Q&A Regular Transcription

Fourth Quarter / Full 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

CLARIANT

SPEECH

Operator

Ladies and gentlemen, welcome to Clariant's call relating to the Fourth Quarter / Full 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 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 the 2024 fourth quarter and full year key messages and financial highlights, followed by Bill who will guide us through the business unit results and performance improvement programs. Conrad will then conclude with the outlook for full year 2025.

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. We are pleased to present Clariant's performance for the fourth quarter and full year 2024. Overall, this was a year where we showed our resilience, delivering a robust set of numbers despite a challenging environment.

Let me start by highlighting our key achievements. We delivered on our full year guidance, with sales of 4.152 billion Swiss Francs. This represents a low-single-digit percentage decline against the previous year. Our reported EBITDA margin was 15.8 percent, or 16 percent before exceptional items, again in line with our guidance. I'm also particularly proud that we delivered a solid cash conversion of 32 %, despite the cash outflow related to sunliquid™. Our 2024 performance enables us to propose a stable distribution to shareholders of o.42 Swiss Francs per share.

Looking ahead for 2025, we face an environment with limited indications of an economic recovery. Uncertainties remain, including potential tariffs and trade tensions. However, we are firmly committed to deliver our innovation and savings initiatives that we presented at our Investor Day last November.

I am pleased to announce that the Lucas Meyer Cosmetics integration and business performance remains well on track. We delivered high-single digit growth in an environment where luxury cosmetics brands faced weakening demand.

Our performance improvement programs are firmly on track: We have already achieved 96 percent of savings from our 175 million Swiss Francs cost savings program. And in November 2024, we announced a new savings program which is set to deliver 80 million Swiss Francs by 2027. We expect a significant contribution from these measures to flow through during this year. In 2025, we expect to book around 75 million Swiss Francs restructuring charges related to this savings program.

We executed the closure and downsizing activities related to sunliquid™ and we do not expect any further negative impact from this activity in 2025.

We made significant progress toward our non-financial and sustainability targets in 2024. Our DART rate declined by 19% and the 2024 rate of 0.17 reflects a top quartile performance in our industry.

Underscoring our commitment to sustainability, we achieved a 9 percent reduction in Scope 1 and 2 emissions and a 5 percent reduction in Scope 3 compared to 2023. Our sustainability ratings reflect strong overall progress in this area. In the latest Carbon Disclosure Project score, Clariant achieved an upgrade from B to an A minus rating in Climate.

Regarding our outlook, for 2025, we are guiding to the lower end of the 3 to 5 percent local currency sales growth range with an underlying EBITDA margin improvement to 17 to 18 percent before exceptional items. We will provide more detail on this later.

Now looking at our fourth quarter performance. We delivered sales of around 1.1 billion Swiss Francs. In local currency, this corresponds to a 5 percent increase. In Swiss Francs the reported growth was 3 percent.

We maintained pricing discipline across our portfolio, with year-on-year increases in Catalysts and Adsorbents & Additives. Care Chemicals pricing stabilized, driven by formula-based pricing in a deflationary environment. Volumes grew 1 percent overall, as growth in Catalysts and Adsorbents & Additives offset a flat performance in Care Chemicals, where the relatively mild weather in Europe impacted the seasonal aviation and refinery businesses.

The acquisition of Lucas Meyer Cosmetics had a positive scope impact of 2 percent.

Turning to profitability, our reported Q4 EBITDA increased by 69 percent to 179 million Swiss Francs, corresponding to a 16.4 percent EBITDA margin. This represents a 640-basis-point improvement versus the fourth quarter of 2023, when we incurred restructuring expenses of 43 million Swiss Francs, mostly relating to sunliquid™. The improvement was also driven by a strong revenue performance in Catalysts and in Adsorbents & Additives, offsetting the lower volumes in Care Chemicals. EBITDA before exceptional items increased by 1 percent to 160 million Swiss Francs, representing an underlying margin of 14.7 percent in line with prior year. This result demonstrates the resilience of our portfolio and the hard work of our teams, who succeeded to maintain our profitability in a challenging environment.

With that, I now hand over to Bill for further details on our business performance in the fourth quarter.

Bill Collins, CFO

Thank you, Conrad and good afternoon, everyone.

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

We recorded flat organic growth in local currency, with a slight organic decline in volumes due to lower seasonal businesses, and stable pricing year-on-year. Including scope, sales grew by 4 percent in local currency, driven by the positive contribution of Lucas Meyer Cosmetics. On a quarterly sequential basis, sales increased by 10 percent in local currency due to volume growth.

