business has done well on the margin. You test it by trying to close the gap on Specialty Polymers, certainly on my numbers. It's almost with an EBITDA margin starting with a three. Just how that looks going forward, because it certainly has been delivering for you over the last few quarters? Thank you.

Christopher Davis - Syensqo - CFO:

Let me take the first question around the historical splits, half one / half two. I think you're right, the historical split half one, half two has been 53-47%. If you take the estimate for this half and apply that same average, you'd probably end at the bottom of the range. If you applied a 50 / 50, you'd end up in the middle of the range, and if you applied something marginally above that, with a stronger second half with a slight recovery in volumes, you'd be towards the top end of that range. We've seen some stabilization, it's not enough to call it a trend, but we still remain committed in reiterating our guidance of 1.4 to 1.55 billion euros.

On cash flows, yes, over the last 19 periods, Ilham has had positive cash outflow. There are two reasonably large one-time items. The dividend is in respect of the full combined Solvay, it's the full 40% that we are paying in the quarter and then the cash flow for the PFAS settlement, as we've noted for some time now, was pending and has been agreed with the courts. The flow of money took place on the 10th of April. Yes, we will have a negative cash outflow, but as we go into the second half of the year, we expect positive cash inflows to start commencing again.

Ilham Kadri - Syensqo - CEO:

You talked about the margin at Composites. We don't give margin by business unit, as you may know, and there are old proxies before we acquired the business back in 2015, that Composite Materials is lower than Specialty Polymers. Composite Materials' volumes are still below 2019 levels. It is a more labor-intensive business, it's a different business model than Specialty Polymers.

I'm extremely pleased with the Composite Materials. When I joined, the company was not even fully integrated in the system. Covid-19 has helped us and helped me as a newcomer at that time to really stress test the business. Remember that we closed two manufacturing assets as they were, at that time, the lowest return on capital employed at the site level in the whole company. We restructured and have the opportunity to close the gap and continue improving our productivity, our efficiency, automation, and Gen-AI, even machine learning is going to help us actually to modernize the Composites assets. The industry itself is extremely labor-intensive and we are working on it and there is more to come.

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

Chetan Udeshi (JP Morgan):

I'll start with the first question. I was just reading, and it was, I think, in your annual report as well, you're now talking about some insurance compensation for your PFAS settlement payment. And I think the initial amount is 32 million. Do you now have some clarity on what should be the insurance compensation for the full payment that you're expecting? Is it 30-40% that we should keep in mind, which of course will hopefully reduce your net cash out on this line?

The second question was, I saw and I think you also referred to this acquisition you did in South Korea, it seems small. Typically we tend to see when management teams and companies don't deliver on organic growth targets, M&A is seen as a route to grow earnings. You know, is this an indicator of that at Syensqo? Because my understanding was clearly the CMD was far more focused on organic growth opportunities or M&A, but I don't know if there is a change now given the weaker demand dynamics that you seem to be seeing at this point.

And the last question was, can you talk about what you see in your electronics and semis? I think you mentioned maybe early signs of some stabilization, but we've seen a few of the other semi-exposed polymer companies talk about a rebound, which was actually stronger than expected in Q1. Is that something you see is broader semi and electronics overall? Thank you.

Christopher Davis - Syensqo - CFO:

I'll take the first one about insurance. I think we already said to you as part of our previous announcement that we had been taking a conservative position where we provided for the full amount of the obligations, and we had indicated that we would seek to recover this from the insurers and previous owners. The initial settlement with an early group of insurers, is the 32 million. It was reflected as a receivable in our December accounts, and we received the proceeds in February, it's a first quarter cash flow. As to other receipts, I don't think it's appropriate that we comment on that at the moment, as the ongoing discussions are happening with insurers and other related parties, if you don't mind.

Ilham Kadri - Syensqo - CEO:

On acquisition, we always have and we continue to look at M&A as part of our growth agenda. The acquisition of Jin Young Bio is a relatively small deal, and is aligned with our strategy and is augmenting our technologies and our competencies with something we simply don't have. It is small, it's not material financially, but it's huge in terms of what we will be doing with it in the personal care and the ceramides space. We also have a venture capital fund of some €80 million that looks for small opportunities.

