Q&A Regular Transcription

Fourth Quarter / Full Year Results 2022

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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 Fourth Quarter/Full Year 2022 Results Conference Call. 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:

Thank you Sandra and ladies and gentlemen, good afternoon. My name is Andreas Schwarzwälder and it's my pleasure to welcome you to Clariant's Fourth Quarter/Full Year 2022 Results Conference Call and Live Webcast.

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 fourth quarter developments followed by Bill who will guide us through the Group's financials and provide some brief Business Area comments. Conrad will then conclude with a few comments on Clariant's sustainability transformation commitment and the outlook for 2023.

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 on the Clariant website.

As a final housekeeping comment, please note that all figures discussed today refer to **continuing operations** unless specifically noted otherwise.

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

Conrad Keijzer, CEO

Thank you, Andreas.

Good afternoon everyone, and welcome to our Fourth Quarter/Full Year 2022 Results analyst conference call.

As we see on slide **4**, in the fourth quarter of 2022, Clariant delivered continued **strong sales growth** of 12% in local currency compared to the fourth quarter of 2021. This was driven by a 13% price increase versus the fourth quarter of 2021. We saw strong pricing contributions in Care Chemicals and in all Natural Resources Business Units, especially Functional Minerals and Oil and Mining Services.

The consistently higher prices over the last 8 quarters reflect our now well-established ability to more than offset higher raw material, logistics, and energy costs.

In the quarter, sales volumes decreased by 1%. Volume declines in Care Chemicals and the Additives business in Natural Resources were partially offset by growth in Catalysis and Functional Minerals.

Despite the challenging macro environment, Clariant achieved 12% local currency growth, continuing to outgrow its markets.

Care Chemicals sales were up by 4% in local currency in the fourth quarter because of a 17% increase in pricing, despite an expected decline in volumes of 13%. Consumer Care sales were up by a mid-teen percentage rate, especially in Crop Solutions and Personal Care.

Our **Catalysis** sales grew 18% in local currency, primarily due to higher volumes in Petrochemicals and Syngas.

Natural Resources sales rose 16% in local currency mainly due to strong pricing across all three Business Units, especially in Oil and Mining Services.

As we can see on slide **5**, in the fourth quarter our **reported EBITDA** decreased by 24% to 154 million Swiss francs, with an **EBITDA margin** of 11.6%. As guided in our third quarter analyst call, our fourth quarter results were impacted by restructuring expenses of 40 million Swiss francs relating to the implementation of our new operating model. Excluding this one-time charge, EBITDA margin was 14.7%, although still below the 16.3% reported in the fourth quarter of 2021, due to a 20 million Swiss francs EBITDA impact from sunliquid® and expected lower volumes in Care Chemicals and Additives.

I am particularly proud that we increased the full year net operating cash flow by 38% to 502 million Swiss francs due to strong underlying earnings and effective net working capital management.

Free cash flow increased to 293 million Swiss francs in 2022 from 6 million Swiss francs in 2021. The free cash flow conversion rate therefore rose to 36% in 2022 from 1% previously. We are making good progress towards our 40% target for 2025, due to strong operating cash flow and disciplined capital expenditures.

We continued to execute our strategic priorities, as reflected on slide **6**, by making several key growth investments, further optimizing our portfolio, concluding the Pigments divestment, and generating significant cost savings with our performance programs.

In addition to our second expansion in the flame retardants plant in China, we recently announced an 80 million Swiss Franc investment at our Daya Bay production plant to increase capacity for both existing and new Care Chemicals products.

This plant will also increase production capacity for Ethylene Oxide Derivatives which are used in personal, home care, and industrial applications.

In the fourth quarter of 2022, we completed the acquisition of BASF's US-based Attapulgite business assets. The resulting increased attapulgite supply strengthens Clariant's leading technology position in growing markets for the purification of edible oils and renewable fuels. It extends also Clariant's North American footprint.

As previously announced in our third quarter results, we agreed to divest our North American Land Oil business to Dorf Ketal. This divestment is a further step in the structural improvement of Clariant's portfolio and sustainability profile. As a result of this transaction, which is expected to close in the first quarter of 2023, we booked a non-cash impairment of 233 million Swiss francs.

In addition, as announced in December 2022, an additional impairment of 220 million Swiss francs was booked for the sunliquid® bioethanol plant, based on the delayed ramp up and current financial performance.

