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Q&A Regular Transcription

Second Quarter / First Half Year Results 2024

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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 Second Quarter / Half Year 2024 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 are Conrad Keijzer, Clariant's CEO, and Bill Collins, Clariant's CFO. Conrad will start today's call by providing a summary of the second quarter developments, followed by Bill who will guide us through the Group's financials for the period. Conrad will then conclude with the outlook for full year 2024 and the medium-term.

There will be a Q&A session following 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.

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.

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Conrad Keijzer, CEO:

Thank you, Andreas.

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

In the second quarter of 2024, we generated sales of over 1 billion Swiss Francs, a 3 % organic decrease in local currency versus the second quarter of 2023. Our topline performance was impacted by an expected decline in Catalysts, offsetting growth in Care Chemicals and Adsorbents & Additives.

Reported EBITDA in the quarter was 166 million Swiss Francs, resulting in a 15.7% EBITDA margin versus 16.1% in the prior year, which included a 62 million Swiss Francs gain from the Quats divestment. Excluding the Quats gain, we delivered a strong underlying margin improvement of more than 500 basis points. This positive development stems from the successful implementation of our leaner, customer-focused operating model and continued execution of our performance improvement programs. As a result, we benefited from improved operating leverage as we achieved growth in Care Chemicals and Adsorbents & Additives while maintaining pricing discipline.

I am also pleased with the improved cash generation in the first half of the year, resulting from higher underlying earnings, our continued focus on cash flow optimization through active working capital management and capex discipline. We recorded operating cash flow of 112 million Swiss Francs compared to 78 million Swiss Francs in the first half of 2023, reflecting a free cash flow conversion of 42% for the last twelve months, which is in line with our medium-term target of around 40%.

Looking at our topline development in more detail, in the second quarter we delivered sales of 1.056 billion Swiss Francs, representing a 3 % organic decrease, with no impact from scope or currency.

Pricing decreased by 3 % as flat pricing in Catalysts was offset by a 4 % decline in Care Chemicals, primarily due to formula-based pricing adjustments, and a 3 % decline in Adsorbents & Additives. Our priority remains to defend pricing in a deflationary environment as we experienced a 10 % year-on-year decline in raw material costs in the second quarter.

Volumes were flat overall as strong growth in Care Chemicals of 7 % and Adsorbents & Additives of 5 % was offset by the expected year-on-year volume decline of 18 % in

Catalysts, against a very high comparison base. In fact, the second quarter of 2023 was an exceptionally strong quarter for the Catalyst business.

While we continued to see slight improvement in output and capacity utilization rates, uncertainties over underlying demand remain. The European Chemical Industry Council (Cefic) has reported that a strong recovery in 2024 remains unlikely given most of the chemical industry's downstream users continue to show downward trends and order books still reflect limited demand. The European Manufacturing PMI in July was 45.6 and thus continued to trend well below 50. S&P Global projects flat chemical production in Europe in 2024 versus 2023

In China, the largest chemical market, S&P Global expects chemical production in China is expected to grow by 5% in 2024, fueling global growth of chemical production of 3.2%. However, the Manufacturing PMI in China dropped slightly below 50 to 49.5 in June.

According to the American Chemistry Council, chemical production in the US increased by 0.7% year-on-year in June. The Manufacturing PMI in the US also dropped below 50 to 48.5 in June. S&P Global projects a 0.5% increase of chemical production in North America in 2024.

The International Data Corporation (IDC) expects global notebook and PC production to return to growth of 5 % in 2024 compared to minus 11 % in 2023.

For Smartphone shipments in 2024, the IDC is forecasting growth of 3.5 % compared to a 4% decline in 2023.

There was no impact from scope on our year-on-year sales, as the acquisition of Lucas Meyer Cosmetics offset the divestment of the Quats business.

Moving on to our performance by geography, sales in the Americas declined by 1% organically, where strong growth in Care Chemicals and a slight improvement in Adsorbents & Additives were offset by lower sales in Catalysts.

In Europe, Middle East & Africa sales were flat organically versus the second quarter 2023, with volumes up in all business units compensating for lower pricing in Care Chemicals and Adsorbents & Additives. Pricing in Catalysts was flat.

Sales in Asia-Pacific were down 8 % organically. In China, sales were down 6 % organically as the project cycle-driven decline in Catalysts more than offset strong double-digit growth

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in Care Chemicals and Adsorbents & Additives, the latter benefiting from the new flame retardant plant as customer qualification progressed.

In terms of profitability, reported EBITDA in the second quarter decreased by 5 % year-on-year to 166 million Swiss Francs. Last year's figure was positively impacted by a 62 million Swiss Francs gain from the Quats disposal. Excluding this gain, the underlying EBITDA increased by 47%, with a margin of 15.7%, over 500 basis points higher than the prior year's underlying margin of 10.4%.

This improvement was supported by growth in Care Chemicals and Adsorbents & Additives, which drove operating leverage as we continued to execute on our performance improvement programs delivering 9 million Swiss Francs in the second quarter. A 10 % decline in raw materials and an improvement of 8 million Swiss Francs in the negative operational impact from the sunliquid® bioethanol activities also contributed to the positive margin development.

Moving on to our strategic priorities. On April 2, 2024, we completed the acquisition of Lucas Meyer Cosmetics. With this acquisition we are taking another significant step forward in our purpose-led growth strategy, further strengthening our position as a true specialty chemicals company.

We are pleased to confirm that the integration and business combination remains well on track. The second quarter 2024 operational performance of Lucas Meyer Cosmetics was in line with our business plan, with sales of 23 million Swiss Francs, despite the challenging environment.

Together with our new team members, we are excited for the growth opportunities that lie ahead as we combine our personal care ingredients portfolio with Lucas Meyer Cosmetics to leverage a leading position in the high value cosmetic ingredients space.

In the second quarter, we also saw several key developments related to sunliquid®. The operational restructuring and downsizing are well on track. We have reached an agreement to sell the Podari plant assets. We sold our Straubing demonstration plant, signed a sub-rent agreement for the Planegg site; and successfully terminated multiple contractual relationships.

