Q&A Regular Transcription

Third quarter figures and proposed Lucas Meyer Cosmetics transaction

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COMPANY REPRESENTATIVES

Conrad Keijzer, Chief Executive Officer
Bill Collins, Chief Financial Officer
Andreas Schwarzwälder, Head of Investor Relations

SPEECH

Operator

Ladies and gentlemen, welcome to Clariant's call relating to the acquisition of Lucas Meyer Cosmetics and the Third Quarter / Nine Months 2023 Results. I'm Sandra, the Chorus Call operator [Operator Instructions].

At this time, it's my pleasure to hand over to Andreas Schwarzwälder, Head of Investor Relations. Please go ahead, sir.

Welcome and Introduction Investor Relations Andreas Schwarzwälder:

Ladies and Gentlemen, good afternoon. My name is Andreas Schwarzwälder and it's my pleasure to welcome you to this call.

Joining me today is Conrad Keijzer, Clariant's CEO, who will guide us through the key details of this proposed transaction for Clariant.

Both Conrad and Bill Collins, our CFO, will afterwards provide an overview of the third quarter developments and there will be a Q&A session covering both topics of our presentation.

At this time, all participants are in listen-only mode.

I would like to remind all participants that the presentation includes forward-looking statements which are subject to risks and uncertainties. Listeners and readers are therefore encouraged to refer to the disclaimer on slide 2 of today's presentation. Also, all statements made in respect of Lucas Meyer Cosmetics are related to the proposed acquisition which is expected to close during early 2024.

As a reminder, this conference call is being recorded. A replay and a transcript of this call will be available in the Investor section of the Clariant website.

Let me now hand over to Conrad to begin the presentation.

CLARIANT

Conrad Keijzer, CEO:

Thank you, Andreas.

Good afternoon, everyone and thank you for joining this call.

We are delighted to confirm that Clariant has agreed to acquire Lucas Meyer Cosmetics for 810 million US dollars. This acquisition will have a compelling strategic fit for us. It is fully aligned with our purpose-led growth strategy because:

- it will expand our reach into the high-value cosmetic ingredients space;
- it will advance our sustainability and innovation agenda; and
- it will be accretive to our growth, margins and cash flow.

I will elaborate on these important aspects in more detail in the next few minutes.

Lucas Meyer Cosmetics, headquartered in Québec, Canada, is a leading player in the high value active and functional cosmetic ingredients market.

Its high-quality customer base includes multi-national blue-chip customers, regional and independent brands.

It also has a highly experienced leadership team with an excellent track record.

Its competitive edge stems from its superior innovation capabilities, including global R&D and regional application centers.

In addition, Lucas Meyer Cosmetics has a unique customer-centric business model, resulting in strong brand recognition among customers around the world. In fact, because of this, our intention is to continue with this valuable brand after closing.

In the last twelve months, Lucas Meyer Cosmetics generated around 100 million US dollars in revenues, with a highly attractive profitability profile. The business is also highly cash generative due to its asset-light business model and outsourced production.

I will now briefly touch on the compelling rationale for our agreed acquisition of Lucas Meyer Cosmetics in the following slides.

In summary:

- this proposed transaction will strengthen our position as a true specialty chemical company;
- Lucas Meyer Cosmetics has an attractive market-leading Contract Manufacturing Operations model;
- This transaction will further enhance our sustainability and R&D profile;
- and will increase our exposure to fast-growing, high-value consumer end markets;
- Lucas Meyer Cosmetics will be a perfect complementary fit for us across customers, products and regions; and
- All of this means that this transaction will generate significant shareholder value
- our ambition is to grow Lucas Meyer Cosmetics' annual sales from around 100m US dollars today to around 180 million US dollars by 2028.

The transaction value reflects Lucas Meyer Cosmetics' high-growth and high profitability profile, with an acquisition multiple of 16.3 times EV to reported EBITDA. The transaction is also expected to be mid-single digit percentage EPS accretive for Clariant from year one onwards.

The funding for the acquisition has been secured by a fully committed bridge facility, which we intend to refinance soon after completion, increasing our net debt leverage moderately and not impacting our investment grade credit rating.

We expect the acquisition to close in the first quarter of next year, subject to the customary closing conditions.

The transaction will further advance Clariant's ongoing portfolio transformation to focus on specialty businesses in line with our purpose-led strategy.

At our Capital Markets Day, back in 2021, we stated our key criteria for value enhancing M&A. The proposed acquisition of Lucas Meyer Cosmetics ticks our objectives for all of these metrics.

The transaction will build on Clariant's track record of pursuing and successfully integrating bolt-on acquisitions to enable value creation and profitable growth.

As a result of this transaction, Clariant will further increase its portfolio weighting to the most attractive segments of consumer end-markets to approx. 45% of current sales, underpinned by accelerating demand for sustainable products.

Lucas Meyer Cosmetics has a unique customer-centric business model, with distinctive customer interaction expertise across actives and functional ingredients, botanicals as well as delivery systems, driving innovation and increasing customer stickiness across these applications.

Lucas Meyer Cosmetics is a market leading player in this high value cosmetic ingredients space and has built a competitive advantage through superior innovation, speed to market, and intimate relationships with the key cosmetics brands.

In addition, the business offers a very promising innovation pipeline with attractive natural-based ingredients that will be launched in the upcoming years.

The global cosmetic ingredients market is significant, at an estimated 81 billion US dollars, with Lucas Meyer Cosmetics' addressable market of high-end active and functional ingredients at around 6 billion US dollars. The growth drivers and outlook for this market are highly supportive, with an expected 7% volume CAGR over the next four years, driven by sustainability and cosmetic-related mega trends such as natural products and personalization plus accelerating consumer demand for quality and technological enhancements.