On the first of December, Clariant and SK Capital / Heubach agreed a further 55 million Swiss franc payment to Clariant, due no later than 2029. This represents a discounted value of 38 million Swiss francs and is a settlement of the final purchase price for the Pigments business. This agreement resulted in an increased gain on disposal tax in 2022 of 210 million Swiss francs.

Our performance programs are well on track to deliver the targeted savings of 110 million Swiss francs with 85 million Swiss francs in savings already achieved in 2022. The implementation of our simplified organizational and leadership structure is largely complete. As a next step, we have identified additional cost savings of 50 million Swiss francs, as Bill will touch upon later.

Our Board of Directors will propose an increased distribution of CHF 0.42 per share to the Annual General Meeting on April 4th, reflecting our strong operational performance in 2022.

This distribution would be made through capital reduction by way of par value reduction.

For 2023, we expect to achieve sales of around 5 billion Swiss francs and aim to slightly improve our reported EBITDA margin versus 2022. I will come back on this topic in more detail in the outlook section and now will hand over to Bill for further details on our financial performance.

Bill Collins, CFO

Thank you, Conrad and good afternoon everyone.

On slide **8**, in the fourth quarter of 2022 we increased sales to 1.323 billion Swiss francs, representing 12% growth in local currency. Sales grew solidly in all geographic regions, including China where sales rose by 14% despite an environment burdened by COVID restrictions through much of the quarter. There was a negative 5% currency impact on sales across the Group.

Slide **9** shows our fourth quarter development by Business Area, starting with Care Chemicals.

Care Chemicals sales increased by 4% in local currency, supported by pricing efforts. Sales rose in Consumer Care and declined slightly in Industrial Applications. Customer destocking and significantly lower demand resulted in a decline of 13% in volumes.

Sales increased in Asia, North America, and Latin America while Europe remained stable. The Middle East & Africa reported a single-digit decline.

Consumer Care sales rose by around a mid-teen percentage, with particularly strong growth in Crop Solutions and Personal Care.

Industrial Applications sales declined by around a mid-single-digit percentage due to weaker demand. The Aviation business contributed positively to the Industrial Applications result due to supportive weather and increased air traffic activities compared to the previous year.

Care Chemicals absolute EBITDA decreased by 8% while margin declined by 160 basis points to **19.2%** from 20.8% in 2021. Continued active price management reinforced profitability while raw material prices remained elevated despite easing from peak levels in Q2. Volumes came under pressure with declining industrial demand and customer destocking – which negatively impacted plant utilization and operating leverage.

On slide **10, Catalysis** sales rose by 18% in local currency versus the fourth quarter of 2021. Sales growth in Petrochemicals and Syngas largely offset a relatively weak quarter for Specialty Catalysts.

In Petrochemicals, our new CATOFIN® plant came online in the first half of 2022 and continued running at high-capacity levels.

Sales grew in our largest market, Asia, with North America, Europe, and Latin America also increasing. The Middle East & Africa was weaker due to the project nature of the catalyst business.

Catalysis EBITDA decreased by 22%, with **EBITDA margin falling to 11.6%** as a result of ongoing project cost and higher operational cost for sunliquid®. This impact on EBITDA was in total 20 million Swiss franc in the fourth quarter. Excluding this effect, an 18.1% EBITDA margin demonstrates the continued recovery of the broader catalyst business.

On slide **11**. **Natural Resources** sales increased by 16% in local currency in the fourth quarter due to growth in all regions and in all three Business Units.

Oil and Mining Services sales rose by around a double-digit percentage in the quarter. Oil Services sales improved year-on-year due to strong market demand while Mining Solutions sales increased significantly, supported by successful pricing measures. Refinery sales, which are seasonal in nature, also increased meaningfully.

Functional Minerals sales grew by around a high-teen percentage, with growth in all Business Lines, especially Purification and Cargo & Device Protection. The acquisition of BASF's US Attapulgite business assets added 3% to Functional Minerals' sales growth. Foundry sales increased by around a mid-teen percentage.

Additives maintained its growth trend, particularly in key end markets such as automotive and electronic applications, although at a slower pace than in previous quarters. Pricing remained strong, while volumes declined due to destocking and softer market demand.

EBITDA decreased by 2 percentage points and fell to 15.2% from 17.1%. Pricing measures did not fully offset softer demand and significant customer destocking which resulted in lower production utilization.