We have been very disciplined in the past years. I have focused personally with my former team on cash and deleveraging the company and we are not prepared to overpay for an asset that doesn't drive value, we remain focused. You said it, on our organic growth opportunities as we shared with you during our capital market days, we have €10 billion euro of opportunities. In terms of capital management, the €7 billion of cash we will generate in the coming years will prioritize growth. We have organic opportunities, and the rest will reward shareholders, share buybacks and continue deleveraging the company. We are committed to stay strong investment grade.

On the semicon production, we are seeing some signs of recovery versus quarter four last year, with destocking expected to have probably peaked in the first quarter. That said, there are delays and construction being pushed out, which is limiting the growth, specifically, in the fab investment side.

Let me give you three parts of the outlook. In the short term, consumer electronic demand is slow to recover, integrated chips unit shipments dropped lower than expected in the first quarter, demand for industrial and automotive chips remain very weak for obvious reasons, impacting the high volume discrete, demand for advanced AI chips, and their memory components remain the focus of the industry even though they make up relatively small portion.

2024 will be, in my mind, a recovery year for the semicon industry, probably with a stronger second half still expected for the integrated chips, and the wafer fab equipment market. As end markets will recover, demand for AI will grow, the world is buzzing with Gen AI. Some analysts, as well as TSMC, have lowered growth projections for 2024 versus their original forecast.

But despite the construction delays announced, plans for a new major fab construction are maintained and new projects are expected to be announced in H2 2024 to support the demand for chips. We are in conversation with our customers, including in the United States of America. When I was there for our groundbreaking for the batteries, we had several conversations with customers who are building mega factories for semiconductors, with the DOE grants, to secure the sovereignty of the United States of America in the field.

The final one, in the long term, I believe after 2024, is the start of a new semiconductor cycle. Some people talk about double digits for 2025-26 in terms of equipment spending. The integrated chips are expected to reach the trillion-dollar mark within a decade. That's my view in this three time horizon.

Operator: Our next question comes from the line of Matthew Yates from Bank of America. Please go ahead.

Matthew Yates (Bank of America):

Good afternoon everyone, a couple of questions, please. First on your Aroma business where you've mentioned some restructuring, forgive me, not overly familiar with the asset base there. Are you able to contextualize sort of what share of capacity you're taking down, and then how flexible is that to bring back, should you get a price signal from the market that justifies that?

And then the second question is just around PVDF, and I guess the news today from your Belgium peer Umicore that it's going to slow down its battery investments in light of weaker EV demand. Is there the potential for Syensqo also to review the pace of its CapEx plans if needed or is it now too late given you've broken ground and you'd lose access to the US grants? Thank you.

Ilham Kadri - Syensqo - CEO:

Let me start with the Aroma question. To put it in context Matthew, Aroma represents around 5% of our revenues and even lower percentage of our EBITDA. That said, we have taken, as we've always done, decisive actions to improve profitability and adjust our industrial footprint to serve the markets competitively given not only the new capacity additions from competitors in China, but the lower domestic demand in China, which has seen a greater focus on exports, specifically for some more commoditised chemicals into other markets. We have also seen higher raw material and energy prices in Europe and without efficient protection in the US, many antitrust filings have been done by regional suppliers which takes time with the bureaucracy.

At the start of the year, we started to mothball two units, to be specific, this is the hydroquinone line in Baton Rouge, US and the synthetic vanillin in Saint Fons, France. Mothballing doesn't mean closing.

They are in the care and maintenance mode. The assets are effectively on furlough. For those who are following us and me, since I joined the company, we implemented such industrial agility at Covid time when I came into the company, which did not exist. We can really be adaptable and agile in the way we adapt our existing capacity to the reality of the market. We should expect to see an improvement in performance in the coming quarters aided by these actions.

On PVDF, first of all, any plants in Specialty Polymers, specifically this one in the US, is going to take a three year timeline to build the new capacity. We do not believe the short term dynamics is changing the rationale of our PVDF investments in the United States of America.

Number two, we have the flexibility in how we phase the capacity expansion. Groundbreaking doesn't mean that you have to spend the money overnight. If there is no market, in my playbook, there is no point to put steel on the ground. We can phase the capacity expansion to align with market growth.