We recorded strong double-digit organic sales growth in Crop Solutions, with strong volume growth as inventory levels across the value chain normalized. Industrial Applications sales grew at a mid-single-digit percentage rate organically, with both price and volumes up. Personal & Home Care sales saw slight organic growth, driven by volumes as pricing was flat. Sales in Base Chemicals declined due to lower seasonal sales in aviation and refinery. Oil Services sales declined against a strong comparison base due to lower volumes. In Mining Solutions, increased pricing did not fully offset the impact of lower volumes.

Regionally, sales increased organically in the Americas and Asia-Pacific, while sales in EMEA decreased at a low single digit percentage rate.

We recorded reported EBITDA of 90 million Swiss Francs, versus 110 million Swiss Francs in the fourth quarter of 2023. This translated into a margin of 16.1 percent, versus 20.0 percent in the prior year.

While Lucas Meyer Cosmetics positively contributed to EBITDA, we had a negative impact from lower seasonal sales and lower fixed cost absorption due to net working capital management and maintenance. Integration costs related to the Lucas Meyer Cosmetics acquisition and hyperinflation effects also negatively impacted profitability.

Catalysts sales increased by 7 percent in local currency and 5 percent in Swiss Francs, as the refill cycle normalized in the fourth quarter. We don't expect underlying improvements in the short term as the economic environment remains challenging with utilization rates below long-term averages. Pricing was up 2 percent, with growth in all segments, while volumes grew by 5 percent. Sequentially, sales increased by 34 percent in local currency.

We recorded strong sales in Propylene, increasing at a low-sixties percentage rate driven by Catofin sales in China. Specialty also recorded growth at a high single digit percentage rate, while Syngas & Fuels and Ethylene sales declined.

Regional dynamics were driven by the project nature of the business, with strong volume growth in Asia-Pacific, including pronounced growth in China. In Europe, Middle East and Africa sales grew at a low single digit percentage rate, while sales in the Americas declined as growth in Specialty was more than offset by volume-led declines in the other businesses.

In the fourth quarter, the reported EBITDA margin increased to 25.1 percent from negative 3.9 percent in the prior year, when profitability was negatively impacted by costs relating to the closure of the sunliquid™ plant. Our performance in the fourth quarter was supported by effective margin management and operating leverage. We also recorded a lower operational impact from sunliquid™ of negative 2 million Swiss Francs, and an additional positive impact related to a reversal of provisions resulting from our downsizing efforts progressing faster than anticipated. For 2025, we don't expect any P&L impact or cash-out related to sunliquid™.

On an underlying basis before exceptional items, EBITDA margin improved to 18.8 percent versus 15.9 percent in Q4 2023, mainly driven by higher sales.

Moving to Adsorbents & Additives, sales increased by 4 percent in local currency and by 2 percent in Swiss Francs. Pricing was up 3 percent, driven by Coatings & Adhesives, while volumes increased by 1 percent. Sequentially, sales in the business unit increased by 2 percent in local currency, driven by volumes as pricing was stable.

By segment, Adsorbents sales declined slightly as positive pricing was offset by lower volumes. This was due to the continued muted industrial demand in Europe and Asia, in particular from the Automotive industry in Europe. In the Additives segments, we recorded double-digit sales growth, as key end markets showed some improvement against the prior year.

Regionally, we recorded strong sales growth in the Americas of 15 percent, driven by positive pricing. In Asia-Pacific, sales grew at a low single digit percentage rate, with China growing at mid-single-digits. Sales in Europe, Middle East, and Africa were stable year over year.

Reported EBITDA margin increased to 13.1 percent compared to 6.3 percent in the prior year, which was impacted by restructuring charges. Profitability levels were positively impacted by pricing and volume growth, as well as the performance improvement programs implemented in the prior year.

On an underlying basis before exceptional items, EBITDA margin was 12. 7 percent compared to 8.2 percent in the fourth quarter of 2023.

Moving on to our cost savings initiatives. In the fourth quarter, we delivered cost savings of 6 million Swiss Francs. We remain fully on track to deliver our savings target of 175 million Swiss Francs by end 2025, with 7 million Swiss Francs remaining this year.