On slide **12**, full year 2022 sales increased by 24% in local currency to 5.198 billion Swiss francs. Continuing operations EBITDA increased by 14% despite strong headwinds from the rising cost of raw materials, energy, and logistics. The corresponding EBITDA margin was 15.6%. However, adjusting for the restructuring expenses of 40 million Swiss francs booked in the fourth quarter of 2022, our EBITDA margin reached 16.4% - exceeding the previous year level of 16.2%, as guided with our third quarter results in October 2022.

Our increased EBITDA performance was underpinned by pricing measures that more than fully offset raw material costs which were up 25 % year-on-year, energy costs (up 35 %), and logistics costs (up 6%). In addition, the Group's ongoing cost discipline and the profitability improvements in both Care Chemicals and Natural Resources more than offset the relative weakness in Catalysis, which included a 43 million Swiss francs impact from sunliquid® in 2022.

The 2022 net result from continuing operations was a negative 101 million Swiss francs due to non-cash impairments totaling 462 million Swiss francs which were booked for the North American Land Oil business, the sunliquid® plant in Romania, and the asset impairment in Ukraine.

The return on invested capital decreased by 840 basis points to 1.5% due to the impairments. Excluding these, return on invested capital increased from 9.9% in 2021 to 10.6% in 2022.

At 502 million Swiss francs, operating cash flow was significantly higher than the previous year's level of 363 million Swiss francs due to stronger operating profitability and net working capital optimization.

Capital expenditures were considerably lower in 2022, at 209 million Swiss francs, due primarily to the significant 2021 investments in sunliquid®, as well as phasing of current growth projects and disciplined capital allocation.

Our net debt decreased significantly to 750 million Swiss francs due to divestment proceeds received.

Turning to slide **13** we show our increased cost savings target of 160 million Swiss francs by 2025. We've been making good progress towards our original 110 million Swiss franc cost savings target which was announced at the Capital Markets Day in November 2021. Savings of 85 million Swiss francs have already been realized from efficiency and rightsizing measures as well as initial savings from the new operating model. We expect simplified leadership structures and organizational processes to contribute additional savings of 50 million Swiss francs by 2025.

Restructuring provisions of 40 million Swiss francs relating to the new operating model were booked in the fourth quarter of 2022, with a further 15 to 25 million Swiss francs anticipated in 2023. The restructuring cash impact is primarily expected to occur in 2023 and 2024.

On slide **14** Clariant's high free cash flow conversion rate of 36% in 2022 was supported by strong operating cash flow, more disciplined capital allocation, and lower spending on large projects. Due to project phasing Capex is expected to be approximately 280 million Swiss francs in 2023.

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

Conrad Keijzer, CEO

Thank you, Bill.

On slide **16**, I am proud to provide an update on the impressive progress Clariant has made in improving the Scope 1, 2, and 3 greenhouse gas emissions in 2022.

In the full year 2022, the Group's Scope 1 and 2 total greenhouse gas emissions declined by 13% to 0.62 metric tons from 0.71 metric tons in 2021 despite volume growth of 7%. Examples of the measures which Clariant has taken to generate this reduction include long term power purchase agreements (PPAs) which have been implemented in Indonesia and the US as well as solar panels which we have installed at various locations.

The total indirect greenhouse gas emissions from purchased goods and services (Scope 3) also decreased by 4% to 2.58 metric tons from 2.7 metric tons in 2021. We are well on track to reaching our 2030 target. Implementing reduction opportunities will remain a high strategic focus across the organization.

The success of our "cradle-to-gate" approach to emission reduction and transparency can be seen on slide **17**. The improvements Clariant generated in 2022 were the result of increased energy efficiency measures at operating sites, an accelerated transition to renewables in our operations, as well as a higher share of green electricity purchased. For example, in Bonthapally, India, the replacement of coal with biomass derived from agricultural waste enables annual savings of 10 000 tons of CO_2 emissions.

Clariant has been able to decouple its emissions from its increasing sales and demonstrate significant progress towards the Group's emissions reduction targets.

Clariant marked a milestone in its continuous efforts to increase transparency for customers on greenhouse gas emissions associated with a product throughout its lifecycle. Clariant launched its product carbon footprint tool, 'CliMate', offering customers selective product carbon footprint calculations across its portfolio, in line with ISO standards.