Number three, securing lower costs and lower total end to end cost of ownership. We elected rather than going alone, to partner with and vertically integrate with Orbia, who is going to give us the lowest cost possible and the security and reliability of supply of critical minerals. They are the largest mining of fluorspar in the Americas, to make our materials affordable and boost EV adoption. In addition to this, I believe now, you've seen the sovereignty policies are becoming more and more regional. We believe in a "region for region strategy", which will also provide a significant barrier to entry in North America, given the existing, high tariff for PVDF against Chinese imports at the level of 32%. We have discussed it many times, with IP protection, and the tariffs in place.

I met 20 different customers during the groundbreaking in the Americas and they asked us if there are delays in EVs. There is a switch to hybrid, I love hybrids because we can double the revenue spent between internal combustion engine cars moving to hybrid. We're not a seller of PVDF, we sell solutions for lightweighting under the hood applications. We love hybrids, for us, it is not a headwind.

I know the headlines are buzzing, but it's not an apple to apple comparison. We are not a cathode and anode producer and PVDF represents less than 2% of the battery's bill of material. We are agnostic to technologies and can go to LFP, NMC and the soup of alphabets in batteries. Suspension technology is good for all binders applications. On the other hand, emulsion technology is not good for NMC. We can choose where to allocate our capacity and adapt to the market evolution and I remind you that half of our business is auto and the rest is non-auto applications.

Operator: Our last question comes from the line of Martin Rödiger from Kepler Cheuvreux. Please go ahead.

Martin Rödiger (Kepler Cheuvreux):

Actually, all my questions have been raised, but only one from my side again on PVDF. Half of your 400 million PVDF sales is non-automotive applications. Why is this business so much different to the automotive applications? Isn't there a theoretical risk that some competitors in PVDF who supply the automotive industry can also switch over to supply non-automotive applications? Thanks.

Ilham Kadri - Syensqo - CEO:
As we told you, and we shared even the numbers during our last call or during the capital market day, more or less half-half is auto and non-auto. The non-auto goes from oil & gas to construction, they are a mixed bag of different industries. In oil & gas for example, it goes to riser applications. Let me explain this one to just show you how qualification can be very long. A riser in offshore application is non-metallic. It replaces a piece of metal which is really bending two pipes. It has to be tested under 3,000 meters in the sea water, subject to corrosion resistance, pressure resistance, abrasion resistance. We bring against metal our value proposition which is very strong, not only the weight, but the moldability and corrosion resistance. When you do such qualifications, it takes a lot of time.

Since I joined the company, there was one pipe somewhere in the Latin America sea water. When we get the business, it's pretty sticky, including, to a lesser extent, in construction. We don't undermine our competitors, everybody can come into any space, and that's good for any business, they keep us on our toes. What is more important for me is the barrier to entry we build. First of all through innovation, IP barriers, and contracting with customers. We have key accounts with whom we build long term qualification campaigns and they last for two to three years. In the oil & gas industry, for batteries, you need a healthy 18 months.

The second is superior technology, remember suspension and emulsion, suspension can do it all in batteries and we continue upgrading innovation. That's why you've seen us spending more in innovation, not only on new products or new molecules. We are not here to reinvent the wheel, it is also application development. I welcome you to Bolate. We should make a session there where our customers come with their own mold and they use our innovation in their own mold. When you start co-innovating, co-brainstorming with your customer, you co-create and you go faster to market, which is sticky. Application labs have been the secret sauce of accelerating time-to-market. As a growth company, if we want to accelerate time-to-market, if we are going to date with top line growth, we need to be closer to our customers, we need to do more application development.

We have been very happy with PVDF. You have been asking us many times on the margins and I told you in Q2 last year, before the split, that the margins were stable. I can confirm that the margin of PVDF in quarter one were stable versus quarter one last year and versus quarter four. Even if the raw materials can be up and down, this is one of the technologies where we defend our gross margin.

Operator: This concludes the Q&A session. I will now hand back to Sherief Bakr for some closing remarks.

Sherief Bakr - Syensqo - Head of Investor Relations:
Thank you very much Francois. That ends the session for today. Thanks everyone for your participation and great questions. And as usual, the investor relations team will be here to answer any remaining questions, and we look forward to seeing many of you on our upcoming roadshows. Have a great day.