In addition, Lucas Meyer Cosmetics' own CAGR of around 10% in recent years demonstrates its track record of outgrowing underlying market growth.

Clariant's Business Unit Care Chemicals and Lucas Meyer Cosmetics will be a perfect strategic fit with strong complementarity in terms of customer and product portfolios, regional strongholds plus matching capabilities in R&D and marketing. As a result, Care Chemicals and Lucas Meyer Cosmetics will be able to grow faster together than either one could do on its own.

Combining the two product portfolios will unleash immediate cross-selling opportunities: Lucas Meyer Cosmetics as a leader in high quality peptides and botanical based active ingredients, while our Care Chemicals business has a rapidly growing natural-focused actives and extracts portfolio, with more basic ingredients for personal care.

The customer bases of Lucas Meyer Cosmetics and Care Chemicals show limited overlap: Lucas Meyer Cosmetics has a close proximity to premium international customers and independent brands, while we have a broad portfolio of large corporates as customers. This will make Care Chemicals a uniquely positioned solutions provider for cosmetics brands.

The regional footprint will be also highly complementary: Lucas Meyer Cosmetics has a strong sales footprint in North America and France which are key markets for active ingredients, while we are well-established in APAC and Latin America.

Given Lucas Meyer Cosmetics' footprint, this acquisition also demonstrates Clariant's diversified investment strategy by strengthening its presence in the important North American market as Lucas Meyer Cosmetics is headquartered in Canada and generates around one-third of its sales in the region.

Lucas Meyer Cosmetics' financial profile will be accretive to Clariant's growth, margin and cash flow profile and exceeds Clariant's 2025 financial target metrics. It will add around USD 100 m in sales, with a highly attractive EBITDA margin profile and strong cash generation due to its asset-light business model, both metrics clearly exceeding our targets. The financing structure also allows us to maintain our investment grade credit rating. And the transaction will also be accretive to EPS after year one.

In closing this section of our presentation, we are excited by the opportunities brought to Clariant by this agreed acquisition.

This will strengthen our position as a true specialty chemical company and will create significant value for shareholders.

With that, I will now turn to the Q3 financial results.

In the third quarter, Clariant delivered a strong performance in Catalysts while we saw stabilization in Care Chemicals despite a continued challenging market environment.

In the third quarter of 2023 we recorded sales of around 1 billion Swiss francs. In local currency, this corresponded to an 8% organic decrease or a 13% decrease including scope impacts, versus the third quarter of 2022. The currency impact was 8% in the reported figure of 1.03 billion Swiss francs.

Economic conditions remain challenging in many geographies, resulting in a weak demand environment.

The European Chemical Industry Council (CEFIC) reported that the EU 27 chemical production declined by 11.2 % in the first eight months of 2023 versus prior year and by 5.9% in August 2023 compared to August 2022, despite a slight sequential improvement. Given demand for chemicals is still in decline, they expect the EU 27 chemical output to reduce significantly in 2023, with the expected 2024 recovery likely to be postponed.

In China, the largest chemicals market, the recovery remains slow paced, with industrial output growing by 0.5% in August compared to July 2023, according to CEFIC data.

The US economy continues to be impacted by global weakness and monetary tightening. In August 2023, the American Chemistry Council (ACC) reported a 2% decline in the Chemical Production Regional Index (CPRI) compared to the previous year.

Against this challenging macroeconomic backdrop, our volumes decreased by 5%, despite the positive performance in Catalysts. Volumes declined in Care Chemicals and Adsorbents & Additives, where we continue to experience very weak demand in particular in key end markets like Crop Solutions and Electrical & Electronics applications.

Crop Solutions continued to face a well-filled supply chain in a relatively robust environment for farmers, which is driving global channel destocking and negatively impacting the demand for our products.

Weak consumer demand continued in the Electrical & Electronics sector. The International Data Corporation (IDC) expects global notebook and PC production to decline by 13% in 2023 compared to 2022, with demand experiencing a delayed recovery in the second half of 2024. Smartphone shipments grew sequentially in Q3 2023 by 7% given the upcoming holiday season, while remaining noticeable negative at - 9% on a year-to-date basis.

Following a period of notable year-on-year price increases, we reported a 3% decrease in pricing in the quarter. Whilst Catalysts pricing increased by 4%, Care Chemicals pricing declined by 6% driven by index-based contracts, and Adsorbents & Additives was down 1%. To put the third quarter figure in perspective, it is important to note that prices had increased by 18% in the same period last year. We remain focused on defending pricing in this deflationary economic environment.

The net effect from the acquisition of the US-based Attapulgite business assets in Adsorbents & Additives and the divestment of both the North American Land Oil and Quats businesses in Care Chemicals totaled 67 million, which had a negative 5% impact on Group sales in the third quarter.

The currency impact of -8% was mainly due to the appreciation of the Swiss franc relative to the Argentine Peso, Euro, and other currencies. This resulted in 21% lower third quarter sales in Swiss francs.

Moving to the profitability development, we see that third quarter 2023 EBITDA was 159 million Swiss francs, 28% lower year-on-year, and resulting in a 15.4% EBITDA margin. Excluding the notable FX impacts in the quarter, the decline in absolute EBITDA was 14% year-on-year.

Clariant achieved higher volumes and a favorable product mix in Catalysts. This as well as our cost savings from our performance programs made a positive contribution to our profitability. However, this only partially offset the impact of lower volumes and unfavorable business mix in Care Chemicals and Adsorbents & Additives. The net operational impact from Sunliquid was slightly higher sequentially but improved by 2 million Swiss Francs year-on-year.