Let me conclude my review with our outlook on slide **19**. Our current expectations are based on a soft recessionary environment in the first half of the year, followed by a recovery in the second half.

For **full year 2023**, we expect sales of around 5 billion Swiss francs. We expect a top line impact of around 130 million Swiss francs from the disposal of the Quats business (expected to close in the first half of 2023) and the North American Oil Land business (which should close in the first quarter of 2023). This reduction will be partly offset by the completed acquisition of BASF's US Attapulgite business.

We aim to slightly improve the reported Group EBITDA margin in the full year 2023 versus the 15.6% generated in 2022. Due to a continued recovery in Catalysts which is expected to offset lower sales volumes in the other Business Units. We anticipate an increased annualized sunliquid® impact counterbalanced by lower restructuring charges given the current economic outlook. Raw material cost is expected to decline by around a mid-single digit percentage while energy cost is anticipated to be up by around a high single digit percentage.

In my view, with our new operating model, innovation strength, and sustainability leadership, Clariant is well positioned to continue to outpace the market and to deliver on the 2023 guidance we have provided today. Our new team is fully committed to meeting our 2025 targets.

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

Andreas Schwarzwälder, IR:

Thank you, Conrad and thank you, Bill.

Ladies and Gentlemen, I'd like to remind you that, starting from the first quarter of 2023, Clariant will begin reporting according to our new operating model in the Business Units Care Chemicals, Catalysts, and Adsorbents & Additives. We've provided you with the pro forma quarterly 2022 sales and EBITDA results for each of these Business Units in the backup section of the analyst presentation for comparison purposes.

Also, before we begin the Q&A session, 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.

QUESTION & ANSWER

Operator

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

Christian Faitz

Yes. Thank you very much. Good afternoon, everybody. Two questions, please. First of all, sunliquid® was an operational drag in Q4, which is obviously not surprising and should have been expected. I know that you and us as the financial community had a long discussion on sunliquid® back in December, yet would you mind sharing your expectations how long sunliquid® is going to be a drag on results from here on? And when would you not only do a book impairment but also operationally say good bye to dirty straw.

And the second question is (unintelligible) and total evidence that the initial expectation of a significant rise in demand in China post COVID are more muted now with demand momentum having gone softer in the recent weeks? Would you share this view? Thank you very much.

Conrad Keijzer

Thank you, Christian, for these 2 questions. First, on sunliquid® and the drag in Q4. Yes, the 20 million negative cash contribution from sunliquid® in Q4 was actually a more significant drag than we had anticipated. In Q3, there was a drag of 15 million. And for the full year, we have now disclosed a negative EBITDA contribution of 43 million from sunliquid®.

If you look at our expectation for this year, please keep in mind that we started up this new plant in June of last year. So, this year, we will actually see a run rate of 12 months versus half a year run rate that was negative indeed last year. We are fully committed to bring down the negative contributions from sunliquid® and to actually deliver a profitable business here in the end. If you look at the current performance, though, in Q1 we are still anticipating a negative run rate in line with what we saw in Q4. And then after that, we expect a sequential improvement in the quarters ahead.

As far as your second question on COVID and China and the recovery in China. Yes, if you first look at the general sentiment in China, last year, you saw a GDP in China of around 3%. And the outlook now, by most people, is for this to increase to around 5% or even better. Now, if you look at our own business, I'd like to mention here that last year, we saw an increase year-on-year in China of 23% in the full year. In Q4, despite the severe COVID lockdowns in China, we still saw in Clariant an increase of 14% year-on-year in our business in China. So, we're clearly significantly outgrowing the overall markets in China, and this is very much due to our new plant coming on stream, the CATOFIN® plant. Looking forward for this year, we again expect very strong growth in China. And this is not only because of the full year run rate we will see in China from the new CATOFIN® plant, but we also will start up a new flame retardants plant in China halfway in the year.

So again, this will be very significant strong growth in China for Clariant. If you... maybe as a final comment on sort of the broader this recovery that people talk about for China, some people even were forecasting a V-shaped recovery, I think we should remind ourselves that China is still very much an export-led economy. So, I don't think that it was ever our view that there will be this V-shaped recovery in China when global markets are actually quite slow right now, as you know.

Christian Faitz

Okay. Thank you very much. Very helpful. Thanks, Conrad.

Conrad Keijzer

Thank you, Christian.

Operator

The next question comes from Markus Mayer from Baader-Helvea. Please go ahead.