For the new savings program that we announced at our Investor Day back in November of last year, we expect full run-rate savings of 80 million Swiss Francs from Business Unit and Corporate actions to be delivered by end of 2027. We expect a significant contribution to be realized from these initiatives in 2025 and expect to book a corresponding restructuring charge of 75 million Swiss Francs in 2025.

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

Conrad Keijzer, CEO

Thank you, Bill.

Let me conclude our presentation with more details on the outlook for 2025.

While we expect some moderation of inflationary pressures, we see limited indications for a broader economic recovery and uncertainties and risks remain.

Therefore, we anticipate sales growth towards the lower end of our guided 3 to 5 percent range in local currency. Care Chemicals and Adsorbents & Additives are expected to grow, while Catalysts sales are expected to be around 2024 levels.

We expect to improve profitability in 2025, delivering an EBITDA margin before exceptional items between 17 and 18 percent.

As Bill mentioned, exceptional items in 2025 are expected to include restructuring charges of around 75 million Swiss Francs related to the savings programs announced during our Investor Day. Key levers in these programs are SG&A reduction, footprint optimization, operational efficiency measures and new procurement initiatives. As we previously outlined, these programs are expected to deliver full run-rate savings of 80 million Swiss Francs by end of 2027, with around CHF 30 million to come from Care Chemicals, some CHF 20 million from Catalysts, approximately CHF 20 million from Adsorbents & Additives, and the remainder from Corporate functions. These activities are, on the one hand, a refinement of the business unit and functional cost structure and on the other hand necessary adjustments to capacities considering a low growth environment.

We expect other exceptional items of around 20 million Swiss Francs. We therefore guide for a reported EBITDA margin for 2025 of between 15 and 15.5 percent. We also aim to further improve cash conversion toward our 40 percent target.

We remain confident in delivering our medium-term targets, as outlined at our November Investor Day: achieving 4 to 6 percent local currency sales growth, a 19 to 21 percent reported EBITDA margin, and around 40 percent free cash flow conversion by 2027 at the latest.

We are well positioned to achieve these targets as top-line growth will drive improved operational leverage on the back of our reduced cost base, strengthened by margin-enhancing growth from our innovation arenas.

We will maintain our customer focus, as well as our commitment to both sustainability and a culture of innovation – these key drivers, together with our dedicated team, will ensure Clariant's continued progress and success. All these aspects have recently been evidenced in our partnership with Unilever, who honored us with their Home Care Innovation Award. Our TexCare soil release polymer technology in Persil Wonder Wash demonstrates how our collaboration drives innovation - enabling effective cleaning in just 15 minutes at low temperatures while being fully biodegradable. Together with our customers we are shaping the future of sustainable chemistry.

With that, I hand the call back 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

Our first question comes from Katie Richards from Barclays. Please go ahead.

Katie Richards

Hi Conrad, Bill, Andreas. Thank you for taking my questions. I've got 2, please. Firstly, could you just talk us through the puts and takes in care chemicals, please? Obviously, you said this was a weaker quarter for Deicing Fluids due to the weather. How is this business looking into Q1? And could you just talk us through some of the trends you're seeing in Crop Solutions and the other businesses, please?

Secondly, I've got a question on phosphorus-based flame retardants, if I may. I can see that one of your competitors, ICL, has recently spoken about how its phosphorus-based flame retardants have been unfairly impacted by the Chinese, unfairly selling at low prices. And also some increasing sustainability requirements. So, can you explain whether Clariant's flame retardants have been affected by this, the anti-dumping or the tariffs? And I'm wondering if you've seen a similarly positive impact in Europe as ICL has?

Conrad Keijzer, CEO

Yes, thank you, Katie. Let me first comment on Care Chemicals, the performance in the fourth quarter and what we're seeing in Q1. Yes, the fourth quarter for us, Care Chemicals was weaker with a flat year-on-year performance. We still were up 4% in local currency, but that was primarily due to the inclusion of the Lucas Meyer cosmetics business. So, what we saw in the fourth quarter was particularly weak trading conditions for our deicing materials that was related to the relatively warm weather. And we saw also, as a consequence of that, actually the refinery business, our diesel cold flow improvers business also being down.

That was a bit of a double whammy because we were both down in revenue for these businesses, but also for deicing, we had particularly high margins last year because of the relatively low propylene glycol input costs.

What we're seeing for Care Chemicals in the start of the year is actually, we're off to a good start. So, we see actually solid business when it comes to personal and home care. If you look at Crop Solutions, we see continued trends. What we saw already in the fourth quarter is actually strong revenue. All the inventory movements that we had from last year are behind us, and we see now actually solid underlying demand in that business.