Looking at the sequential development of sales and underlying profitability in the quarter, we achieved stable organic sales in a challenging market environment. Volumes increased by 2% sequentially driven by a 7% improvement in Care Chemicals. Pricing was slightly down by 2% due to index-based price adjustments. The scope impact from the Quats divestment was negative 2%. Overall, therefore, sales were down by 2% in local currency. In Swiss francs sales decreased by 5% sequentially.

Our profitability is improving, with EBITDA excluding exceptional items increasing by 21% sequentially. This was driven by our very strong performance in Catalysts, the volume increase in Care Chemicals, and the strong performance in Adsorbents although volumes were lower in Additives. We also had a positive contribution from our ongoing cost measures.

I will now hand over to Bill for further details on our business performance in the third quarter.

Bill Collins, CFO:

Thank you, Conrad and good afternoon everyone.

I will now discuss our third quarter development by Business Unit, starting with Care Chemicals.

Care Chemicals sales decreased by 18% in local currency, with volumes down 2% versus a high comparison base in Q2 2022. We reported an increase in organic volumes sequentially of 7%, with continued monthly improvements during the quarter. Pricing was 6% lower due to formula-based price adjustments linked to raw material prices, and the scope impact was minus 10% due to the disposals of the North American Land Oil and Quats businesses.

Sales rose in the high-teens organically for Oil Services, while they declined in a mid-single-digit range in Personal & Home Care. We continued to record more pronounced decreases in particular in Crop Solutions, as well as Industrial Applications, Mining and Base Chemicals.

In the quarter, Care Chemicals EBITDA of 91 million Swiss francs resulted in a 17.3% margin versus 19.9% in Q3 2022. Profitability was negatively impacted by the lower volume and currency impacts. On a sequential basis, underlying profitability increased significantly, with EBITDA before exceptional items of 99 million versus the second quarter comparable figure of 77 million Swiss Francs.

Catalysts sales grew by 8% in local currency versus the third quarter of 2022. Volumes and pricing both increased by 4%. Sales in Propylene and Syngas & Fuels increased by over 40%, while specialties and Ethylene declined due to the project nature of the businesses.

In the third quarter, the Catalysts EBITDA margin increased to 22.3% from 11.5%. Excluding the negative sunliquid® impact of 11 million Swiss francs, the EBITDA margin was 26.5%, compared to 16.4% on a like-for-like basis in the previous year. The strong margin was supported by continued positive pricing, as well as the positive business mix and the improved operating leverage because of strong volume growth.

Sequentially, EBITDA before exceptional items increased to 58 million Swiss Francs versus 51 million Swiss Francs in Q2 2023.

Our sunliquid® task force and our dedicated team on-site remains focused on delivering improvements in Podari. The negative impact in the third quarter represents a 2 million Swiss Francs improvement year-on-year. Clariant is actively evaluating strategic options for sunliquid and will provide an update on this topic by the end of 2023.

Adsorbents & Additives sales decreased by 19% in local currency in the third quarter. This was driven mainly by a 20% decrease in volumes as very weak demand in key end markets continued in the Additives business, against a strong comparison base in Q3 2022. Adsorbents grew by mid-single-digits driven by the foundry business and supported by scope.

EBITDA margin decreased to 12.2% compared to a high 24.3% in the third quarter of 2022. Profitability levels were impacted by substantially lower volumes in Additives in particular, which resulted in lower operating leverage and fixed cost absorption.

The relatively strong Adsorbents performance led to a less favorable business mix. Sequentially, EBITDA before exceptional items of 30 million Swiss Francs was above the Q2 comparable figure of 25 million Swiss Francs.

We delivered cost savings of 14 million Swiss francs in the third quarter from performance programs. We remain on track to achieve our increased total 2025 cost savings target of 170 million Swiss francs.

Thus far, savings of 121 million Swiss francs have been realized from efficiency and rightsizing measures as well as the initial savings from the new operating model. We continue to expect most of the savings related to the implementation of the new operating model to be realized in 2023 and to offset continued inflation, in particular relating to wages in 2023

With this, I close my remarks and hand back to Conrad.

Conrad Keijzer, CEO:

Let me conclude with the outlook. While we expect to see an easing inflationary environment, we do not expect an economic recovery in the final three months of 2023, with macroeconomic uncertainties and risks remaining.

Despite this backdrop, we expect to land in our guidance ranges for 2023. This includes a net divestments impact of around CHF – 150 million relating to the Quats, North American Land Oil, and Attapulgite transactions as well as an FX translation impact at the upper end of the published 5-10% negative range.

We continue our focus on cash and have targeted a reduced CAPEX spend below 220 million Swiss francs in 2023. This will positively impact cash generation towards our 2025 free cash flow conversion target.

Our focused specialty chemicals portfolio and our highly committed colleagues leave us well-positioned for profitable growth as end markets recover. We remain committed to meeting our 2025 targets.

With that, I turn the call back over to Andreas.

Andreas Schwarzwälder, Head of Investor Relations:

Thank you, Conrad and thank you, Bill.

Ladies and Gentlemen, we will now take your questions on both our exciting Lucas Meyer Cosmetics transaction and our Q3 results. We would kindly ask that you please limit the number of questions to two, thus providing more participants with the opportunity to ask a question. Thank you for your understanding.

We will now open the line for questions. Operator, please go ahead.

Operator:

We will now begin the question-and-answer session. Anyone who wishes to ask a question or make a comment may press * and 1 on the touchtone telephone. You will hear a tone to confirm that you have entered the queue. If you wish to remember yourself from the question queue, you may press * and 2. Participants are requested to use only handsets while asking a question. Anyone who has a question may press * and 1 at this time.

