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Q&A Regular Transcription

Third Quarter / Nine Months Results 2024

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COMPANY REPRESENTATIVES

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Bill Collins, Chief Financial Officer

Andreas Schwarzwälder, Head of Investor Relations

SPEECH

Operator

Ladies and gentlemen, welcome to Clariant's call relating to the Third Quarter / Nine Months 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 by Andreas Schwarzwälder, IR

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 third 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.

Conrad Keijzer, CEO

Thank you, Andreas.

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

In the third quarter of 2024, we delivered sales of 991 million Swiss Francs. In local currency, this corresponds to a 1 percent decrease, with a negative currency impact of 3 percent in the reported figure.

Pricing was stable in all business units, reflecting our well-established pricing ability in a deflationary environment with our year-on-year raw materials down 5 percent. Volumes were down 3 percent as growth in Adsorbents & Additives and Care Chemicals was offset by lower-than-expected Catalysts volumes, against a strong comparison base. Growth of Lucas Meyer Cosmetics had an additional positive impact of 2 percent on reported sales.

Uncertainties and risks remain in the chemicals industry, and expectations of a recovery are shifting to 2025.

According to Oxford Economics, Manufacturing PMIs further deteriorated in September in all key regions except for China. All regions remained below 50. Europe declined to 45.0, the US declined to 47.3, while China increased to 49.8.

The European Chemical Industry Council (Cefic) reported that the weak demand and declining business confidence continues to challenge the European chemical industry. The insufficient demand remains the main limiting factor to chemical production which is up 3.6 percent during the first seven months of this year, albeit from a very low base and still well below pre-COVID levels. Oxford Economics projects around 3 percent increase in chemical production in Europe in 2024 versus 2023.

In China, the largest chemical market, Oxford Economics expects chemical production to grow by almost 7 percent in 2024, fueling global growth of chemical production of close to 4 percent.

According to the American Chemistry Council, in September chemical production in the US only slightly increased by 0.2 percent year-on-year. Oxford Economics projects a 1.1 percent increase of chemical production in US in 2024.

Moving on to our performance by geography, local currency sales in the Americas declined by 6 percent organically, with volume growth in Care Chemicals and in Adsorbents & Additives offset by lower sales in Catalysts.

In Europe, Middle East & Africa sales increased by 1 percent organically in local currency. Volume growth in Adsorbents & Additives and Catalysts compensated for lower volumes in Care Chemicals and slightly lower pricing in all business units.

Local currency sales in Asia-Pacific were down 5 percent organically, with a 13 percent organic decrease in China, due to the volume decline in Catalysts more than offsetting growth in Care Chemicals & Adsorbents. The lower Catalyst volumes resulted from weak new-build activities in the industry in China. Pricing was slightly positive in all business units.

In terms of profitability, reported EBITDA decreased by 13 percent year-on-year to 139 million Swiss Francs, with a corresponding margin of 14 percent. The impact of lower Catalyst volumes was only partially offset by improved operating leverage, higher volumes and a lower cost base, particularly in Additives. In addition, the reduced financial impact from sunliquid contributed positively in the quarter.

Furthermore, we identified additional opportunities for restructuring in corporate functions, resulting in charges of 9 million Swiss Francs against full-year annual run-rate savings of 6 million Swiss Francs.

EBITDA before exceptional items decreased by 5 percent to 155 million Swiss Francs. This represents a resilient margin of 15.6 percent versus 15.9 percent the prior year despite lower sales, due to effective pricing and cost management and the accretive Lucas Meyer Cosmetics acquisition.

Moving on to our strategic updates. Last Friday, the Board of Directors nominated Ben van Beurden as a candidate for the position of the Clariant Chairman and as a member of the Board of Directors, if elected by the AGM on April 1 next year. Ben brings an extensive background in the energy and chemicals sectors. In addition, Clariant would benefit from his wealth of experience in leading a global organization. Most recently Ben served as CEO of Shell plc from 2014 to 2023. Ben van Beurden would succeed Günter von Au, who would step down after serving as board member since 2012 and as Chairman of the Board of Directors since 2021. The Board and the Management Team extends its sincere gratitude to Günter von Au for his dedicated service and significant contributions to Clariant during his tenure. We thank Günter for his commitment and look forward to benefit from Ben’s insights and leadership as we continue to position Clariant as a leader in innovation and sustainable solutions.