Given these developments, we now expect the financial impact to be 20 million Swiss Francs lower than originally anticipated.

We continued to deliver on our performance improvement programs, with 9 million Swiss Francs savings achieved in the second quarter. We are well on track to achieve our increased savings target of 175 million Swiss Francs by 2025.

Clariant's purpose-led growth strategy reflects our ambition to create value with innovative chemistry and a focus on sustainability, putting our customers, employees, and the planet at the center of all our activities. Our talented people turn this ambition into action with exciting, innovative solutions as highlighted here.

The growing concern over the environmental and health impacts of PFAS chemicals, particularly PTFE, will drive a significant shift in the coatings and packaging industries.

For the last 18 months, we have been launching a comprehensive portfolio of PTFE-free solutions for metal coatings, inks, and plastic packaging applications.

Our new offerings provide market-ready solutions that match the performance of their PTFE-containing predecessors while enhancing sustainability.

Most recently, in June, we successfully launched a PTFE-free processing aid for packaging polymers at Chinaplas in Shanghai.. These PFAS-free additives contain no inorganic content or silicone components and preserve high performance while meeting current and anticipated regulatory requirements.

With that, I now hand over to Bill for further details on our business performance in the second quarter and our group performance in the first half.

Bill Collins, CFO:

Thank you, Conrad and good afternoon, everyone.

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

Care Chemicals sales increased by 3 % organically in local currency and by 4 % including scope. Volumes increased by 7 % driven by Industrial Applications, Personal & Homecare, Oil Services and Mining Solutions, offsetting declines in Crop Solutions and Base Chemicals. Sequentially, volumes were lower following the end of the aviation season.

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Pricing was 4 % lower year-on-year primarily due to formula-based adjustments linked to raw material prices. Sequentially, pricing was flat.

By segment, we recorded strong double-digit organic growth in Industrial Applications, and mid-single digit growth in Personal & Home Care, Oil Services, and Mining Solutions. Base Chemicals and Crop Solutions both declined double-digit.

Reported EBITDA of 98 million Swiss Francs resulted in a 17.3 % margin versus 24.5% in the same period last year, when the margin was positively impacted by the gain from the Quats disposal. Excluding this, EBITDA before exceptional items was 100 million Swiss Francs, with a corresponding margin of 17.7% versus 14.2% in Q2 2023.

The strong profitability development was supported by the positive impact of volume growth on operating leverage and lower raw material costs.

Now I will provide a more detailed update on the acquisition of Lucas Meyer Cosmetics.

We are pleased that the integration and business combination is well on track. As Conrad mentioned, performance of 23 million Swiss Francs sales in Q2 was on track with our business plan. In particular, Lucas Meyer Cosmetics recorded good performance in China and with Indie brands, while business was softer in Europe with some order shifts to Q3.

Underlying profitability was also as expected before the impact of the IFRS related inventory revaluation, which negatively impacted profitability by around 5 million Swiss Francs. We expect a similar impact in Q3.

In the second quarter, we booked 464 million Swiss Francs in Goodwill, 299 million Swiss Francs of Intangible Assets and 3 million Swiss Francs of direct transaction costs.

Finally, we successfully refinanced our acquisition bridge facility at a substantially lower interest rate than originally expected via a dual-tranche senior unsecured bond and certificates of indebtedness.

Catalysts sales declined by 18 % in local currency and 20% in Swiss Francs against an exceptionally strong comparison base. Volumes declined by 18 % versus the prior year due to lower new build activities and prolonged refill cycles, while pricing was flat in all segments.

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Sales declined in all segments, the most pronounced being Specialties which recorded a mid-twenties percentage rate decrease. Sequentially, sales in Catalysts increased by 16 % in local currency as volumes picked up.

Regional dynamics were driven by the project cycles related to new build activities and the refill business. Volume increases in the Europe, Middle East, and Africa region were offset by larger declines in Asia and the Americas.

In the quarter, reported EBITDA margin increased to 19.8 % mainly due to an 18 million Swiss Francs improvement in the negative impact from sunliquid® and flat pricing in a deflationary environment. EBITDA before exceptional items was 41 million Swiss Francs, resulting in a margin of 18.5 % versus 18.4 % in the prior year. When excluding operational and exceptional effects related to sunliquid®, Catalysts EBITDA margin in Q2 2024 was 19.5 %, compared to 21.3 % in the prior year period, when sales were significantly higher. On a sequential basis, excluding the sunliquid® impact, the margin increased from 16.1 % in Q1 2024, due to the pickup in volumes.

On sunliquid®, we made significant progress in executing on the closure of the plant and downsizing of related activities.

As Conrad mentioned, we reached an agreement with International Chemical Investors Group to sell the Podari plant assets for 9.7 million Euros in cash at closing.

We also sold our Straubing assets for 1.0 million Euros, signed a sub-rent agreement for the Planegg site, and terminated multiple contractual relationships.

In the quarter, the operational impact was negative 2 million Swiss Francs, lower than the 5 million Swiss Francs negative impact recorded in Q1 2024.

The progress outlined resulted in overall restructuring below budgeted costs and thus allowed the release of some provisions. We now expect a lower negative operational impact of approximately 10 million Swiss Francs compared to up to 15 million Swiss Francs previously. Total exceptional items are expected to be up to negative 15 million Swiss Francs from negative 30 million Swiss Francs previously, and cash outflow between 80 and 100 million Swiss Francs compared to 110 to 140 million Swiss Francs previously expected.

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Moving to Adsorbents & Additives, sales increased by 2 % in local currency, with volumes up 5% while pricing decreased by 3%. Sequentially, sales in the business unit increased by 7 % in local currency, driven by increased volumes, while pricing was stable.

By segment, Adsorbents sales declined by a low single-digit percentage rate as both price and volume were slightly lower. In the Additives segment, sales increased by a low-teens percentage rate due to strong volume growth as key end markets showed some improvement against the prior year. We also attracted strong interest in our new flame-retardant facility in Daya Bay, with many target customers qualifying the plant and its material. Pricing in the segment was slightly negative.