Our first question comes from Christian Faitz from Kepler Cheuvreux. Please go ahead.

Christian Faitz

Yes, thank you, good afternoon. Everyone has 2 questions indeed. First of all, is the weak performance in agriculture within care chemicals still visible in Q4, and are you seeing any early signs of improvement heading into 2024? I would guess a lot of the demand issues have to do with the de-stocking trends we have seen in Q2 and Q3 in the Northern Hemisphere, and now that Q4 issues in Brazil, what are your customers saying on that?

And then my second question is on Lucas Meyer, this asset has been on the silver platter for quite some time, I believe. What made you buy it at this point in time? And related to that, how easy will it be to integrate the CRM systems into your own setup? Thank you very much.

Conrad Keijzer

Yes, thank you, Christian. I couldn't hear the last part of your question, could you repeat that on Lucas Meyer?

Christian Faitz

How easy will it be to integrate the SAP systems into your own view? Thank you.

Conrad Keijzer

Yes, sure, yes, understood. Okay, first on your first question as it relates to agriculture, yes, we did see our third quarter a double-digit decline in this segment. So, what you see is that this is actually arguably one of the last segments where we still see destocking going on in agriculture, in crop protection the supply chains are very long as you may know, all the way down to the farmer with also significant distribution stock points in between.
What we are seeing is still elevated inventory levels at our clients, and it is our expectations based on customer feedback that destocking in the cost Crop Solution segments will continue throughout the season.

So, talking about an improvement, we expect that early on into next year, what is important to note is that in the end, the end markets still actually are healthy. So, there is a solid demand for crop protection, it's just that there was an unusually high inventory level in this supply chain.

To your second question on Lucas Meyer, yes, I will say that assets like this rarely come up for sale. This is an extremely attractive business both from a growth and margin profile. To my knowledge, the first information on Lucas Meyer was actually in a Bloomberg article which showed up in May, where indeed IFF announced to put up this asset for sale. This was definitely a process which IFF managed very professionally and there was obviously a lot of interest by various players in this.

Your other question on integration, we do expect a smooth integration because the business actually was not that much integrated within the IFF Company. This is actually a series of share deals. It's not an asset deal, so these business were pretty much running on standalone basis, and as such, we expect a large, smooth transfer and integration with Clariant.

Christian Faitz

Thank you very much, Conrad.

Operator

The next question comes from Jonathan Chung from Morgan Stanley. Please go ahead. Mr. Chung, your line is open. You may ask your question.

Jonathan Chung

Hi, I've got 2 questions, please. First one is on the... on your comments around your EPS...

Conrad Keijzer

Sorry Jonathan, we can't hear you. Maybe Sandra, can we take Chetan next and try Jonathan later?

Operator

Okay, the next question comes from Chetan Udeshi from JP Morgan. Please go ahead.

Chetan Udeshi

Yes, hi, thanks. A few questions from my side, first, I was just looking at your Q... I mean full year guidance which, of course you haven't changed, but the range is pretty wide when you consider that there's only one quarter left, you know, it's almost a 30% swing from the low to top end. So, can you maybe narrow it down where you are comfortable on Q4, is the midpoint a right number to think about or do you want us to be in one of the 2 corridors, whether in the low end or the upper end of the guidance range. That's the first question.

The second question I had was clearly the business you're acquiring has pretty high EBITDA margin of 50%. I don't know as part of the due diligence, have you looked at their numbers over a period of time, is that margin something which is sustainable because you know like you yourself experienced in the last couple of years, you know many companies in chemicals benefited from very high inflation which has boosted profitability of many companies. So just curious, what is their sort of margin track record over a period of time?

And a related question would be, can you help us if you have that information in terms of how much is their R&D to sales in the business, just to get a sense of why their margins might be so high? Thank you.

Conrad Keijzer

Yes. Thank you. Thank you, Chetan. Yes, first, as far as our guidance is concerned, so yes, we expect to land within the range. What we basically see is the continuation of the current trading conditions that we are experiencing, and we also see a deflationary environment. I think it might be important to note that overall, we think we have bottomed out in the second quarter. We had a sequential improvement in our volumes of 2% actually from Q2 into Q3. And we do see an improvement both in volumes on a sequential basis in our Care Chemical business and even in our Additives business.

Now to your question, can we narrow it down? I think it's fair to say that there still is a lot of volatility. We also see quite some volatility on exchange rates, and I'll let Bill comment on that after I answer your second question. So as far as margins at Lucas Meyer, yes, I think the range that you quoted, the number that you quoted is actually correct. This is a very high EBITDA margin business. As you can imagine, we're very much focused on commercial due diligence. We looked at their historic growth rates. We looked at the historic margin profile. And I can confirm that actually, the company has consistently shown a 10% CAGR in recent years, which included some down cycles like COVID. However, the company continued to deliver this strong growth.

The company also has consistently delivered these high margins, and maybe I'll make one comment about it. The reason the margins are as high as they are, is that this is truly unique technology. We're dealing here with actives that are naturals, that actually provide a certain function, a certain advantage to your skin or to your hair. And the uniqueness here of Lucas Meyer is that they prove the efficacy through clinical trials. So the products that Lucas Meyer sells do work. And this will continue to be a growth driver. But they say actually, with our products, you will have less wrinkles under your eye or you will have less hair loss. This is not just a claim, no, this is actually a substantiated claim, through actually clinical trials. And that makes it very unique and makes it actually having sustainably high EBITDA margins.

Bill, perhaps you could comment a bit on the volatility that we're still seeing improving in the outlook for full-year guidance.