On sunliquid®, the restructuring and downsizing activities are mostly completed, and we have resolved related contractual relationships with a positive result. Therefore, we reversed 36 million Swiss Francs of non-cash impairments related to right-of-use assets which were originally booked in the fourth quarter of 2023.

For 2024, we expect the total operational impact to remain unchanged, while we have reduced our exceptional and total cash outflow expectations. Bill will come back to this later.

We continued to deliver on our performance improvement programs, with 7 million Swiss Francs savings achieved in the third quarter. We are well on track to achieve our increased savings target of 175 million Swiss Francs by 2025, with over 90% or 162 million Swiss Francs already achieved as of the third quarter 2024.

With that, I 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 increased by 1 percent organically in local currency and by 5 percent including scope. Volumes increased by 1 percent, while pricing was flat. Sequentially, sales were flat in local currency with stable volumes and pricing.

By segment, we recorded strong organic growth in Mining and Crop Solutions, with the latter turning positive from a low base after lengthy supply chain destocking. We also recorded mid-single digit organic growth in Industrial Applications and Personal & Home Care. Base Chemicals and Oil services declined.

We are pleased that the integration and business combination of Lucas Meyer Cosmetics remains well on track, with both strong growth and profitability in Q3 as expected.

Regionally, sales increased organically in the Americas and in Asia-Pacific, primarily driven by volumes, while Europe, Middle East & Africa decreased.

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Reported EBITDA of 92 million Swiss Francs resulted in a stable margin of 17.2 percent versus 17.3 percent in the same period last year. The contribution from Lucas Meyer Cosmetics was reduced by around 5 million Swiss Francs due to the IFRS related inventory revaluation. We expect a full margin contribution from Lucas Meyer Cosmetics starting from Q4 2024.

Catalysts sales declined by 20 percent in local currency and 22 percent in Swiss Francs against a strong comparison base. Volumes declined by 20 percent versus the prior year, while pricing was flat in all segments.

We recorded high single-digit growth in Ethylene, driven by refill projects in Asia and the Middle East. All the other segments declined, with the most pronounced being Propylene given the sizable new-build projects in the prior year. In addition, the challenging global economic environment resulted in continued low customer operating rates, leading to delays in the regular refill cycles. Specialties declined by a low-twenties percentage rate as demand for maleic anhydride new-build projects in Asia, in particular, was below a strong prior year. Syngas & Fuels declined in the low single-digit range, still maintaining a good level against a high comparison base. Sequentially, sales decreased by 6 percent in local currency.

Sales increased in Europe, Middle East and Africa, as European engineering partners supplied their global customers from the region. Sales in the Americas and in Asia-Pacific declined due to the lower refill and new-fill activities of the business.

In the quarter, reported EBITDA margin decreased to 18.2 percent from 22.3 percent the prior year, mainly due to the decrease in sales. When excluding operational and exceptional effects related to sunliquid®, Catalysts EBITDA margin in the quarter was 18.7 percent, compared to 26.5 percent in the prior year period, when sales were significantly higher.

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

As mentioned by Conrad, this resulted in an impairment reversal of 36 million Swiss Francs related to right-of-use assets which were originally booked in the fourth quarter of 2023.

In the quarter, the operational impact was negative 1 million Swiss Francs, a further improvement from Q2 2o24.

For 2024, we expect a negative operational impact of approximately 10 million Swiss Francs, unchanged from our previous guidance, while we expect lower total exceptional items of flat to negative 5 million Swiss Francs. The total cash outflow is now expected at 30 to 50 million Swiss Francs.

Moving to Adsorbents & Additives, sales increased by 7 percent in local currency, with volumes up 7 percent while pricing was stable. Sequentially, sales in the business unit decreased by 3 percent in local currency, with lower volumes against stable pricing.

By segment, Adsorbents sales declined slightly due to lower volumes as industrial demand in Europe and Asia was weak, particularly in the automotive industry in Europe. In the Additives segment, sales increased at a high-teens percentage rate driven by strong volume growth in Polymer Solutions as key end markets showed some improvement against the prior year. We also continued to attract strong interest in our new halogen-free flame-retardant facility in Daya Bay.