Reported EBITDA margin increased to 16.7 % compared to 6.8 % in the second quarter of 2023. Profitability levels reflect the increased volumes in Additives, which, supported by organizational structural improvements implemented over the last twelve months, resulted in significant operating leverage. Deflationary raw material and energy prices also contributed positively. EBITDA margin before exceptional items was 16.0 % versus 9.5 % in the prior year.

We delivered cost savings of 9 million Swiss Francs in the second quarter from our performance improvement programs.

We remain on track to deliver our increased savings target of 175 million Swiss Francs. Thus far, savings of 155 million Swiss Francs, or just under 90 %, have been realized from efficiency and rightsizing measures as well as the initial savings from the implementation of our new operating model. For this year, we expect to achieve savings of 32 million Swiss Francs, bringing total cost savings to 167 million Swiss Francs by year end.

Let’s now move on to cover the first half year financials.

In the first half year 2024, sales were 2.07 billion Swiss Francs, declining by 7% in local currency, 5% of which was organic. This was mainly attributable to the decline in Catalysts versus the very strong comparable base last year. Pricing had a negative impact of 4 % while volumes were down 1 %.

Selling, general and administrative costs increased by 12 % versus the prior year due to disposal proceeds in the first half of 2023, the integration of Lucas Meyer Cosmetics, and partially offset by the benefits from our performance improvement programs.

Group Reported EBITDA decreased by 1% to 339 million Swiss Francs against the prior year, when we recorded the gain from the Quats disposal.

Despite the absolute decline, the corresponding margin increased to 16.4 % from 15.0 %, supported by lower raw material and energy costs and cost savings from our performance improvement programs. A 16 million Swiss Francs improvement in the negative operational impact from the sunliquid® bioethanol activities also contributed to the improvement.

In the first half year 2024, the net result from continuing operations was 176 million Swiss Francs, decreasing by 23 % year-on-year, predominantly due to the gain from Quats disposal and positive tax income in H1 2023.

The cash generated from operating activities for the Group increased to 112 million Swiss Francs from 78 million Swiss Francs as a result of higher earnings. The last twelve months free cash flow conversion increased to 42% from 36% reported at the end of 2023.

Group net debt increased to 1.644 billion Swiss Francs from 755 million recorded at the end of 2023, largely due to the acquisition of Lucas Meyer Cosmetics. The resulting net debt to EBITDA ratio stood at 2.7 times at the end of the second quarter.

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

Conrad Keijzer, CEO:

Thank you, Bill.

Let me conclude with the outlook, starting with 2024. While we expect a continued easing of the inflationary environment, we see no significant economic recovery in 2024, with macroeconomic uncertainties and risks remaining. As of June 2024, the Manufacturing PMI of the key regions, Europe (45.6), US (48.5) and China (49.5), are now all below 50, indicating a relatively weak outlook for industrial production for the second half of the year.

We now expect flat to low single-digit percent sales growth in local currency as growth in Care Chemicals, including the impact of the acquisition of Lucas Meyer Cosmetics, and in Adsorbents & Additives is expected to compensate for second half year uncertainties in the Catalysts recovery phasing while we see the positive long-term trends for Catalyst remain unchanged.

On profitability, we have increased our full year reported EBITDA margin guidance by 100 basis points to around 16 %. Half of the improvement is supported by the strong performance in the first half of the year and the other half related to the reduced total sunliquid® impact.

We will continue to focus on defending pricing in a deflationary raw materials environment and, as mentioned, expect ongoing cost benefits from our performance improvement programs of 32 million Swiss Francs this year.

Moving to our medium-term outlook. As end markets recover and growth normalizes over the next two to three years, we are well positioned and remain confident that we will deliver on our medium-term targets.

We also confirm our expectation that 2025 will be a year of solid progress towards these targets with continued growth and profitability improvement.

Finally, I am pleased to announce that we will be holding an Investor Day on 4 November 2024. This in-person event will take place at the Andaz Hotel in London, and you will hear from myself and Bill, as well as Clariant's Business Unit Presidents. We are looking forward to seeing you there.

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

Andreas Schwarzwälder, IR:

Thank you, Conrad and thank you, Bill.

Ladies and Gentlemen, we will now take your questions. 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. [Sandra], please go ahead.

Operator

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

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Jonathan Chung

Hi, thanks for taking my question. I've got two, please. The first one is on your guidance. You raised your reported margins outlook to 6% from 15%, but in your slide 20, you keep your 2025 margins target unchanged. Just wondering, what headwinds do you see for 2025 that led you to increase margin targets this year, but not next year? And also related to this one, I understand the 16% is the reported margin, I think in your Q1 communication you also got around a 16% target on the adjusted basis, could you comment on what you expect for 2024 margins on the adjusted basis? So that's my first question.

My second question is on your additives margins. I think you mentioned better volumes and operating leverage and also efficiency program, but when I look at your Q1 margins, it is down sequentially around 300 basis points. Could you unpack some of the moving parts here and just give us a bit more color on why the margin is down sequentially? And what do you see into Q3 and the second half? Thank you.

Conrad Keijzer

Sure, Jonathan, thanks for your question. On the guides, we increased it from a reported EBITDA of 15 % to 16%. Your first question, and I'll let Bill comment a little bit more on the on the moving parts here, but if you look at the guide for 2025, that's unchanged. We're still expecting a further pick-up to 17% to 18% EBITDA margins. The building blocks basically are unchanged for 2025, but we actually have delivered some of that earlier than expected. But basically, the building blocks are unchanged, so no need for us at this moment to change the 17% to 18% margin. It's not that we see new or additional headwinds. Maybe, Bill, you could give a bit more flavor, then I'll comment on the additives margin pick-up after that.