Bill Collins

Absolutely. So, as we had mentioned not only in our opening statements, but also last quarter, FX volatility has been a real issue this year, not just for us, I mean, really, you've seen the earnings releases from many other multinationals that we're all experiencing the same thing. We feel comfortable about the performance of our underlying businesses and how that puts us in the range. I think the challenge is what's going to happen from the translation perspective, certainly, with the Euro, the Dollar, but perhaps more importantly with the hyperinflationary countries like Argentina and Turkey. That's probably where we see the great volatility and the biggest impacts.

To add a little bit on your second question, I will say that we did an exceptionally thorough due diligence on the underlying quality of the Lucas Meyer Cosmetics financials, not just from a top line perspective, but also from the EBITDA margin perspective. And I think on the basis of both of those, both at the top line and the bottom line, we felt very comfortable in the historic growth, the accuracy of the information that was presented to us and then what we think we can do with that going forward, both in terms of growth and maintaining and growing profitability.

Chetan Udeshi

And in terms of R&D, sorry, I don't know if I missed that response to that question.

Andreas Schwarzwälder

We cannot disclose that, Chetan.

Chetan Udeshi

Okay, no worries. Cheers. Thank you.

Operator

The next question comes from Jonathan Chung from Morgan Stanley. Please go ahead.

Jonathan Chung

Hi, can you hear me now?

Andreas Schwarzwälder

A little bit better.

Jonathan Chung

Okay. Thank you. Thanks for taking my questions. I've got 2, please. The first one is around your comments around mid-single-digit EPS accretion from year one. So I think in the footnote, it says it includes synergies. Could you just give us some color around what synergies are you assuming from this deal or what sales synergies and what are the cost synergies? And how should we think about the phasing of the synergy.

And then the second question is around a bit on outlook. On a divisional basis, can you give us a bit more color on how these divisions are performing into Q4? Presumably, your aerospace and refinery exposure should help a bit. And seasonally, Catalysts is stronger in Q4. Is this still true for this year? Just a bit more color would be helpful. Thank you.

Bill Collins

All right. Thanks, Jonathan. This is Bill. Let me start with the EPS accretion. So yes, we confirmed that after the first year, we do expect this acquisition to be EPS accretive. And the reason that we believe that is that yes, we start to see the revenue and cost synergies start to flow through into the P&L resulting in a higher EBITDA margin, a higher overall level of sales than what we see in a base case. But then also, there's a very favorable impact that comes from the refinancing of the bridge loan and also the takedown of the aggregate amount of debt that we have in that. So, on the basis of that, as we get into '25, '26, we're looking at an EPS accretion in the mid-single-digits.

Conrad Keijzer

Okay. Jonathan, yes, I think your second question was about an outlook, a bit more granular at the divisions, at the division level, what we are seeing in Q4.

So well, let me start with Catalysts. I mean we obviously had a wonderful Q3 in Catalysts where, frankly, all stars aligned. We had a volume increase versus prior year of 4%. We had a pricing increase of 4% and then we see some deflation on the raw materials. I also will say that we have the perfect mix. So we had very strong propane to propylene catalyst sales. We also have very strong Syngas sales. So, in terms of the mix, that's not something that is sustainable. We have really the perfect mix here on Catalysts. I will say, if you look into Q4, that we'll see a continued strong growth momentum. But if you look at the year-on-year comparison for Catalysts, keep in mind, we had actually a very strong Q4 last year.

Then moving it to Care Chemicals, what we're seeing in Care Chemicals is a sequential improvement already in recent quarters. Let me remind you that our volumes in Care Chemicals actually were up already 7% in Q3 versus Q2. And if you look specifically at the fourth quarter, what we'll see is actually the de-icing business to add its contribution. And we also will see the refinery business picking up, the diesel cold flow improvers business. So, for Care Chemicals on that note, we expect continued soft sequential improvement.

Finally, if you look at Additives and if you basically look at our Adsorbents, Adsorbents is a very stable business, no real changes here. In Additives, we see a small sequential pickup, but based on the order intake that we've seen also in Q3, it's not going to be a home run yet when you talk about sales of laptops, sales of cell phones, basically, the consumer has not yet started to buy durable goods again in a significant way.

Jonathan Chung

Thank you. Just on the synergy, is there a number that you can put to so that we can model that in our numbers?

Conrad Keijzer

Yes. On the synergies, Jonathan, we did not disclose per se a synergy number. But if you look at our projection where we said, well, we're going to grow this business from 100 million today US Dollar revenue to a 180 million US Dollar revenue in the next 5 years, you can assume that it is our ambition to actually maintain the very high margins in this business, and that may actually give you some idea on the synergy calculation. We also published the historic growth CAGR, which was around 10%. And what you'll see moving forward by combining the product portfolios, by combining the sales force, by actually some real synergy that we see also within the R&D groups, we think we can actually increase that CAGR from a 10% per annum to roughly 12.5% per annum.

Jonathan Chung

Okay, clear. Thank you.

Conrad Keijzer

Thank you.

Operator

The next question comes from Andreas Heine from Stifel. Please go ahead.

Andreas Heine

Yes. Thanks for giving me an opportunity to ask 2 questions, if I may. The first is on Catalysts. Could you share with us a little bit more how your book-to-bill ratio is going forward and how we have to think about the business in 2024?

And regarding to sunliquid®, there was no improvement sequentially, but maybe you can add something what the progress was operationally, or whether you are able to understand more how to fix the issues you have there?

And lastly, on Lucas Meyer. I would assume that the tax rate is similar to group level. Is that the case? Or does that business have a completely different tax rate? Thanks.

Conrad Keijzer

Sorry, Andreas, can you repeat the last... can you repeat... sorry, Andreas, can you repeat the last part of your question. We couldn't hear.