And finally, on the industrial side, we see a pickup in paints and coatings for Care Chemicals. We saw a bit of weakness in January in China due to the timing of Chinese New Year in January, but here also the Care Chemicals order book after China New Year is actually strong. So, we basically see for the first quarter Care Chemicals back to normal run rates.

Your second question was actually... it's actually quite detailed on flame retardants. But it is actually a relevant question. So, your first question on TCPP, that is actually a category of flame retardants, chloromethyl ethyl phosphate, if I remember that correctly, that we're actually not in, but these are competing products. They have an unfavorable tox profile, and as a consequence, they will be actually legislated out in Europe. We see that as a positive, because potentially this could open up for us a new application for our own flame retardants. As you may remember, we're primarily supplying polyamide markets. This could open up polyurethane markets, and we're working on developing the right products so that we can hopefully benefit from that, but it's more of a midterm opportunity.

Your second question was around anti-dumping. That's also actually a material that we're not supplying, the alkyl phosphate esters. It is a product one of our competitors here in Europe is pretty strong in terms of supplying that. There are indirect positive effects, though. If there would be anti-dumping, some of these products directly or indirectly compete with our products, and it's always good if actually materials coming into Europe basically with anti-dumping practices are stopped.

Katie Richards

Great. That's really useful. Thank you.

Conrad Keijzer, CEO
Thank you.

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

Thea Badaro
Yes, hi. Good afternoon, both. 2 questions from me, please. The first one is on the group. Could you kindly outline what your assumptions are for volume growth through the year, please?

And the second question is a broader one on tariffs. I appreciate it's quite early on to comment on the potential impact it could have on the business. But I'm interested in knowing to what extent you have run through mitigating scenario analysis, and if you have some early thoughts on this. Thank you.

Conrad Keijzer, CEO
Yes, maybe Bill can more precisely mention the breakdown between pricing and volume in our guidance, but high level what we expect for volumes is actually continued growth in Additives and in Adsorbents, and continued growth in Care Chemicals. We saw that actually in Q4 with a nice plus 5% overall for the company. For Catalysts, we actually see a business more in line with last year, and the specific breakdown between volume and pricing, Bill can comment on that.

In terms of tariffs, yes, this has been an important topic in the company. We formed a tariff task force, and we analyzed basically the whole situation globally where we looked at product flows between regions, finished products, as well as raw material flows. And we can say that the company is actually in a very solid position here because we have 68 sites globally. Typically, we supply in a region, for a region, and in a number of cases, we actually turn out to be better positioned than some smaller competitors in certain segments.

Specifically for the US, we analyzed in detail the exposure. Our largest business there, Care Chemicals, for example, has 90% of sales locally produced, and then of that 90%, more than 90% is actually sourced with local raw materials.

So all-in-all, tariffs are not good for the industry. They're bad for business. They slow down economic growth. They trigger inflation. So there is indirect negative effects from tariffs, but as a direct exposure to the company, we actually feel in a good position.

Maybe, Bill, you can provide some granularity on the volume pricing.

Bill Collins, CFO

Yes, happy to. Overall, we're expecting pricing to be about a percentage point positive in 2025. This is largely tied to what we expect to be marginally increasing raw material costs. On the volume side, at a group level, we're basically looking at probably between 2 and 3 percentage points of overall volume growth. I mean, as Conrad mentioned, from a Catalyst perspective, relatively flat year-over-year. From a Care Chemicals perspective, up a couple percentage point, a little bit higher in A&A because of what we see as the normalized return of end markets on Additives and our really exceptional growth in the US on Adsorbents.

Operator

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

Andreas Heine

Yes, good afternoon, gents. Let's take my first 2. The first is in Care Chemicals. It's the second quarter where you mentioned that the oil and mining business is down. Could you elucidate how you see the trend here? And then, you had the strong increase in pricing in the Adsorbents business in Americas. I just want to understand whether this 15% positive pricing is only a currency-related impact in Latin America or whether that is real price increase? Thanks.

Conrad Keijzer, CEO

Okay, Andreas. Yes. The second question, maybe Bill can provide that granularity. As far as your question on Care Chemicals and specifically oil services and mining, I think we see different trends actually for oil services than we see for mining. For oil services, yes, our business is down on a year-to-year basis, actually, high-single-digits if you look in the fourth quarter. But this is primarily a very strong comparison base that we see in oil services where the prior year was really a very big pickup in oil services.