Bill Collins

Yes. I think just to echo on what Conrad said, we still feel very comfortable with the 17% to 18%. Some of the self-help items, the adjusting items that we had mentioned in Q1 for the 2025 guidance, some of those have been accelerated, so we were able to pull some of that benefit into 2024. So overall, those self-help measures, whether it's completion of our cost

improvement programs, a procurement program that we have ongoing, which is actually already yielding quite some benefits, even this year already, those have been accelerated. And we then will continue to see the development in terms of the full impact of Lucas Meyer Cosmetics as well as the full absence, that's the word I'm looking for, full absence of biofuels in 2025. So we're very much in line and I think on track for that 17% to 18%.

Conrad Keijzer

And maybe some further comments on the pick-up in margins in additives. And I guess, underlying, you're also asking how sustainable are these improvements. So, we were very pleased with the performance of the additive business in the second quarter. As you saw in the numbers, we saw an increase in EBITDA margin from 6.8% to 16.7%, which is basically driven by the elements that you mentioned, and I would also add raw materials. So, yes, this is driven by a pick-up in volume, this is driven by a significant cost take-out in the business, and as both SG&A as well as supply chain costs, but it's also driven by lower raw materials.

So if you look at Q2 versus Q1, Q1 was a comparison for additives versus a very strong prior year. Q2, I think, is a much more realistic year-on-year comparison that we're seeing there, and we see basically a double-digit pick-up in volume, which sits very much, if you look in additives, not only in coatings and adhesives but we're also seeing actually flame retardants now picking up, especially with the fill of our new plant in China.

Jonathan Chung

Sorry, can I just follow up on the adjusted EBITDA margins? In Q1, you guided to around 16%, excluding sunliquid impact for 2024, any comments based on the current, new guidance for the reported?

Conrad Keijzer

Bill, any comments on the EBITDA guidance, the reported EBITDA guidance?

Bill Collins

Yes. You mentioned an adjusted EBITDA figure. What we were actually referring to is a figure that is without sunliquid. So we had said previously that on the 2024 basis, we would be at around 16% without the sunliquid impact, and right now we would estimate that without sunliquid where around 16.5%. So, again, the move from 16.5% to 17% for 2025 is very plausible.

Johnathan Chung

Okay, thank you.

Operator

The next question comes from Christian Faitz from Kepler Cheuvreux. Please, go ahead.

Christian Faitz

Good afternoon, everybody. Two questions, please. First of all, would you believe that demand from agrochemical makers is coming back in H2, as their destocking should be over at some point during the next two quarters? And a second question for Bill, can you give us some guidance on your annualized interest rate expenses now that Lucas Meyer is acquired and financed? Thank you.

Conrad Keijzer

Christian, on your question on agro, and Bill will obviously then comment on the interest rates, in terms of the demand pick-up in agro, maybe first a broader comment on agro. The volumes have been weak, this has been in H1 still a level of destocking, but I think we should also look at this, that basically crop prices are now down to a three-year low. So if you look at the weather conditions, they've actually been quite good, so there was actually sufficient humidity, I would say, in EMEA and in North America. That is also partly the El

Nino effect, which actually is causing drought, dryness in Asia, but that's where we have much less business. So I think the conditions, the weather conditions for crop have been good, but what is driving volumes down to some extent is the low crop prices, where farmers are cutting back on crop protection, as well as fertilizers.

So, as far as your question, in terms of the pick-up in the second half, we don't see an immediate recovery in crop and food prices, but what we are seeing at some point is that this destocking really should be over. So this is more back-end. This is not so much yet in the numbers in Q3, if we look at our order books, but it's fair to say that the destocking really is largely behind us and we should see some level of pick-up.

Bill Collins

Then, on the interest rate topic, Christian, I'm actually really glad you brought that up because it's something we're actually quite proud of, especially recently. I know that there were some concerns when we did the Lucas Meyer Cosmetics bridge loan, that the interest rate was relatively high, but we have managed to do the take-out financing for that with basically, as I mentioned in the opening comments, a 350 million dual tranche senior bond, which is around 2.5%, and then about 500 million of euro-denominated certificates of deposit, which are around 4.9%, which then gives us about a blended rate of 3.8%. So that is much, much lower than what was anticipated actually at the time of announcement of Lucas Meyer Cosmetics. Over across the entire debt portfolio, we're going to probably be a little under the 3% just because of prior tranches of debt that we had taken on at lower interest rates, but we're really, really quite happy with how that financing scenario worked out. Thanks for asking.

Christian Faitz

Okay, great. Thanks very much, both.

Operator

The next question comes from Katie Richards from Berenberg. Please, go ahead.

Katie Richards

Hello. Thank you for taking my questions. My first question is on the corporate line. If I'm correct, this has marginally edged up since Q1. Is there a noteworthy reason for this? And would this quarter be representative of the rest of the year? And my second question is on catalysts. Obviously, we've seen a large decline in catalyst volumes this quarter, which consensus largely expected, but there have been tentative signs of improvement recently, namely global utilization rates have been marginally coming up since the beginning of the year. So do you see the volumes have bottomed in Q2, or do you expect these headwinds just for a little while longer?

Conrad Keijzer

Bill, why don't you take the first? I'll respond on the catalyst one.

Bill Collins

Okay. Katie, well spotted on the corporate line. You're right, we did see an increase in corporate costs between Q1 and Q2. What you see in Q2, which is only slightly above where we were Q2 last year, we have our half-year result accrual updates, which is probably the biggest item that lends some variability from one quarter to the next. So, like I said, versus same quarter 2023, we're only slightly up, but I would probably use that 19 million, 20 million as more of a normalized framework going forward than the 11 million that we saw in Q1, which was impacted by some other adjustments.