Andreas Heine

Yes, for understanding the convert rate from EBITDA to free cash flow, I think most important is basically the tax rate because I would not assume much investment in CAPEX or in net working capital. But I would like to understand that whether the tax rate for Lucas Meyer is as we have within the Group, so 23%, 24% or different?

Conrad Keijzer

Sure. I'll let Bill comment on the cash conversion for Lucas Meyer, and then I'll talk a bit about Catalysts and sunliquid®.

Bill Collins

Sorry, sorry. So if I start with the... .as you mentioned the EBITDA conversion rate, to your question specifically on the tax rate, in all of our calculations modeling, we've been assuming 26%, given the countries where they are most active. In terms of EBITDA conversion, it's a highly cash-generative business and it fits very, very well with, I think, some of the cash flow improvements that we're seeing even on our side, but it should actually provide a very nice accretion for us, not only in terms of our EBITDA margin at group level, but also from a free cash flow conversion at a group level.

Conrad Keijzer

Yes, Andreas, as far as your question on Catalysts and the order book, I must say the order book is not as strong as it was last year at this point in time. So, what you see in actually most of the segments right now for Catalyst is that a lot of the customers are running well below 100% operating rates, some of the segments as low as 60% to 70% of design capacity. So, what this means is, particularly on new builds, there is at the moment, an overcapacity in a lot of these segments. So, you will see an effect with new builds coming down at some point in time.

Now I will say, if you look at the different segments, whether it is basically propane to propylene, whether it is our syngas catalyst, we do have the most sort of efficient routes here supported by our catalysts. So, we also actually see an increased demand and customers switching to Clariant for this reason, especially it is noticeable in our syngas business, where the high gas prices actually encourage customers to pay more for their catalysts. And that's one of the reasons we see such a strong demand for syngas. But to your point, yes, there is an overcapacity right now building and at some point, will have an effect on new build rates.

As far as your second question on sunliquid®, we don't have a lot of news to report here. So, we will communicate on it in Q4. If you look at the operational improvements that we made, we were at roughly minus 11 million this quarter in terms of our cash flow. Last year, this was minus 13 million. Obviously, this is a small improvement, but it's also clear that we're not happy with this. Thank you.

Operator
The next question comes from Peter Clark from Société Générale. Please go ahead.

Peter Clark
Hi, I've got a couple. The first one around Lucas Meyer, again. I mean, I think they bought this thing in 2015. So, it seems quite a remarkable time not to have it integrated too much. But I'm assuming you're supremely confidence around all the IP and the technology coming with this because of that?

And then the second question, back on the seasonality of Catalysts. You've alluded to the fact obviously order books, not as strong as last year, but we normally get that big kick in the fourth quarter margin. Are you suggesting now that the fourth quarter margin will be tremendously different from the nine months? Because I think on a nine-month basis, when you exclude the sunliquid®, you're actually above the run rate, the long-term run rate, you're running up to 2019 in terms of that nine-month EBITDA margin clean. So, just those two. Thank you.

Conrad Keijzer
Yes. Thank you, Peter. So, first of all, as far as Lucas Meyer is concerned, obviously, IP was a key focus during due diligence. I mean what we're buying here is a lot of intangibles.

It is an asset-light model. So clearly, IP for us was a very strong focus during due diligence. And yes, this IP is actually owned by Lucas Meyer, and that is confirmed.

I think on your second question, as far as Catalysts and the seasonality and a strong finish. Certainly, last year, we had a very strong finish in Catalysts. I think I signaled already this year, the finish will not be as strong. It is much more balanced and stable compared to what you also saw for Q3.

And in terms of the margins, the EBITDA margin of 26% that's sunliquid®, certainly is not going to be the new norm. I mean, we are very much pleased that we have been able to get the margins back above 20% EBITDA for Catalysts, and that basically should be a little bit of the guidance moving forward.

Peter Clark
Got it. Thank you.

Conrad Keijzer
Thank you.

Operator
The next question comes from Jaideep Pandya from On Field Research. Please go ahead.

Jaideep Pandya
Thanks a lot. I have a couple. Firstly, on Lucas Meyer, could you just give us, Bill, some color on the debt refinancing once you're integrating the asset or closing the deal? I see that you have around 250 million of debt that is at Clariant level that you need to refinance next year. And then on top of that, there will be 720 million. So, what sort of interest charge should we be looking at from the combination of these 2 sorts of refinancing rounds? And then related to that, also your sort of 2.8 times net debt-to-EBITDA ratio, if I do a sort of back of the envelope calculation, I get a free cash flow inflow of around 250 million to 270 million for 2023. Is that fair? Or is that wrong?

Second question is around actually Lucas Meyer doing due diligence on your personal care business, have they had the opportunity to do that? And if they had to pick up chunks of your personal care, what sort of sales would be relevant from Clariant's Personal Care into the Lucas Meyer business model?

And then the last question really is on Additives. Obviously, you've lost quite a bit of sales in this business. I think you have a plant coming up in China next year on DEPAL. What is the plan for this plant? Are you going to delay it? Or are you confident you can fill it up because the recovery sometimes can be quite dynamic in this? Thanks a lot.

Bill Collins

All right. Thanks, Jaideep. I will start off on some of your very good Lucas Meyer Cosmetics questions. Maybe we start with the interest charge. So, we've been clear that we have a fully committed bridge financing in place, which was actually a very important point as part of the overall transaction structure, to allow us to get this done as quickly as possible. We will refinance that within the first half of 2024. We're evaluating options right now, whether it's most effective to do that from a Swiss bond perspective, a Eurobond perspective. But when we're looking at a Euro bond perspective, we're probably looking at somewhere maybe 4.5% to 5% at a top range. I will say that the 810 million purchase price or even what we will commit through the initial bridge financing will be reduced in the takeout financing through some excess cash that we have today, as well as the ongoing strong cash flow that we're generating within the company. This year and without giving a cash flow forecast, your estimate probably is not far off the mark.