If you look at mining, we're not down as much. And if you basically look at the outlook for both businesses this year, oil services, it's again relatively modest. Demand for oil is also very much related to a general pickup in industrial activity in the world, which has not happened yet. So, for oil services, we actually have a very modest outlook. Mining should be stronger, and particularly for copper, for example, we still see a solid underlying demand. And the mining business should actually show some growth this year.

Bill Collins, CFO

Yes, Andreas, on the Adsorbents Americas, the comment is actually that the overall revenues have increased by 15%. Pricing is a part of that, and that is positive, but the pricing itself is not 15% higher.

Andreas Heine

Okay, thanks.

Conrad Keijzer, CEO

Thank you.

Operator

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

Ranulf Orr

Hi, all 2 questions, please. The first is just on the growth guidance for the full year, 3% to 5%, but you're already pointing to the bottom end of it. So, could you just talk a little bit through the rationale here? Why you didn't perhaps lower the bottom end of the guidance range? Do you not expect or see risk of indirect tariff impacts, or are we just kind of kicking the can down the road a bit?

And then secondly, just on Care Chemicals, please, could you give an idea of how the 4Q EBITDA margin progressed kind of sequentially or year-on-year if we were to exclude the Deicing business? Thanks very much.

Conrad Keijzer, CEO

Yes, thank you, Ranulf. So, I'll let Bill comment on Care Chemicals and Q4 EBITDA margins. So, I'll provide a bit more color behind the outlook, the 3% to 5% local currency growth. I think Bill already gave some numbers as far as volume and price breakdown, where basically, yes, what he mentioned was Catalyst volumes for this year basically flat from prior year. I think the challenge that we still see in Catalyst is we have behind us a period of unprecedented growth in new build activity, particularly in China. And what you see in Catalyst is there is an overcapacity in chemicals and particularly petrochemicals plants. They're running at about a 70% growth rate. We still see some new plants coming on-stream. We have the BASF plant coming on stream. SABIC brings on new plants, Wanhua. There's still some new capacity coming in, but it is clearly at a lower pace than it has happened in the past. And you saw that reflected in last year's numbers where new building Catalyst is now only 15%. And it used to be roughly 30% of our revenue. We actually don't expect a quick pick-up in new build in Catalysts.

Very quickly, Additives and Adsorbents. Additives, we actually are seeing a recovery in our markets. If you look at, for instance, consumer electronics, those markets actually were strong. Cell phones, laptops, consumer electronics in general, up mid-to-high single-digits as a market segment and our business up double-digits. So that is actually a return to growth. Also things like furniture, actually up last year. So for products like our Licocene products, adhesives products into mattresses or furniture, glue, that is positive.

And finally, if you look at automotive, while the sector is down 2%. Overall, we're very much exposed to electric vehicles and hybrids. And they were still up last year, almost 25%.
And we expected about sort of 20% growth this year. So broadly speaking, in Additives, we see consumer spending on durable goods returning gradually. On Adsorbents, we see strengths for biodiesel, for sustainable aviation fuel.

And finally, Care Chemicals, as I already mentioned, gave some comments on the start of the year Q1, a solid start here. We are seeing actually solid growth for personal and home care, solid growth for Crop Solutions, a bit more mixed picture in industrial, but a pickup in paints and coatings, and still some headwinds in oil services, where we still have a strong comparison in the first half. And mining, it should also be slightly positive.

Overall, that sort of lands us at the bottom range of this 3% to 5% local currency growth. Sorry for the long answer, but...

Bill Collins, CFO

No, that's fine. Yes. So, Care Chemicals Q4 profitability. Let's start a bit with the impact from the top line, because as we mentioned, we had a much lower than anticipated and certainly a much lower than we would expect normally in terms of the deicing season, the aviation season. So, if you look at the shortfall in sales there on aviation plus a bit on the refinery side, that alone is about a 20 million miss on overall sales. And as you know, the aviation business is quite profitable, so that had a very significant impact on the bottom line. So, there's a significant mix issue there.

The second one is to maximize cash at the end of the year, we actually sold down inventories in Care Chemicals, which then obviously created some, what we call EVPs, fixed burden absorption, under-absorption for the fourth quarter. And we took that opportunity to do maintenance on some of those plants and those production lines, so effectively pulling that forward. So, from my perspective, what we saw in Q4, with the exception of the shortfall in aviation sales, was very much anticipated and expected. It was planned. So, as we go into Q1, these are non-recurring events. So, I am still optimistic about what we see in terms of our volume growth and profitability in Care Chemicals in Q1 and progressing through the course of the year.