Sales increased in all regions. In the Americas, we recorded high-teens percentage growth, driven by volumes as a key customer in Adsorbents resumed operations following maintenance. Asia-Pacific sales increased by a mid-single-digit percentage rate, mainly driven by volumes with slightly higher prices. In Europe, Middle East & Africa sales increased by a low-single-digit percentage rate, as higher volumes in Additives more than offset slightly lower pricing.

Reported EBITDA margin increased to 15.9 percent compared to 12.2 percent in the third 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.

We delivered cost savings of 7 million Swiss Francs in the third 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 162 million Swiss Francs, or over 90 percent have been realized from efficiency and rightsizing measures as well as the initial savings from the implementation of our new operating model.

As mentioned by Conrad, we identified opportunities for additional savings which resulted in restructuring charges of around 9 million Swiss Francs. We expect the new restructuring measures to deliver annual run-rate savings of 6 million Swiss Francs.

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 challenges and risks remaining. As mentioned at the beginning, the Manufacturing PMIs of the key regions all remain below 50, confirming the relatively weak outlook for industrial activities for the rest of the year.

We now expect a low single-digit percent sales decline in local currency. Lower than expected Catalyst sales are only partially offset by growth in Care Chemicals, including the impact of the acquisition of Lucas Meyer Cosmetics and the contribution of the seasonal deicing and refinery business in the fourth quarter, as well as growth in Adsorbents & Additives.

On profitability, we confirm our full year reported EBITDA margin guidance of around 16 percent. This includes the full margin contribution of the Lucas Meyer Cosmetics acquisition and the reduced sunliquid® costs.

We will continue to focus on margin management in a low demand environment and expect ongoing cost benefits from our performance improvement programs of 33 million Swiss Francs for the 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 improvement in growth and profitability.

We look forward to providing more detail on our strategy and medium-term outlook at our upcoming Investor Day next week.

And to that point, let me remind you that we are holding an in-person Investor Day in London on the 4. of November. Presenters will include Bill and myself, as well as our Chief Technology & Sustainability Officer, and our Business Unit Presidents. We are looking forward to seeing many of 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.

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.

Operator

Our first question comes from Andreas Heine from Stifel. Please go ahead.

Andreas Heine

Yes, thanks for having the opportunity to ask the first question. So, I will restrict my question to 2. The first is on the refill cycling Catalysts. My understanding is that you have not seen any sign of recovery there yet, as you speak about a delayed cycle. How long is your visibility in the refill business? So, I know that this can be years in the new build business, but how long is it really in refill? So, in other words, how much forward you can exclude that we won't see any recovery? That's the first question.

Then, Bill, could you comment a little bit about the cash flow trend, not in a figure, but in qualitative terms in the second half? So, you have reduced the CAPEX budget by another 10 million profitability to see. What is... what do you see in net working capital and how do you see the free cash flow progressing towards gain?

Bill Collins, CFO

Okay. Actually, why don't I go ahead and take that one, Andreas, and thank you for your questions. Qualitatively on cash flow, I mean, you're exactly right. We've dropped our forecast for the full year by about another 10 million. There isn't anything specific in that other than we just always have more ambition to spend than what we can literally get done. Our cash flow for the full year will, however be impacted by some of the cash outs that we have associated with the biofuel shutdown. And even though that's going substantially better than what we had anticipated earlier in the year, or certainly at the end of last year, it will have a negative impact.

And then, I think, finally, we still expect operational cash flow to be good in the last quarter of this year. I mean, we're still expecting an EBITDA margin rate of around 16%, which you can do the math, means that we're expecting still a good quarter. So, I think we should probably come in lower than where we have been the last couple of years on a free cash flow conversion rate, but still at a respectable level, given the cash outs we've got associated with the restructuring activities.

Conrad Keijzer, CEO

Yes, Andreas, I'll answer your question on Catalysts. So, yes, maybe first high level.