Conrad Keijzer

Okay. So, I'll take a question on Lucas Meyer. If they do due diligence on the Clariant portfolio. A very interesting question, actually, Jaideep. I will say we have phenomenal interactions with the management team of Lucas Meyer. We were extremely impressed actually by their knowledge, both from a technical point of view, as well as from a commercial point of view. What they were very interested in, to answer your question, what they really liked in the Clariant portfolio, is really the business that we acquired, not too long ago, the Beraca business in Brazil, where also Clariant has some naturals, some actives from the Amazon. Natural clays, natural oils with a certain performance benefit. And actually, they saw actually a good opportunity with clients that we were totally unaware of that actually exists, without actually this having been public information. This is obviously a clean team. This is a black box procedure. So, we haven't been able... I at least, I'm not aware of any of these names of customers. But there has been a clean team and the outcome is that there's clearly a very positive revenue synergy on that. They were also very much impressed with the business that we have in France, where we do the so-called root milking. These are extracts, natural extracts that help cell regeneration. Also an example of a product line, they really liked.

Finally, to your point of Additives and your questions around market share and our new plant. I think it's interesting to note, yes, we have an overall challenge with consumers right now not spending on durable goods. But we also have a challenge where you do see a pickup in a number of these segments in China, for example, electric vehicles up 36% in China. But what you see is that the local OEMs, the local peers, the Chinese companies disproportionately are taking market share. We see that in electric vehicles, with BYD now emerging as the largest electric vehicle manufacturer. You see the cell phones with Huawei now actually emerging as the locally most sold cellphone vis-à-vis Apple. So, for us, the local plant that actually we brought on stream already for flame retardants. The fact that we have a full local capability now will position us a lot better to also take our fair share with these local OEMs that are actually doing very well in China.

Jaideep Pandya
Thanks a lot.

Conrad Keijzer
Thank you.

Operator
The next question comes from Ranulf Orr from Citi. Please go ahead.

Ranulf Orr
Hi, thanks for taking my 2 questions. The first one is just on synergies. Maybe you can just help us a little bit more here. I'm just wondering if no disclosed number means perhaps they're quite small? And I just wonder here, presumably taking Lucas Meyer out of one of the largest consumer ingredients sort of platforms globally, perhaps entail some sales dyssynergies as well, and how you're thinking about that?

And secondly, just curious how you're engaging with, or plan to engage, with the Lucas Meyer employee base and offer reassurance, presumably, again, kind of moving from a large consumer-focused platform to a more diversified Chems co, just create some questions for them. Thank you.

Conrad Keijzer
Yes. Okay, in terms of synergies, I think we gave some guidance on it. So, what you see actually, Ranulf, is that we commit to basically grow their revenue from 100 million US Dollars as it is today to 180 million US Dollars in the next 5 years. So, on synergies, this is not a cost synergy case, this is almost entirely revenue synergy. And the reason that we're so confident about it is because these businesses are so complementary, I mean, if you look at it from a customer portfolio, very complementary. If you look at the customers that Lucas Meyer was calling on, is calling on, a different set of customers than what actually Clariant is currently supplying into.

If you look at the products, Clariant is still very strong, obviously, predominantly in the traditional products, whether it's dispersants, whether it's rheology modifiers, whether is mild surfactants, whereas actually Lucas Meyer is almost predominantly a product range, which is actives. So the active materials that provide us certain benefits to your hair and to your skin. Obviously, the two of them go hand-in-hand. You need both of them in a cosmetics formulation to work. Finally, we see a phenomenal complementarity in the regional strongholds with Lucas Meyer actually strongly represented in the North American market with a direct sales force there, strongly represented in France, but actually much less strong represented in Europe and in Asia. So also there, a very complementary skill set.

And finally, if you look at R&D and marketing, our R&D very much the classical application labs, where we do the chemical analysis and formulations and basically make them work. If you look at Lucas Meyer, very much with their pharma backgrounds, focusing on these clinical trials and basically proving efficacy of the products through these clinical trials. This for us is an enormous asset. I mean, you may be familiar with many claims that different products make, they do this or that to your skin or to your hair. What is increasingly important is actually to prove these products work. And that is very much what Lucas Meyer is able to do, and that is also why they command these premiums.

Ranulf Orr

Thanks. But maybe I will ask a slightly different way. I mean what do you think you're offering to Lucas Meyer that IFF wasn't here, to help accelerate the top line?

Conrad Keijzer

Yes. I think I mentioned it, Ranulf. So, what we have is the traditional very strong position as a chemical company, basically to supply all the chemical additives that are required to make a cosmetic formulation work. So, talking about dispersants, talking about rheology modifiers, talking about emollients. I mean all, of these products actually, IFF doesn't have that product range, whereas actually Clariant obviously, is a very strong player in this segment.

Ranulf Orr

Okay, thank you.

Conrad Keijzer

Thank you.

Operator

The next question comes from Konstantin Wiechert from Baader-Helvea. Please go ahead.

Konstantin Wiechert

Yes, hi gentlemen, thanks for taking my question. Mostly answered by now, maybe one remaining on the Lucas Meyer acquisition. Maybe you could give us some indication also on how sales for 2023 would look like, when I understand correctly, the 100 million is for 2022. And I guess, at this point in time, you should have a relatively high visibility how '23 will look like? So that would be appreciated as well.