Conrad Keijzer

Katie, on your question on catalysts and the weakness that we're seeing in the quarter, and actually in H1. So first of all, we have guided for weakness in catalysts, so what we're seeing here is the biggest reductions in orders coming in are in the new-build area. We have seen an unprecedented amount of new-build plants, particularly in China, in recent years. We've benefited from that with our CATOFIN business, our propane to propylene catalyst, but also, for example, in the specialty segments with catalysts for new-build anhydride plants

in China. So if you look at our current run rates for new-builds, it's roughly half of what it historically has been. And maybe to give a bit of color here, historically, new-builds was about one-third of our business, and we refill business was about two-thirds. We now have seen the new-builds drop to, let's say, roughly 15% of our revenue. So yes, we do see that slowdown. We did guide for that.

As far as the refill business, you're right, this is where catalysts are consumed by our customers in their chemical production, and when operating rates are lower, what you see is that the refill cycle gets longer. So it takes longer and later for these orders to come in. And we are seeing now the delayed impact of the low operating rates in the chemical industry from last year, especially in Europe. What we're expecting is for new-builds not to pick up quickly, but we are expecting actually a solid return of our refill business at some point in time. And for next year, we're targeting growth again in our catalyst business.

Operator:

We'll take the next question from Ranulf Orr from Citi. Please, go ahead.

Ranulf Orr

Hi, there. Thanks for taking the questions. I'd just like to continue on catalysts for a second, if that's all right. I'm sort of struggling to understand the change in communication, despite what you said so far. I mean, at Q1 it felt like everything was fine and things were going okay for the business for the rest of the year. You previously talked about a very long order book for the division, nine months or so, and then suddenly it seems things have deteriorated quite significantly for you to reference such uncertainty in the outlook. So any further detail would be appreciated in understanding why that is not going as well as appeared to be.

Second question is just on the guidance. To me, it appears pretty conservative. On my estimates, the adjusted EBITDA guide is about 700 million for the year. You did basically 350 in the first half. Catalysts should be sequentially better in the second half. A&A looks like it's getting better in the second half. Lucas Meyer should offset the strong de-icing

business in Q1, so maybe that's flattish. So what are we missing? Why is second half EBITDA not better than the first? That would be my two. Thank you.

Conrad Keijzer

Ranulf, I'll let Bill comment with some detail on the guide. I think you did have most of the elements there, but I'm sure Bill will add a few things there. As far as catalysts, if I understand your question correctly, it's what has happened and why the outlook is deteriorating? If you basically look at the catalyst business, we're not saying that we have suddenly a very problematic outlook for catalysts. We have adjusted the outlook, as you could have seen in, also, our speech. So we were previously guiding for mid-single-digit decline this year. Now, what we're saying is mid-to-high-single-digit decline. Now, what this is is a delay in the refill business. So the refill business is there, it is actually typically a reliable piece of business, you will have to refill the reactors with catalysts at some point in time, but there is actually a direct link to operating rates.

And if you reflect on it, last year, we had actually weak operating rates in the chemical industry, especially in Europe, but to some extent also in the United States and in China. We had some overcapacity, we had still good volumes, but also lower operating rates. If you look at what has actually happened in the first half, and if you specifically look at operating rates, in Europe we're still at a low level. So the overall average for chemical plants in Europe is sitting at a roughly 70% operating rate. So it has not picked up yet. We are expecting this to pick up. We are expecting also, broadly speaking, growth to pick up in chemicals. But what really is needed is basically durable goods spending, consumer spending on durable goods to pick up again. So you still see right now, industrial production rates negative in Europe, fairly flat in the US, and it's only strong in China, where it's basically even outperforming GDP. So it's not that we see a major deterioration. What we're seeing is weaker new-builds as we guided for, a delay in refill, but it will come back. Maybe, Bill, you could comment further on the second half.

Bill Collins

Yes. Ranulf, thanks for the question. Let me start by just reiterating a few numbers. So, in the first half of this year, we were around 16.4% reported EBITDA margin. What we've done

now is increase our guidance to 16%. So you're right, that does imply a slightly lower reported EBITDA margin in the second half of the year. What I would start by saying, though, is that if you look at the performance of the underlying businesses, so most notably the EBITDA before exceptional items, that is actually consistent, first half versus second half. So we're looking at an EBITDA BEI of around 16.7, 16.8 in the first half and the second half.

The part that is probably missing for you are the expected exceptional costs that we will have in the second half of the year, specifically related to the closure of biofuels and of Lucas Meyer integration. And both of those amounts are very much, as previously anticipated, it’s just that they were, and are, second-half loaded. And that's what is the main driver between what you see as the first-half EBITDA figure and the second-half EBITDA figure.

Ranulf Orr

Right, okay. Thanks.

Operator

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

Chetan Udeshi

Hi, thanks. I think, excuse me, the first question I had was on care chemicals performance. When I compare the second-quarter numbers to first-quarter, it seems your top line is down somewhere between 15 million to 20 million, so shrank sequentially, but your earnings are down more than 20% sequentially. Now, I understand there is a 5 million impact from PPA, but still why is the drop-through of lower revenue so much higher? It's almost 100% on EBITDA in the second quarter when I compare to Q1, is there something specific going on? Is it net pricing maybe not as good as was the case in Q1? But some color there will be useful.

And maybe can you just remind us, and apologies if this was already mentioned by you, but just wanting to get a sense of what you actually see by your different business segments as we look into third-quarter trajectory versus Q2. Do you see anything which is getting worse or anything getting better, especially given that you also have some exposure to autos in your adsorbents and additives business? And clearly, there has been some concern around autos more recently. Thank you.

Conrad Keijzer

Chetan, thanks for your questions. I'll let Bill comment in a bit more detail on the Q1 versus Q2 in care chemicals. I'll answer your question on the broader outlook for the different segments. Let me start by saying that, overall in Q2, we saw flat volumes, but obviously we are extremely pleased with the 7% growth in volume that we saw in Care Chemicals. We were very pleased with the 5% volume growth that we saw in Additives and Adsorbents. Based on our analysis, the 7% volume growth in chemicals clearly is better than what the overall markets are doing in that sector. Likewise, the 5% for Additives and Adsorbents. It was unfortunately compensated all by the 18% decline in volumes in catalysts.