Markus Mayer

Yes, good afternoon, Gentlemen. My 2 questions. First one is on the guidance. Do you also plan or have restructuring charges in year 2023 guidance included and if so by how much do they... are they included? And also on the guidance, I'm a little surprised that you don't have more kind of gross margin tailwind in the guidance included last year, the nickel price spike has hurt your margins at Catalyst and also selenium oxide prices have weighted on the first half margins. And as you know both nickel prices but also selenium oxide came back. I'm just wondering why your margin guidance is not more bullish for the full year. That's all.

Conrad Keijzer

Okay, Markus. I will first answer the question on our gross margin guidance. And then Bill, I think can add to that with our guide on restructuring charges in the year ahead. Yes, if you look at the guidance for the year in terms of EBITDA margins, what we said was we expect a slight improvement from prior year's actual reported number, so that means a few decimal points. This is built up as follows. First of all, we guide for lower revenue from roughly 5.2 billion around a 5 billion figure. Most of that is actually explained by the divestments versus the acquisitions, which on balance is a net reduction of 130 million Swiss Francs. But clearly, you see some lower revenue here. If you look at it, then basically, we see a little over a percentage point decline in our organic growth, and this is largely volume-based.

Then if you go down and look at EBITDA margins, what you see is that we are seeing, to your point, a slight easing of raw materials. You correctly point out that there should be better EBITDA margins in Catalyst that is what we're also modelling for. But be aware that we will also see some margin pressure, which you also saw in the fourth quarter in our Care Chemicals business as well as our Additives business.

Then finally, if you look at EBITDA margins, specifically for Catalysts, last year, we had a full year impact of 43 million negative from biofuels. This year unfortunately, that figure will be a bit higher than that because we have a 12-month run rate versus the 6-month run rate that we saw last year. Bill, why don't you give us some insights.

Markus Mayer

Can I... steal another question here? Because this divestment you did on the land oil business I thought this would be also highly margin dilutive. So, there should also from this divestment be a positive product mix effect in the margin as well. So that should at least buffer, to some extent, the negative effect from the sunliquid® costs you have then in this year. So, I'm still struggling to get to this on the slide for the EBITDA margin improvement.

Conrad Keijzer

Yes. Sure, Markus. I'll add to what you just were asking. So, in terms of the divestment, there 2 were pieces of business that we did divest. First of all, our Esterquats business, so quaternary ammonium salts. These are commodity surfactants that we divested to our Wilmar joint venture. And secondly, we divested the North America Oil Land services business to Dorf Ketal.

In terms of the impact on margins, you are correct. These actually were dilutive. If you look at the Esterquats business, it was low double-digit margin EBITDA levels on this business. If you at the oil services business, it was actually low single-digit margins. So, what I was pointing at is the 1%, and it's a bit more than that actually, decline in our organic growth, and therefore, lower operating leverage. That's basically what I was alluding to really lower contribution from sales. Maybe Bill, you can take the restructuring charges.

Bill Collins

Absolutely. Hi, Martin. Thanks for the question. So, right. So, we mentioned that we had 40 million of restructuring charges in Q4 2022 related to the new operating model. We will have some ongoing restructuring in 2023 as we continue to dig into a number of businesses to find areas of further profitability improvement. Tied to the new operating model itself, we're expecting another 15 million to 25 million in ‘23 and '24. But let's not forget the overall savings. We are increasing the savings target from 110 million to 160 million as a result of the program, which we do really believe sets us up very, very well for having the right structure in place to deliver on the 2025 targets.

Markus Mayer

Thank you.

Operator

Your next question comes from Chaudhry Mubasher from Citi. Please go ahead.

Chaudhry Mubasher

Hi, thanks for taking my questions. Just coming back to sunliquid®, I think you've commented that it will be... the negative contribution will be more than 2022. Is there any way of quantifying that? And then just taking a little step back and kind of trying to understand what your internal kind of hurdles or stage gates are before you decide to step away from sunliquid® in totality. So, I'm just trying to understand what needs to happen there? Or what are you waiting for before you get a confirmation that this is not going to work and you want to step away from it. So, some thoughts around that would be helpful.

And then just a comment or a question on the reorganization. Can you just kind of talk about the decision to put together Oil Services and Mining with Personal and Home Care and then kind of as a one division. I think you talked about it from a segmental analysis perspective, but I'm just trying to understand the synergies or even kind of the market drivers within those 2 subdivisions. That would be very helpful. Thank you.