Ranulf Orr

Okay. Thanks very much. Appreciate it.

Operator

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

Matthew Yates

Hey, afternoon all. So, you've taken out close to 170 million of cost so far, and you're now looking to do another 80 million. I wonder if this strategy is actually creating value for shareholders. When I look at your share price being at a 5-year low, I wonder if there's a feeling Clariant is actually under-investing in its business, and that is contributing to the challenge in delivering organic growth.

Am I being unfair here, and it's really the tough macro that's simply difficult to fight against? Or does the company really need to think about striking a better balance between cost savings and cost investment going forward?

Conrad Keijzer, CEO

Yes, Matthew, thank you for this question. This is obviously a very important question. And I think if you basically reflect back, we presented also some of that data in London at our Investor Day in November. What you see in terms of our organic growth, we presented this figure in London, we actually showed a growth in local currency of 4% dating back to 2021, November. So, in that timeframe, in those years, which have been very challenging years for the industry, with a local currency growth of 4%, we clearly outgrew our competitors. And you should keep in mind, obviously, the appreciation of the Swiss franc. So, I'm talking local currency growth here.

To your question on cost out, yes we've delivered out of the 175 million cost-saving target, we've delivered 168 million. This actually have been primarily measures that have actually set up the company, if anything, better for organic growth. We had a disproportionate amount of management layers. You may remember, we reduced this from 11 to 6. We had a decision-making metrics with 3 dimensions, countries, businesses, functions. We basically created business units with P&Ls and single line accountability. So we basically flattened the organization. We're closer to our customers. You see that reflected customer satisfaction ratings, which are up. You see actually our employee engagement up. So you basically see a whole bunch of metrics that actually show that these organizational changes have made the company better, rather than top down cost measures, which actually means costs come back in when volumes come back in. So it's very much the opposite. We think we've substantially improved operating leverage of the company. We lowered the cost base by 168 million. And if and when volumes return in a big way, we don't have to add back costs. We will see substantial leverage and an improvement actually in our EBITDA margins.

Bill Collins, CFO

And actually, if I can jump in on that one, one of the things to note, and I guess to piggyback on what Conrad said with regard to the types of activities we're doing, I mean, what we did in early 2023 was very much focused on what we call this new operating model.

I mean, it's really fundamentally changing the way the company functions and operates. As we start to look forward now to the programs that we will embark on for '25, '26, and '27, these are much more targeted to the performance of specific businesses, specific segments that we have in the company, as well as doing things smarter across the company. We've had shared services, for example, in the company for quite a long time, but how do we better leverage that? How do we take advantage of kind of a one Clariant view on processes to really get smarter and better? And let's not forget the fact that we do continue to invest in the company. I mean, as you well know, we're spending regularly 200 million, 225 million in CAPEX to not only maintain the excellent assets that we have, but also to build out new capabilities. And it's also important to note that in all of the cost savings that we've seen over the past few years, we've not touched R&D. We've not done anything to diminish our ability to keep feeding that innovation pipeline, and we've continued to invest in commercial efficiency across the businesses. So, what we're doing, I think, is the smart way to do it, but we're not doing anything that would negatively impact our ability to grow or innovate.

Matthew Yates
Thank you very much both.

Bill Collins, CFO
You're welcome.

Operator
The next question comes from James Hooper from Bernstein. Please go ahead.

James Hooper
Hi, everybody. Thanks for taking my questions. I have 2, please. The first one, I mean, do you think there was any element of demand pull forward in your Q4 recovery? I mean, for example, if we look at A&A, Adsorbents America kind of substantially outperformed EMEA and Asia, and Care Chem also saw North America doing better. And so, I was just wondering what, you know, order book visibility is in those 2 divisions, for example.

And then my second is about the long-term growth rates that we saw in the Capital Markets Day in Catalysis. Have there's been any change in what you see, for example, with some of the new rules, I mean, you're a leader in hydrogen, for example.

And obviously, any hydrogen project in the States supported by renewable power is now, you know, is much less economic when you gave the Capital Markets Day presentation in November? So, it'd be great to get some thoughts around that as well, please?