If you look at the outlook for these segments in the coming months, what we are seeing is actually also, quarter to quarter, we see a pick-up clearly in additives. We're very pleased with that. That's a combination of, if you look at our additives for coatings, our additives for adhesives, that segment is picking up. But the strongest pick-up we're seeing is in additives for plastics. And here, the big product for us is flame retardants. And I think this is actually partly the fact that we are actually regaining market share in China for flame retardants. We've started up the new plant, we are working through a lot of approvals with customers, and the business is actually coming in as we speak. And in the coming quarters, underlying, there's also a much more positive outlook. If you look, for example, at electronic products, computers, laptops, I mentioned it in the speech, we're seeing a mid-single-digit growth there, when actually the business was down like 10%, 11% last year. We see a positive outlook for cell phones, so that's also very positive. Last year, it was down mid-single digit.

So if you look more broadly speaking about our segments, what you see is a switch back in consumer spending from services to, let's say, semi-durables, like the examples that I just gave. The real switch back to durable goods, we still anticipate that to happen, but we need the interest rate cuts, two cuts in the US, one in Europe, to really see the recovery in

housing and construction markets, which will then lead to increased durable goods, people buying new appliances, new furniture. And that is obviously where a lot of our products go. So we continue to feel positive about our outlook for next year, the 3% to 5% growth, and then also the underlying profitability to 17%, 18%. Maybe, Bill, you could give a bit color on the Q1, Q2 on care chemicals?

Bill Collins

Gladly. Though, Chetan, it's going to be a fairly short answer. It's really all aviation. We had a very strong quarter in Q1 around the aviation business. We had good volumes, we had excellent margins, which, as you know, the aviation business is seasonal, so we had a great Q1, but that goes away in Q2. Some of the impact was mitigated by the, now, inclusion of Lucas Meyer Cosmetics, but really the big difference, Q1 versus Q2, on care chemicals is all aviation.

Chetan Udeshi

Understood. Thank you.

Operator

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

Andreas Heine

Thank you. Two questions, if I may. One is again, on catalysts. I'd like to understand a little bit more on how visible it is for you that 2025 will be better. You revised your outlook from last quarter to this year as your order book in the refill business is not expanding as you are wishing for. What gives you, then, the confidence that next year will be better? It cannot be your order book, and it is not the new-build, so is that, let's say, your experience, how long it will take if operating rates pick up? Or what is that based on? That's the first question.

And second, adsorbents was not touched that much on, but usually you report very consistently, very resilient, even in very difficult times an increase in volume and demand. This was different this time. Can you outline why adsorbents was weaker this quarter and how that looks for the second half?

Conrad Keijzer

Yes, sure, Andreas. Thanks for your question. Maybe even a bit further granularity on catalysts. There were already a few questions asked about it, but yes. If you look at the order book in catalysts, typically we have a visibility of, let's say, six to nine months. Now, that is a combination of new-builds and actually refill business. What I will say is what we see now is that the business on new-builds is down. I mentioned a figure of roughly 15 % now of the overall business being new-build. That does mean automatically that we see a bit more volatility in the order book. So refill business, refill orders, don't come in with the same lead time as new-builds. To give you a flavor for a new plant, we can have lead times anywhere from 12 to even 18 months. Our customers work on a certain schedule for a ramp-up, and then, at some point in time, they order the catalysts for a new plant.

So if you look at the order book, it is more reflective now of refill business, so what we are seeing is that we see a delay right now. And the question that we are asking all our customers is how much can you delay the order? And at some point, these will come back in. They will come back in, that will happen, so that’s the certainty we have. However, it is more back-end loaded than we previously thought, and that's why we changed the guide from mid-single now to mid-to-high-single digit decline this year in catalysts.

To your second question on adsorbents, you're absolutely right, this is one of the most stable businesses that we actually have. What you see is there's basically the foundry part of it, which is a little bit more volatile, but there's also the filtration part of it for edible oils, which is typically very stable. And then there's the growth engine, which is renewable fuels, which is increasing actually in share. So this is primarily renewable diesel in Europe and renewable diesel in the US, but over time you will see a big shift to sustainable aviation fuel.

It's well spotted, our adsorbents business was actually down, and this is something that we have very strong visibility on, because it is actually related to a large, renewable diesel

client that we have in the United States that actually was shut down for the entire quarter because of, interestingly enough, a catalyst problem. And that wasn't our catalyst. But they're back up and running, so we should see a solid recovery on the adsorbents business. And I will also say that we're starting up the new activation line in the fourth quarter for our adsorbents business, which will be another growth driver for that business moving forward.

Andreas Heine

Thanks.

Operator

The next question comes from Tristan Lamotte from Deutsche Bank. Please, go ahead.

Tristan Lamotte

Hi. Thanks for taking my question. Two, please, the first on flame retardants. Could you maybe let us know how full the capacity is at the moment and how much capacity there is to fill from here, or how much incremental sales we could expect if volume picks up considerably? And when would you expect to need to invest in new capacity for flame retardants? And then the second question, a couple of follow-ups on the care chemicals points. You gave the Lucas Meyer sales in Q2, I wasn't sure if you also gave the EBITDA. Did Lucas Meyer do EBITDA at the 35 million run rate in Q2, or was it slightly below? And then maybe you could also give an indication of a normal EBITDA for de-icing, which I think must have outperformed in Q1. And maybe there was about a 30 million change, quarter on quarter, in that, so what should we expect for a normal year? Thanks.

Conrad Keijzer

Okay, Tristan, let me start with your final two questions, because they're relatively easy to answer. We're actually not disclosing the EBITDA margins at a segment level. So,

unfortunately, I can't give you those numbers for obviously also competitive reasons, but you can be assured de-icing is clearly accretive in terms of their EBITDA margin.