Conrad Keijzer

Yes. Thank you, Chaudhry. First on sunliquid®, a very important question. Clearly, we will not tolerate an ongoing negative cash drain by this business to the extent that we are currently experiencing it, but what I will say is that we have now clarity on what all the various issues are that we need to tackle. As long as we are confident that we actually can tackle these issues, we're obviously not giving up on this. And maybe good to give a bit more insights there, so, there is a certain level of variation in the feedstock. The bioethanol plant in Romania is based on Romanian straw, our pilot plant that we were running already in Straubing is based on German straw, and there are actually differences in terms of sugar content, and therefore, differences in terms of yields, which can be addressed by actually having different enzymes that will convert the sugar into the ethanol. So, we are working on that. We are actually making progress on that.

Then secondly, there are some bottlenecks in the plant and that is more typical also for chemical plants where with the start-up you can run into certain bottlenecks in the plant that do not allow you to run at full capacity or at designed capacity yet. We have clarity on what these bottlenecks are, and we're actually addressing that with the projects. So, we do believe in this technology, there is actually a bigger demand than there ever was for second-generation bioethanol. It used to be obviously a big tool in our fight for climate change. Now actually, there is the additional necessity for Europe for an energy transition away from gas... away from fossil-based fuel. So, there is this enormous, yes, demand and interest in this technology. And like I said, we're not giving up on it yet. But we also have a clear path that we need to address in terms of the various issues that are causing the situation that we currently are experiencing.

Your second question on Oil Services and Mining versus Care Chemicals, it is an interesting situation where actually these used to be separate business units, but Oil Services and Mining always was a commercial segment within the company. So, there was... it was a business unit in by itself, but it got supplied with products from our Care Chemicals business and sometimes there were unproductive discussions on transfer pricing and all these kind of things, that's behind us now. There clearly is a synergy from an operating point of view. But we do run it, to your point, clearly, as a separate segment, so it is not the commercial people that are selling into personal care that are now going to sell in the Oil and Mining segments. This is actually the change that we are implementing. Our business units will no longer be organized around products. They will be organized around customer-facing segments just as our customers see us. So, the history where in the past, you sometimes could have 2 or even 3 sales managers visiting a customer on behalf of Clariant offering 2 or 3 different products, that's no longer going to happen.

Chaudhry Mubasher

Very helpful. Thank you.

Conrad Keijzer

Thank you.

Operator
The next question comes from Nicola Tang from BNP Paribas. Please go ahead.

Nicola Tang
Hi, everyone, thanks for taking the question. Just want to talk about pricing, you had a strong 17% last year. I was wondering how confident you are in holding on to that pricing this year, given your assumptions around raw materials easing and just consider were there any areas where you were implementing surcharges perhaps related to logistics or energy again which might save this year?

And then the second question is on free cash flow. I was wondering if you could talk about some of the moving parts on free cash flow into 2023. After the strong performance in '22, I was wondering whether this 40% mid-term target could be actually in reach for 2023 as... well ahead of time or do you see the working capital relief and the sort of temporary... as a Capex difference as temporary factors? Thank you.

Conrad Keijzer
Bill, why don't you start with the question on free cash flow, and I'll add with some comments on pricing.

Bill Collins
Absolutely. Thanks, Nicola. So yes, we had a really great year in terms of our free cash flow. And I think what I can do is walk you through the thinking of where we'll go into 2023 based on how we ended 2022. Clearly, one of the key benefits in 2022 was our low Capex spend. And as I just mentioned in my comments, we will spend more on Capex in 2023 as a result of certain key projects that were approved that will have significant spend in 2023. So that will obviously have an impact on the free cash flow figure.

However, I will also say that our very strong operating cash flow of 502 million was based on not only strong underlying EBITDA, which we could expect to also have strong underlying EBITDA in 2023, but also from really good work in 2022 with regard to working capital management and also capital allocation. So, I believe our teams did a really outstanding job at the end of last year on managing inventory levels, on cash collections,

and then also on managing our global portfolio of payables. So, I expect the improvements that we made in those processes in 2022 to continue into... to continue into 2023.
So, while we will see some decline in the overall free cash flow as a result of the Capex and also as a result of... some of the cash out related to the restructuring activities, I do really expect the operating cash flow to remain strong. Conrad, on pricing?