Conrad Keijzer, CEO

Yes, James. So, if you first look at your first question on demand pull forward in Q4 orders, maybe moving into Q4 from Q1 for A&A. Well, it's actually... what we see in A&A is indeed a strong pickup in the Adsorbents business in North America. This is a very specific segment. This is actually for renewable diesel, biodiesel purification through our Adsorbents. This is the Attapulgite products, which we... it's a business we acquired from BASF. And it is also for purification of sustainable aviation fuel. That is a strong pickup that we see. It is related to the fact that we started up the new Quincy plant. So, we were actually importing into the US quite some Adsorbents for this business. And now we installed activation capacity at our Quincy site. We were actually running flat out in terms of capacity in the past, when we were bringing in these materials from Mexico. Now we will bring them in locally from Quincy site and you will see a continued strong momentum for that business in the year ahead. So, certainly no pulling forward of orders there.

Your second question on sort of, is the long-term growth potential for Catalysts still intact? If you look at the recent developments in the area of sustainability, I think what you see in sustainability high level is that as a priority, this is obviously as important as it ever was if you look at climate change. But you also see a change in the political spectrum right now and landscape. So, you see less regulation, you will see most likely less subsidies, you will see most likely less mandates. So, what you will see is actually the business case for sustainability becomes more important than it's ever been.

For Clariant, your specific question on the green hydrogen transition. I think it's important to remember that we play a role with our Syngas technology where we convert green hydrogen into green ammonia or for instance into green methanol. Now, for us, we have seen a cancellation by a number of green hydrogen projects, but it's important to know that we equally benefit from a conversion to blue hydrogen. So, as a reminder, blue hydrogen based on fossil feedstock, but actually capturing the CO2, which has much better economics and under the new loosening legislation, also for blue hydrogen, you will actually get carbon credits under the ETS schedule.

So, for us, the fact that there are cancellations of green hydrogen plants doesn't impact the long-term potential for... or mid-term potential, I should say, for Catalysts. We are the leaders in the conversion from hydrogen into methanol, into ammonia. It's that conversion from gas to liquids that is going to take place regardless of whether you deal with green or blue hydrogen.

James Hooper
Thank you very much.

Conrad Keijzer, CEO
Thank you.

Operator
The last question comes from Sebastian Bray from Berenberg. Please go ahead.

Sebastian Bray
Hello. Good afternoon and thank you for taking my questions. I've got 2, please. The first is on the tax rate guidance. You do always work on cost savings and then the tax man takes your money. You've got 29% guided for '25. There is not that much net income growth implied if that is the rate. What is going on here, and what will the rate normalize to in your view?

And the second question is on litigation, both ethylene and PFAS. I appreciate that you don't really want to be drawn on the specifics here, but are there any dates that investors should bear in mind for tracking either of these that are currently set, or is it more open-ended? Thank you.

Conrad Keijzer, CEO
Yes. So, I'll let Bill comment on the cost savings. In terms of litigation, yes we can be relatively brief because this is clearly a multi-year and long-term horizon before there's any developments here. But what I think is very important to say on the ethylene litigation is that Clariant has strong and substantiated economic evidence that the conduct of the parties here, the 4 companies here that were involved, did not produce any effect that you

can measure on the ethylene prices in the market. So, we are actually fighting these claims and we feel we have a very strong legal position here to do so. Bill, for you.

Bill Collins, CFO

Yes, let me comment on the tax rate. And I'll admit, Sebastian, I didn't hear I think the second part of your question related to cost savings. But with regard to the tax rate, the tax rate is a little higher anticipated for this year than what we saw in 2024. And that's simply a function of that mix, really. It's where we're generating income around the world. So, there's nothing specific going on there, no real changes in provisions or anything unexpected. It's just simply a mix issue with regard to where we're generating profits around the world. So, can I ask you to repeat again what your question was with regard to cost savings?

Sebastian Bray

I was just saying you're doing all this work and then a tax man is taking the benefits off your hands. But what would you expect the tax rate to normalize through?

Bill Collins, CFO

Well, that's a tough one, because everybody has their hand out, as you quite rightly pointed out. But I think probably a 25ish number is probably the right one to think through.

Sebastian Bray

That's helpful. Thank you.

Bill Collins, CFO

Thanks.

Operator

We have another registration from Walter Bamert from Zürcher Kantonalbank. Please go ahead.

Walter Bamert

Thank you. Within Catalysts, you show for the individual sub-segments, very diverging sales development. Can you explain if there is a bigger trend behind that, and if that has an impact on your profitability due to the mix?