So, if you look at our business historically, what we always saw was roughly 1/3rd of the business new build, 2/3rds was refill. We have seen a shift where actually now the new build is only like a sort of a 15% of the business and the rest is refill. So, the new build rates basically was sort of cut in half, primarily due to a slowdown of new build activity in China.

Now, specific to your question on refill and the cycle and our visibility. So, if you look at overall averages, one could say that roughly every 4 years, there is necessary a replacement of the Catalysts package in a reactor. Now, like I said, that's an overall average. So, we have businesses where actually that number is significantly higher. Like for instance, in our ethylene business, we have businesses where we sit around the 4% and that's primarily, for instance, in our Catofin businesses. And then we have a few businesses where it's actually less than that. So, if you look at this 3-to-4-year cycle, what we see right now is that we are particularly impacted by the low run rates in the year 2023 in the industry. So, as a reminder, we were actually looking at the time at low-capacity utilization rates of around 70% in Europe, about 85% in the US. So, that actually delays then the refill cycle.

Now, what we think is in terms of our visibility and where we are in the cycle, what we think is that we have bottomed out in the second and the third quarter. And we do expect a sequential improvement into the fourth quarter. You always see a certain seasonality. There are actually typical plant shutdowns, maintenance shutdowns are planned a bit more in the fourth quarter. And actually, customers use that opportunity to do refills of the Catalysts. But we are seeing that pickup driven by the refill business in the fourth quarter. So, you will see the sequential pickup in line with a similar seasonality as you saw in the past.

Operator

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

Christian Faitz

Yes, thanks. Good afternoon, Conrad, Bill and Andreas and team. 2 questions, please. First of all, any further elucidation on the revival of demand from the crop protection industry? It looks like at least this customer industry is back on track. Is that correct observation?

And my second question, again, sorry, coming back to Catalysts. I mean, structurally, it should be a great business. It's truly global, truly special in the sense that customers pay you on performance of the Catalysts rather than price. And it has relatively limited competition.

Yet since quite a few years, we are light years away from the earnings potential that this business had in the mid-to-late 2010 years. And I understand that at this point, the demand environment does not allow for super abnormal returns. And you just elucidated that. And Clariant's adventure into a straw Catalyst was probably also nothing much to write home about. So, do you see that business structurally in the possible future to return to a mid-20% EBITDA margin level, where it was for quite a few years? Thanks.

Conrad Keijzer, CEO

Yes, Christian, thanks for the 2 questions. So, let me start with crop protection. Yes, we have seen very strong revenue in crop protection in the quarter... third quarter versus prior year. Actually, more than 10% up from the prior year. And the de-stocking here is really behind us. Now, we should note, though, that it's a low comparison base last year. So, we are seeing, yes, double-digit growth, but from a low comparison last year, where there was significant de-stocking. But looking at the season, looking at the crop season and the end demand, we actually see decent levels in terms of demand. And we expect actually continued positive performance in this business in the quarters ahead.

Yes, to your question on Catalysts and a more fundamental question on where are we with this business in terms of profitability? I think first, a technical comment that apples-and-apples, you do need to look at some scope changes, including the very profitable Scientific Design business that we've divested in the past. But I will say that we still are firm with our opinion that we should do well over a 20% EBITDA margin for this business. And I'd like to also call your attention to the profitability that we actually did see in the third quarter on a very weak... admittedly very weak revenue of minus 20%. We did achieve 18.7% EBITDA margin in the Catalysts business. And that's an attribute to the many actions that we've done on our cost base, where we structurally lowered the cost base in Catalysts, as well as actually margin management, much better pricing management than we had in the past. So, we remain very confident that this business will actually deliver in line with our midterm targets.

Christian Faitz

Okay, thanks very much.

Operator

The next question comes from Alex Stewart from Barclays. Please go ahead.