Conrad Keijzer

Yes. Thank you, Konstantin. For us it's difficult to actually comment on current trading. We obviously don't own the business, and we leave that to Lucas Meyer to comment on current trading. But I can give you a hint because if you look at our valuations, that actually was based on an LTM last 12-month trading basis. Thank you.

Konstantin Wiechert

Okay, thanks.

Operator

The next question comes from Matthew Yates from Bank of America. Please go ahead.

Matthew Yates

Hi, good afternoon, everyone. Very interesting strategic move. You've announced congratulations on that. Just a clarification Conrad, I think you described Lucas Meyer having unique technology. I won't claim to be an expert on this, but when they talk about long chain amino acids for peptides, isn't that essentially very similar to what Croda’s Sederma business does. So, can you elaborate a little bit on the differences between what I guess is the major competitor for the asset?

And then two, just... adjacent questions, please. First one, just on the CAPEX cut. I think we've now gone from 280 million at the start of the year to 220 million. Have projects been cut or have they been pushed into next year?

And then I think you've been clear on Catalysts in this call a couple of times that we shouldn't get too carried away with the underlying margins. But can you just elaborate a little bit more why not? What is it about the mix that's currently so favorable that you wouldn't expect to persist, either the good bits going down or the bad bits not going up? Thanks very much.

Conrad Keijzer

Yes. Thank you. So maybe, Bill, you could first comment on CAPEX.

Bill Collins

Absolutely. So, you're right, I mean, at the beginning of the year, we were foreseeing an overall CAPEX spend of about 280 million. Which, as it normally at the beginning of the year is a combination of firm approved projects, continuation of spend that we knew we would have, as well as kind of a placeholder for maintenance CAPEX, new projects, et cetera. As the year has unfolded and the volumes did not materialize as we had expected, the businesses themselves basically took the decision that, well, maybe you know now is not the best time to do this particular type of CAPEX projects. So, it's not that it necessarily got pushed into 2024, but we are sort of selectively holding off on certain other projects pending volumes. So that's where we say that we'll probably end the year in the low 200 million range. And to be honest, in that respect, we've not cut back on anything that is absolutely important in terms of our growth program in China, for example.

Conrad Keijzer

Okay. Yes. Matthew, maybe on your question on Lucas Meyer, and sort of the competitive arena here. You mentioned one of our competitors. Actually, yes, so it is, let's say, a different set of competitors that you see in this segment versus the, let's say, traditional more commodity-type chemicals that go into cosmetics. I think what you see here is when you talk about products like peptides, yes, there is obviously also others that are in this arena. But what you will see is that these are high margin, high growth contributors to these companies. So for us, peptides is an entirely new product range in Clariant. For us, actually, the actives that provides a certain benefit to your skin or to your hair, they are entirely new products to our range. And as you see... you've seen the metrics in terms of growth, in terms of EBITDA margins, this is arguably one of the most attractive segments in Specialty Chemicals. And there's no reason to believe that it will become less attractive over time. If anything, consumers get more and more educated, and they basically want products that work, products that truly perform a certain benefit. If you look at things like anti-age cream, they are very expensive products, and it is very important that the actives actually do work.

Yes, secondly, your question on the Catalysts mix and why is this not the new normal, the 26% EBITDA margin that we saw in the quarter. Well, let me say, first of all, we were extremely pleased with this performance. We're very pleased with the turnaround that you now see several quarters already for Catalysts. Back at the time of our Capital Markets Day in November 2021, we indicated for Catalyst a range above 20%, in low-20%. We are still very confident that we actually structurally can deliver that. But it's also fair to note that there is, within Catalysts, there are segments with a different level of profitability. Obviously, the propane to propylene catalyst, where we have such unique products that provides such big benefits to customers here, we see very, very attractive margins.

I think I alluded to the fact that Syngas actually has become a very attractive segment for us, short term, because of the elevated gas price of customers really are willing to pay premiums for their catalysts, and medium to long-term, this big transition to the green hydrogen economy and then actually the role that our Syngas catalysts play in the conversion from hydrogen to ammonia and methanol and these kind of products. Now, it's also fair to say that the mix that we saw in Q3 is unique one. And over time, you actually see a different ratio, where also Specialties and Ethylene and some of the other segments typically are a bit stronger than they are right now.

Matthew Yates
Thanks for taking the questions.

Conrad Keijzer
Thank you.

Operator
Our last question for today's call comes from Sam Perry from UBS. Please go ahead.

Sam Perry
Hi there, thanks for taking my question. Just one, please. How do you think about the payback or what do you think the payback is on a return on invested capital basis, just given the initial transaction ROIC is quite materially below the group? Thank you.

Bill Collins
Yes. Thanks, Sam. I'll take that one. We haven't published any ROIC figures associated with this particular transaction. But what we will say is that we find this transaction enormously financially attractive. I don't think we can be enthusiastic enough about how excited we are to have Lucas Meyer as part of the Clariant family and how excited we are to have it at this multiple of EBITDA. As a result, and as I mentioned already, the shareholder value that we expect to get from this is in fact accretive. And after the first year, we expect that to really come into fruition. So even though there is a significant multiple that's tied to this very important and highly profitable business, we do expect it to be accretive to our earnings per share, and therefore, to our shareholders.

Sam Perry

Thank you.

Andreas Schwarzwälder

Ladies and Gentlemen, this is Andreas speaking. This concludes today's Conference call. A transcript of the call will be available on the Clariant website in due course. The Investor Relations team are available for any further questions you might have. Once again, thank you for joining the call today and goodbye.

Operator

Ladies and Gentlemen, the Conference is now over. Thank you for choosing Chorus Call and thank you for participating in the Conference. You may now disconnect your lines. Good-bye.