Conrad Keijzer, CEO

Yes, Walter, this is not uncommon for this business. So, what you see is we have fairly large individual order sizes. So that can be literally for one single order, a 20 million or 30 million price tag. So, what you see is actually these swings between the segments are certainly not uncommon. And even within a segment from quarter-to-quarter, you see quite some deviations. So... no there's not an underlying sort of big sort of derailing factor if you look at one segment versus the other.

Walter Bamert

And also, from a mix point of view, this is not really having an impact on your divisional profitability?

Conrad Keijzer, CEO

Yes, mix will have an impact on profitability. I think we have also made some statements on that. If you look at propylene or ethylene or syngas, they clearly are more accretive to margins than, for instance, the specialty segments. And it is part of our strategy to reposition constantly towards the more profitable segments. An example is automotive. This was an exposure which we had a few years back with zeolite catalyst, and we've really reduced our exposure. That's actually a small segment now in specialties. So, there are mix effects and we are very conscious of them and we're using it to drive up margins by having a differentiated growth strategy.

Walter Bamert

Thank you.

Conrad Keijzer, CEO

Thank you.

Operator

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

Konstantin Wiechert

Yes. Hi, gentlemen. Thank you for taking my question as well. One remaining on Lucas Meyer Cosmetics.

When I look at the modeling guidance that you've given on Page 16, I think, 20 million to 25 million sales and 8 million to 10 million EBITDA impact expected. I'm a bit confused by this because 2 elements, I think. One is, I think you had this inventory effect in the second and third quarter of last year that was holding back the Lucas Meyer profit contribution. So, I would have expected rather a contribution in the maybe 20 million range. And then also on 20 million to 25 million sales impact, how is that really working out with the anticipated growth rates that we should have also expected for last year already. So, I would have assumed that the company by now is already around 110 million or 112 million in revenues?

Conrad Keijzer, CEO

Yes. Okay, Konstantin, thank you for the question. Yes, Bill will comment a bit more on high level, obviously, on EBITDA impact and inventory valuations that we had last year and how that sort of flows in with full year inclusion this year versus 3 quarters last year. In terms of growth, we are actually very pleased with the performance. So, the business is actually delivering high-single-digit growth. Keep in mind, we want to see double-digit growth here... a solid-double-digit growth, but that is building on synergy and we're working ourselves now through approvals of... in new formulations and that all looks actually very good.

What you see in the sector in general is that the luxury brands in cosmetics are seeing some headwinds, primarily related to lower consumer confidence in China. But what we see is we have a very strong penetration through Lucas Meyer with the independent brands, which basically goes through influencers on social media. And that actually business is up very strong, double-digit, for us. So we're still very confident about the revenue projections moving forward. Yes. And also, the start of '25 actually has been very good for Lucas Meyer if you look on a year-on-year comp.

Bill, perhaps you can provide some color on the EBITDA?

Bill Collins, CFO

Yes. Let me let me jump in. So, I think the first thing to point out is I think the 100 million... the 110 million that you were throwing out, that's a US dollar number. And what we're talking about here are Swiss francs. What we expect then for Q1 is, basically very much in line with our previous expectations, sales of between 20 million and 25 million and roughly a 40% EBITDA margin impact from that. You're exactly right that in Q2 and Q3, we did see

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that IFRS inventory step up related to the acquisition, but as we've said, yes, 5 million in each quarter. And by December though, the fourth quarter, that was completely burned off. So, no issue on that from a going forward perspective. So we will have the positive scope effect from Lucas Meyer in Q1 in the amounts that we would expect based on what we had communicated last year. And then we expect to see the business continue to grow in accordance with the acquisition Business Plan and the data that we've communicated previously.

Konstantin Wiechert
Perfect. I think so from my understanding, just to conclude, the 8 million to 10 million EBITDA impact is just what you say, the un-organic, but then we should still expect about 5 million or 5 million to 6 million more for the Q2, Q3 each?

Bill Collins, CFO
Correct. In a year-over-year comp, Q2 and Q3 will be better simply because we don't have that inventory step up in 2025 that we had in 2024.

Konstantin Wiechert
Perfect. Thanks.

Andreas Schwarzwälder, IR
So, ladies and gentlemen, this is Andreas speaking. This concludes today's conference call. A transcript of the call will be available on the Clariant website in due course. The Investor Relations teams are available for any further questions you may have. Once again, thank you for joining the call, and have a good afternoon.