Alex Stewart

Hello, good afternoon. Thanks for taking my question. The first one is on volumes. Is it fair to say that Care Chemicals will be trending low-single-digits in the fourth quarter percentage volumes, excluding Lucas Meyer, because I guess if I look at 2025, you've guided to 3% to 5% local currency sales growth. Okay, Catalysts is hard to model. But at that point, A&A will be lapping harder comparables, the rate in Care Chemicals looks to be slowing. So, I'm interested to know where you think the volume growth is going to come from in 2025. And then related to that, you've talked about 17% to 18% reported EBITDA margin. Now, exceptional is very hard to model, but you've already talked about 70 million of positive capital gain for the sale of that Chemical Park in Germany. So that's a percent and a half of margin. So are there exceptional costs, which we should consider next year? I'm trying to bridge the 17% to 18% and try and understand what that means for adjusted, because the current consensus is basically assuming that reported and adjusted margins are the same, which seems unlikely. So, thanks. Really helpful to get your view on those.

Conrad Keijzer, CEO

Okay, Alex, I'll take the first question, and then Bill will comment on exceptional items. Yes, with regard to chemicals and what we're seeing happening on volumes there, I think, first of all, if you look at our third quarter volumes on an organic basis, up 1%. But keep in mind that there is a bit of a mixed issue here, where we did see actually significant declines on some of our lower price, sort of higher volume businesses, like in base chemicals, for example, to a lesser extent, oil services. If you sort of look at Q4 and what we expect on volumes, we see a continuation of this trends. The swing factor for Q4 will be the de-icing business, as well as the refinery business. So sequentially, we should actually see a pickup in the business in the fourth quarter if we see decent business coming in for de-icing chemicals and refinery, which are the cold flow improvers for diesel.

Bill, maybe you can comment on the exceptional items.

Bill Collins, CFO

Yes. So, I think the first point to note is that in our margin range of 17% to 18%, we don't have, kind of big one-time gains in there like Fechenheim. I mean, since the beginning of this year before that even became an opportunity, we had discussions around what the 17% to 18% looked like in terms of basically being able to get to the 17% with all of the self-help actions that we're driving. And then, of course, some degree of market growth would push us up higher in that range. So, again, on something like Fechenheim, it's not closed yet. We've entered into a preliminary agreement, so we anticipate the closing to be sometime next year.

In terms of the other costs, the margin guidance that we gave of the 17% to 18% basically has in there what we would call a more normalized level of exceptionals. It doesn't include any significant level of restructuring or other costs. That said, and we've been very clear that as we've made great progress on the 175 million cost program initially announced 3 years ago and systematically increased over the past couple of years, that we'll continue to look for cost opportunities across the organization. And coming back to one of the comments already made, if we are in this period of relatively low-volume growth for the foreseeable future because of the underlying economy, then of course we need to take a deeper look at that. And that is actually something that we will explore in greater detail at the Investor Day next Monday.

Alex Stewart

Okay, so just to be double sure, you're not including the capital gain within the 17% to 18% reported EBITDA margin?

Bill Collins, CFO

Yes, correct.

Alex Stewart

Okay. Thank you.

Operator

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

Chetan Udeshi

Yes, hi. Thanks for taking my questions. I was just wondering on Catalysts, I heard you talk about Q4 seasonality, which makes sense. But you know, this is a business where I would think you would have a longer lead time and an order book. So I'm just curious how is your backlog looking as we think about 2025? Or am I not right in thinking that this business doesn't...so in other words, maybe I'm wrong that the business actually doesn't have backlog, it's just a spot business. But I would have thought, you know, this is sort of a business, given it's a project business, you should have some sort of a backlog that sort of feeds into your revenue into outer years.

And just curious on the other question I had was, we've had profit warnings or at least indications of softer market for beauty products, you know, in China, maybe mass-market Europe. I'm just curious what... how does that feed into your Care Chemical business, whether at Lucas Meyer or your legacy Care Chemical personal care exposure? Thank you.

Conrad Keijzer, CEO

Yes, thank you, Chetan. Yes, first on Catalysts, and your question on order book or backlog in our order book. So, I think there's 2 things, so we on the one hand have our new builds business in Catalysts where we typically have very long order lead times, 18 to let's say 24 months lead time. We know before a new plant startup, we already get the order and that gives us a long lead time.

If you look at the refill business that is a shorter lead time, typically about a 6-month lead time. So, I will say that the volatility in our order book has gone up a little bit because of the fact that the new built business represents a lower share of it. If you look right now at the order book, yes, we are confident about this sequential pickup. In Q4, that we highlighted, yes, basically, what our order book indicates is that we're bottoming out in this business. We did bottom out in Q2-Q3, but there will be weakness as long as really the operating rates, particularly in Europe, are not increasing. And we still, even at this moment, are running in chemical plants particularly petrochemical plants in Europe at depressed operating rates, around a 70%...max 75% utilization rates. So that really needs to improve for the refill business to really pick up again strongly.