In terms of the Lucas Meyer question that you asked, we did disclose a revenue number for Lucas Meyer in the quarter, I think it was CHF 23 million. Just to give you an idea, if you basically translate it to US dollars, and then look at what is the annual run rate right now, we were doing that calculation here a week back. So we're actually sitting at a USD 108 full year outlook, which is a very positive one if you recognize that we bought that business when it was actually just under USD 100 million. So it is running at a very strong growth rate, a consistent growth rate, of roughly 10% right now in terms of the CAGR. In terms of margins for Lucas Meyer, also no change from the prior reporting. It's in the high 40s, and that's then EBITDA margin.

Bill Collins

If I can add just one thing on that, Tristan. As Conrad said, both the sales and the margins of Lucas Meyer Cosmetics are coming in bang on where we expected them to be, so we're very happy with that. But just to reiterate, we did have this 5 million adjustment on the revaluation of acquired inventories. For IFRS, that was about a 5 million impact in Q2, and we're expecting another 5 million impact in Q3.

Conrad Keijzer

And maybe, finally, your question on flame retardants. We have actually a significant capacity. Maybe a brief look in the rear-view mirror. What happened during the pandemic is we did, admittedly, struggle to supply some of our customers, particularly in China, for electronics products, for electric vehicles, we did struggle to supply them from Europe, where we previously only had all our capacity at our Knapsack site. So opening up the new line, actually, last year gave us a very strong footprint locally in China. We, first of all, said that we need to regain quickly the share that we lost. We see a very positive momentum right now with 10% CAGR right now that we saw in the second quarter. That is actually above overall market for flame retardants in that region.

There's plenty of capacity right now, so no CapEx ahead of us. So, short term, it's very much a game of completely re-establishing us, our position, which was a strong position with electric vehicle production in China. And then actually, it is also benefiting from a growth in data centers., more broadly from electrification, what you see as a trend.

And finally, and this is then mid to longer term, there will be a shift in the market where now actually all the competing flame retardants are bromine-based, brominated products. We actually have a halogen-free product range. If and when finally we see new REACH legislation in Europe kicking in, that will be a big positive for this business, because we are extremely well-positioned with halogen-free flame retardants.

Tristan Lamotte

All right, thank you.

Operator

The next question comes from Georgina Fraser from GS. Please, go ahead.

Georgina Fraser

Hi, thanks so much. Hi, Conrad. Hi, Bill.

Bill Collins

Hi.

Georgina Fraser

Hello. I’ve just got one left, and it's just, Bill, if you could talk a little bit about what's driven this very impressive step-up in cash conversion that we've seen at the second quarter. If you can remind us about any seasonality that we might want to consider for a continuation

of that into the second half of the year. And then, as I look at your balance sheet, in light of good cash performance, if you can remind us about your leverage targets and preferred uses for cash, because that's looking quite good into 2025. Thank you.

Bill Collins

Thank you, Georgina. So, actually, on cash conversion, there's no magic sauce. It's a lot of the same things that we've talked about previously, really pushing for as much of a positive impact from the operational cash flow as we can get, which we clearly saw benefit of that in Q2. Looking at the working capital, there are quite a lot of things that we've done within the company to increase the visibility on inventories, on receivables, on payables, and that is definitely moving in the right direction. In fact, this quarter, we have had a smaller increase in net working capital than what we saw at the same time last year, so that certainly helps the free cash flow.

And then finally, on CapEx, we've commented before that the view to CapEx in the old days was pretty much everybody gets what they want, we've spent a lot of money on assets that don't really add profitability, and that's not really the case anymore. We really try to focus on those projects that are bringing something positive to the bottom line. And we're also focusing on, in fact, creating a bit of tension across the business units to make there feel like there's a bit of competition for the available cash that we have. So that has had a huge impact, and I think that's probably why we're sitting where we are.

With regard to the leverage targets, it is certainly our intent, post Lucas Meyer acquisition, to deleverage. We would like to see that get down below two again. And I am confident that we'll make that happen. We still have ambition around bolt-on acquisitions, and as soon as we can get this delevered a little bit, then we'll have a balance sheet as strong as we had last year when we did Lucas Meyer Cosmetics.

Georgina Fraser

That's great. Thank you, Bill.

Bill Collins

Thanks.

Operator

The next question comes from Thea Badaro from BNP Paribas. Please, go ahead.

Thea Badaro

Hi. Good afternoon, everyone. Just a quick question from me. Could you quickly talk about your pricing expectations into the second half? More specifically, in which area do you believe you have enough leeway to retain the pricing you've earned amid deflation, and without necessarily jeopardizing volumes?

Conrad Keijzer

Yes, Thea. On pricing, I think, first of all, I would like to comment that we are extremely pleased with our pricing performance that we've seen this year. So, as a reminder, we were down 3% overall on pricing, year on year, in Q2, but that is against a raw material drop of 10%, year on year, in the second quarter. So pricing clearly has been a lever. We have been able to significantly expand our margins, and it's part of the bridge, it’s a significant part of the 500 basis point bridge, that we see underlying in the second quarter versus prior year.

If you look a little bit more granular by business, we are seeing formula-based pricing in care chemical, roughly 40% of the portfolio, sits primarily in oil and gas. Here, we do need to give some of the raw material reductions back to our clients. That's one of the reasons you see an overall minus 4% on pricing in care chemicals. In adsorbents and additives, we were actually also slightly down on pricing. That is actually reflecting significant reductions in raw materials, especially that we saw in the additives business. Catalysts, we were very pleased that we were able to hold pricing flat in an environment where the metals clearly have come down.

Now, to your question, what are we seeing in the coming quarters, we are seeing a stabilization if you look at pricing on raw materials, and we even see now, for the next quarter and Q4, we see slightly sequential increases in our raw materials spend from where we are right now. So we are confident that we will be able to pass on raw material prices, and we typically pass on more than what we see in our raw materials bill. This has really been, I think, a very established capability now in the company moving forward as well.

Thea Badaro

That's helpful. Thank you.