Yes, sorry, your second question on Care Chemicals, and what we have seen in luxury brands and we've also seen here the announcement of companies like LVMH, Kering, L'Oréal, luxury brands have actually seen sales coming down based on lower consumer confidence, and some headwinds in China.

If you look at our positioning with Lucas Meyer, it is a very unique high-end positioning. So particularly if you look at the anti-age cream, that is a very solid customer base, a very loyal customer base, that also is an aged group of consumers that typically does have spending power. So even within the luxury brands, you see that the segment, which talks about products like anti-age creams, hair care products, particularly for the older consumer groups is holding up quite well.

I will say what we also see in Lucas Meyer is that the Indie brands really are taking off. And this is a trend where on social media influencers recommend their own brands of cosmetic products. So overall, if you sort of look at all these things together, the Lucas Meyer business is delivering the business case, both in profitability as well as in terms of our gross expectations.

Chetan Udeshi

Can I follow up you mentioned as long as the European chemical industry utilization remains low? So can you remind us how is your mix within your Catalysts business between regions?

Conrad Keijzer, CEO

Yes. The mix within regions is actually fairly balanced, but I will say, that Asia is overall the biggest region. Then actually would come Europe and then actually you will see the US coming in.

Chetan Udeshi

Understood. Thank you.

Conrad Keijzer, CEO

Yes, you're welcome.

Operator

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

Matthew Yates

Hey, thanks everyone. Good afternoon. Maybe I'd like to follow-up on Chetan's question really. Can I sort of challenge the assumption that the Catalysts business is bottoming out? When I look at various sort of consultant forecasts for new capacity startups in chemicals in 2025, it actually looks a lot less than 2024? So I appreciate maybe the Refill business has some recovery next year, but do you actually think that the new build business is going to be up or down next year?

And then maybe just a side question for Bill, the 7 million of cost savings? Can you give us a sense what the net number here is, because I guess you've got 10,000 people or so in the organization with salary increases and various other cost inflation? So, when you look at the total cost base of the company, can you help us put that 7 million of savings in context to what kind of the underlying inflation is running at? Thank you.

Bill Collins, CFO

You want me to take that one first?

Conrad Keijzer, CEO

Yes.

Bill Collins, CFO

Okay. So if we look at the cost savings in the balance of inflation, I would say that, if we go back to 2022 and 2023, our cost savings from all of these various restructuring programs have fully offset all of the inflation that we've incurred from a merit and goods perspective.

I mean, you can see in our reports that we run a little over 900 million in overall labor costs, so you can do math on what you think the inflation is. The 7 million that we're talking about here, it's not a full inflation offset program. I mean, this is just... it was an additional opportunity really related to some positions that, we still have in high-cost countries that we decided that we could pull those into a shared services framework across, you know, whether it's intellectual property or other functional activities. So, this is really... it's a one-off from that perspective.

I will say in coming back to the question earlier, I mean, we are also then looking at potentially larger programs that could have more of a full labor inflation offset going forward, because I mean, realistically, we all have to do that. If we can't get it in pricing or through volumes, we've got to make sure that we've got the continuous improvement programs in place to be able to drive that offset. So, we're looking very, very carefully at that. And like I said, we'll have a deeper discussion about that next Monday.

Conrad Keijzer, CEO

Okay, Matthew, and then your other question about new builds versus refill, and sort of our outlook. Yes, maybe first on new builds. So, new builds has re-based itself this year. So, we had unprecedented growth, I would almost say, in the last 5 plus years in China, when it comes to new build, that is actually not going to repeat itself soon. So, you still see some new builds, but it is at a lower activity. And just as a reminder, run rates right now, overall in China are actually sitting at 65% to 70%. So, this is really low. And even if you would plot high single-digit growth, then you're talking about 2, 3 years before actually you see the more normalized capacity utilization rates in China. So new builds for us in our outlook is basically flat. What we will see is for refill, we will see a more positive picture. And that is actually a little bit different by segment, but particularly on ethylene, where there is a much longer refill cycle, we will see actually some significant refills coming in.