Operator

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

Konstantin Wiechert

Hi. Sorry, just maybe a couple of minor ones left. On the crop protection, maybe you could also give some details on whether you expect customers, then, to maybe also lower prices on their crop protection chemicals after the increases that we've seen over the last years in order to maybe stimulate volumes here? And if so, would that be positive for you due to higher volumes and potentially also some price passthrough clauses? Or is that a scenario where you could also become under pressure? And maybe the other one, and I think I just missed that, but maybe if you could comment on that again, the volume development in the care chemicals on a sequential basis. Thank you.

Conrad Keijzer

Thank you, Konstantin, for your two questions, both actually for care chemicals. So, first, on crop, what we've seen in crop is entirely volume-related. So the roughly minus 10% on revenue, it's entirely volume-related. We're actually very pleased with our ability to hold prices. We are specced in here in customer formulations, so if and when volumes come

back, and we discussed about the different underlying drivers, including still some destocking, if and when volumes come back, we will see also solid profitability coming back in.

If you look at care chemicals more broadly, and the sequential volume development, I think, first of all, we obviously need to recognize the inclusion of Lucas Meyer in the second quarter. We closed the transaction April 1st or April 2nd, so in the second half we see two quarters of that. But I think what is really positive, if you look at the 7% growth that we saw in volumes, is that we are seeing basically across all of the segments in chemicals, with the exception of crop and base chemicals, we see a broad-based recovery in terms of volumes.

Also, actually, if you look at personal care, home care. So this is a very different dynamic than we saw last year. Last year, we had this so-called inflation shrink, where basically the big brands were cutting on their packaging to basically get price increases through. You now see the opposite. So a lot of the large brand owners have shifted their focus on volume, there are two-for-one sales going on, not only actually in the US but also in Europe. So we are seeing actually solid volumes coming through in care chemicals. We expect that momentum to continue actually in the quarters ahead.

Konstantin Wiechert

Right. And on the agrochemical question?

Keijzer Conrad

Yes, the agrochemical question, I think I answered that to some extent. It is actually entirely volume-related to drop in crop protection. We've been able to hold our prices very well here. So, for us, if and when volumes come back, we'll see solid profitability coming back for that segment. And it's actually accretive for us, it's a very attractive segment.

Konstantin Wiechert

Thanks. Sorry, I missed that. Thank you again.

Conrad Keijzer

Yes, thank you.

Operator

Our last question for today's call comes from Jaideep Pandya from On Field Research. Please, go ahead.

Jaideep Pandya

Thanks a lot. Sorry, thanks a lot. Apologies for this, but I want to ask about your Q4, how you look at it this year, given it's such an important quarter for you. Do we expect a typical seasonality in catalysts in Q4, i.e. it will be this big quarter, or do you expect it to be more in sync with Q3 and Q4? And then on the second hand, with regards to de-icing, was it just chain filling from your customers in Q1, and therefore Q4 will compensate for maybe a slower start, unless we have a winter storm? Or was it that it was cold in Q1, and therefore if we have even a normal winter, then actually de-icing will be fine in Q4? That's my first question.

And the second question really is on additives. It's actually the first question, I think, Jonathan asked about the Q-on-Q margin development. It seems like your growth is mainly coming from flame retardants, but the margin uplift or the operational leverage is somewhat lacking a little bit. So is it that your new customers that maybe you won are negative on the mix, or versus your previous cycle or previous customers? Or what is it that is holding margins or operating leverage back here in additives, especially in flame retardants? Thanks a lot.

Conrad Keijzer

Sure, Jaideep. On the last one, the margin uplift in additives, Q1 versus Q2, I think Bill will comment with some granularity there later. Basically, your question on de-icing and weather and what happened in Q1 and what we expect for Q4, as well as your question on inventory refilling, we didn't see any unusual movements as far as inventory levels. So the

strengths that we saw in de-icing in Q1 was entirely based on the weather, on the one hand, but let's also not forget the margins. So we actually did see quite some lower pricing on the glycols, some of the raw materials getting into this business, and we were able to actually also deliver strong margins.

So what's going to happen in Q4? This is always very difficult to forecast because it is very much weather-related. We're certainly hoping for a strong de-icing season, but that is hard to predict. Typically, you need weather that's high humidity on the one hand and cold on the other side. And then that's actually good for our business.

Then your second question, before I pass it on to Bill, is on catalysts, and what are we expecting in terms of Q3 versus Q4? Unfortunately, because we don't like that either, but unfortunately, it is very much back-end loaded. That is just what we are seeing in our order book right now. So, unfortunately, Q3 is still going to be a weak quarter in catalysts. What we're looking at right now, it is really the pick-up is there in Q4. Maybe, Bill, you can provide some color on the margins in additives?

Bill Collins

Glad to. Actually, Jaideep, if we go back into the last quarter, last year, actually, because the volumes were so low, we took a number of actions. One of those actions was to basically put certain capacity on a temporary production hold and sell down inventories. And then the other thing that we did in Q3 and Q4 last year was really start to dramatically transform the operations environment that we have within the additives business. So as you saw us coming out of a relatively low margin base in Q4 of last year and into a much stronger margin base this year, what you saw then is not only the positive impact of some of those operations transformation activities, but also kind of restarting the engine, because we had shut down some of that capacity in Q4, and we brought it back online in Q1.

So we had a very strong result in Q1. If I'm looking at the individual segments, they still performed reasonably well in Q2. So, we're very, very happy with the activities and the actions that have taken place within the additives business, and we think we're on a very strong trajectory there for improved margin performance.

Jaideep Pandya

Thanks a lot. Just one follow-up. So, in catalysts should we then expect a very similar Q3 and Q2 development, therefore, in terms of sales and EBITDA?

Conrad Keijzer

Yes, Jaideep, I think that's a fair statement, that Q3 will be in line with Q2 and the pick-up will be in Q4.

Jaideep Pandya

Thanks a lot.

Conrad Keijzer

Thank you.

Andreas Schwarzwälder, IR:

So, ladies and gentlemen, 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 is available for any further questions you may have. We look forward to seeing you in November in London for our Investor Day and we wish you in case you have a holiday season ahead of you, a nice holiday, and then we convene latest with the Q3 results. Thank you once again, and for joining today and goodbye.