Finally, yes, if you look at the mid-term, long-term outlook for Catalysts, the energy transition, and then looking at how we are positioned with our Catalysts business, particularly our Syngas Catalysts, this is actually a very strong positioning. So, what you will see over time is new markets opening up either for green or for blue ammonia. For example, or methanol applications like shipping fuel, which now, yes, which basically are new markets for these molecules, fertilizers, new markets for these molecules that actually will open up demand for Catalysts mid to long-term.

Matthew Yates

Okay. Conrad, Bill, thanks very much.

Conrad Keijzer, CEO

You're welcome.

Operator

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

Konstantin Wiechert

Yes, hi, thanks for also taking my questions. Maybe starting on Care Chemicals again, while you had positive volume development in the current quarter, your EBITDA only improved about 1 million? Could you help me again understand, if there was any other item next to the inventory revaluations and the adverse currency effect that has impacted this profitability? And maybe to add on this, could you also just try to explain me once again the mechanics behind the inventory revaluations, and why there has been another quarter with that, but now you're sure that this shouldn't reoccur in the last quarter of the year?

And if you take those run rates, is it fair to assume that then in the next year, Care Chemicals should improve something north of 20 million on EBITDA just from basically the Lucas Meyer effect that we've seen this year and the first quarter consolidation? I'll stop right here. Thanks.

Bill Collins, CFO

Okay. Konstantin given your questions, you're stuck with me on this one. So, let's start with the overall 1%, so the reported figures that you see there, actually include the full 5 million impact from the inventory revaluation on the Lucas Meyer Cosmetics inventories, as well as associated integration costs. So that right there, if you back that out, I mean, just if you add anywhere between 5 million and 7 million to the bottom line of Care Chemicals, you're going to come up with a substantially higher figure on a base amount of sales there.

On the inventory step-up, I mean, the reason that we've had to take that in Q2 and sin Q3 is simply because under IFRS, when you buy the assets of the business, you have to revalue those assets at a market value. So, the inventories that we acquired had to be stepped up in value. Therefore, we don't get the full impact of those margins. So, in reality, for what we saw in Q3, Lucas Meyer Cosmetics certainly contributed nicely from a top-line perspective, and you see that in the scope that we reported, but it didn't contribute substantially on the bottom line.

So as a result of that, it's muted and hence your question. But certainly as we go into Q4, we will not have that inventory step-up anymore.

So, what you'll see then reported in Q4, ongoing is the pure unaltered results of Lucas Meyer Cosmetics, which again, we do expect to contribute not only top-line, but also bottom-line very much in line with what we had communicated at the time of the acquisition.

Konstantin Wiechert

Okay. Thank you so much.

Bill Collins, CFO

Did that answer your question?

Konstantin Wiechert

Yes, sort of. Thanks. I guess if I may ask a follow-up, because I think I'm already at the end maybe, on the... on your topic around exceptional items for next year and general improvement programs, maybe just from a philosophical standpoint, I guess we hear more on that on the Capital Markets Day, but I'll try anyways. If it's... I guess, it's sort of a standard procedure for large international companies to always have a continuous improvement in cost savings? And therefore, I'm just here to want to clarify whether you think these are exceptional items that should be included in the next years or if we should view these continuous improvements as within the normal business operations... ?

Bill Collins, CFO

So actually, if we back up a couple of years, I mean, we have taken quite some restructuring charges associated with the implementation of our new operating model. We have fundamentally restructured and reorganized the company over the past couple of years. And that had a huge impact not only on the location of a number of positions, but also in terms of the number of layers of management that we had in the organization, how we're structured, and so forth. So, the restructuring that we've taken over the last few years was very much to put in place the operating model that we are delivering on today.

Going forward, yes, I stick by what I said in terms of there being a need for continuous improvement. However, to the extent that those continuous improvement exercise actually relate to continued opportunities to further centralize certain activities around the globe, to move certain activities out of higher cost countries and into lower cost countries while getting the same thing for being able to take positions out through Automation, Gen AI, whatever you want to call it, that would, in fact, be part of an overall restructuring program, which would get booked as an exceptional.

Smaller productivity enhancements on an individual functional basis, that would be included on our normal SG&A, normal operating costs, but to the extent that it's part of the larger programs then it would certainly hit the exceptional line.

Konstantin Wiechert

Okay, thank you.

Bill Collins, CFO

You're welcome.

Operator

The last question for today's call comes from Georgina Fraser from Goldman Sachs. Please go ahead.

Georgina Fraser

Hi, good afternoon, Conrad and Bill and Andreas and great to speak to you. 2 questions left. One of them is just on great appointment for your New Chairman and starting next year. Could you share what kind of expertise you're hoping to benefit from and what kind of strategic areas is Clariant considering that they might need somebody like Ben Van Beurden's experience and making some decisions around?

And then my second question that I had left is looking at your early-2025 outlook, can you just outline what macro-assumptions you included and how that would alter based on different outcomes for China stimulus, the US elections and what you've assumed in terms of costs because you've helpfully provided your cost evolution in your presentation, and it looks like that's actually been quite supportive and for the last 12 to 18 months. And so, just a little bit of color on that would be helpful. Thank you.

Conrad Keijzer, CEO

Yes, thank you Georgina. So, first yes on our New Chairman coming in who... yes our shareholders still will need to vote on the 01st of April, but we are very pleased actually with the nomination of Ben van Beurden as our New Chairman. So, looking at his backgrounds, yes obviously phenomenal track record what he brings in terms of yes, his former role as a CEO of Shell, but also actually for the many years that he was heading Shell Chemicals. So, he has... and he brings a deep knowledge on petrochemical markets which obviously are very interesting for us and for our Catalysts business.

I think also in terms of his sustainability track record, as a reminder, Shell was one of the first oil and gas companies out there with carbon reduction targets, this is obviously for us something very close to our hearts. Clariant is a leader in sustainability and specialty chemicals, and we're very much committed to stay in that position.

And finally, leadership. I mean, yes, somebody of his stature will really also, yes, bring sort of leadership to our company. And I look very much forward to work together with him for the coming years in achieving our midterm targets. And then obviously from there sustainably growing profitably beyond.

Talking about our outlook in terms of 2025, your specific questions on what are the macro assumptions. Let me first reiterate that we are firmly committed to the 3% to 5% gross and to EBITDA margin in '25 of 17% to 18%. The basic assumptions here are if you look at the overall economy right now, we just got the latest numbers here from Oxford Economics expecting a 2.7% GDP growth for this year, slightly up next year to 2.8%. What is important, though, is the shift back towards industrial GDP. So, the general consensus is that after a period of more than 2 years now with lagging industrial GDP coming out of Corona consumers spending much more on services. We see that shifting back. We actually see that shifting back already this year.

If we look at our Additives business and the pickup, for example, in segments like consumer electronics, some durable goods, picking up semi-durable goods, furniture, for example, we see it with our Licocene business, we expect this to continue. So, our assumption for next year, it's basically the same gross rate, roughly overall for GDP, a continued shift back to industrial GDP and also, let's say, some of the interest rate cuts will actually help to push and trigger consumer spending back to durable routes.

Georgina Fraser

And is there anything that you can say about, how you would be looking to manage the business if we saw a ramp in the tariff environment?

Conrad Keijzer, CEO

Yes. If you look at the tariffs, we have many discussions here internally about tariffs and what were to happen. If you look at the footprint that Clariant has with more than 70 sites globally, it is largely in a region, for a region, particularly if you look, for instance, at the US, we actually have a very strong, I think it's over 70%, actually, that we locally produce in the US, for the US. So, our assessment is that it has a very limited impact, actually, on the Clariant business performance, if and when the US would put up tariffs much higher than they currently are.

Georgina Fraser

Thank you very much.

Conrad Keijzer

Thank you.

Andreas Schwarzwälder, IR:

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 are available for any further questions you might have. We look forward to seeing you in London next week and let me remind you that the registration for the Investor Day is available on our Investor Relations website which will close as of tomorrow noon. Once again, thank you for joining the call today and good-bye.