Conrad Keijzer
Yes. Thank you, Bill. On pricing, yes, what we saw is, as you see in the numbers, on the 24% growth last year, 17% pricing, 7% volumes. With that, we, in the fourth quarter, concluded 8 quarters of sequential price increases, and we're very pleased with that because those price increases enabled us to actually fully offset the rising cost of raw materials, energy as well as freight and logistics.

To your point, Nicola, about easing of raw material increases, we are indeed seeing that. If you look at the fourth quarter, we saw our raw materials down 0.5 percentage points, so slightly easing. And actually, we saw our energy costs down in the fourth quarter by 9%. So, for us, moving forward, it is very much about holding prices. And then hopefully, we'll see some margin expansion from the easing of... the further easing of raw materials.

You had a specific question on surcharges. We typically try to avoid those because they are not sustainable. So, we very much are working with our commercial teams to have price increases implemented that stick, so no surcharges because typically, if and when freight costs, for example, go down, you lose those surcharges, whereas if you implement pricing increases, you don't.

Now if you look at the outlook for this year, we are expecting by and large, to hold prices. There is one exception, which is in the parts of the businesses that are formula-based. This is the case in our Care Chemicals business and in our Oil and Mining Chemicals business. About a one-third of these contracts are formula-based here. We will have to come down with our pricing. But in the other segments, we actually should see some margin expansion when the raw materials started to ease sequentially in the year.

Nicola Tang
Thanks very much.

Conrad Keijzer

Thank you.

Operator

The next question comes from JB Rolland from Credit Suisse. Please go ahead.

JB Rolland

Good afternoon and thank you for taking my questions. I have 2, please. Just coming back for... with regards to the drag from sunliquid®, I just wanted to check whether in terms of the quantum, I heard your comment about the restructuring between 15 million and 25 million for 2023 and 2024. Did I... did you quantify and/or give any quantitative hint about whether we should essentially for sunliquid® double the drag that you had this year for 2023 since you talked about the 2 months instead of 6.

And my second question is related to the product on sunliquid®. Besides the operational difficulties, my understanding is that there is some also finite life to the biofuel product since a lot of your output, if I understood correctly, was meant to go into internal combustion engines for blends. And these vehicles are going to be basically banned in Europe by 2035. Are you... besides the technical problems and ramp-up problems, are you also looking to reposition the product? Or is that something that you are not looking into at that stage? Thank you.

Conrad Keijzer

Yes, Jean-Baptiste. Thank you for these 2 questions. Again, I'll have Bill comment later on the restructuring charges into next year. I'll take the questions on sunliquid®. So first, your question on the drag where, if I heard you correctly, you were asking, is this going to double from what you saw last year. Well, last year, we saw a drag of 43 million negative EBITDA from sunliquid®. This certainly is not going to double because we are very much committed to lower this negative rate... run rate by quarter. And while in the first quarter, we are not seeing an improvement yet from Q4, in the subsequent quarters, you definitely will see an improvement in the run rate.

Your second question on biofuels was more long-term, where if I understood you correctly, you were questioning the demand... the ongoing demand for biofuels as a coal blend in gasoline for combustion engines. This is correct. This is indeed transitionary. There is no change in the outlook for that. Where we are very bullish is on biofuel as a building block for chemicals. As you can imagine, if you look at ourselves, for example, where we make ethoxylated products for our surfactants, these are based on fossil-based ethylene. We can command a significant price premium if rather than fossil-based ethylene, we formulate these chemicals based on bio ethylene. And the same is the case for other chemicals and for bioplastics, for example.

Another very promising segment where we are way short of capacity right now in terms of a bio-based solution is for sustainable aviation fuel, SAF. Here, again, there is an enormous demand for the bio-based kerosene, so to speak. And here, again, second generation is what airlines have publicly announced is their preferred route because they don't want to apply first-generation bioethanol as it competes with food prices.

Bill, could you once again add some detail on restructuring… expected restructuring charges for next year?

Bill Collins

Absolutely. Thanks, JB. So, with regard to the number that you mentioned for the restructuring of 15 million to 25 million, that is specifically associated with the new operating model and it’s tied to the savings that we're looking for …or that we will achieve as part of our new cost program target of 160 million. So that is to be thought of kind of in one bucket.

With regard to sunliquid® specifically, we are in the process of evaluating those needs for potential restructuring or additional investment based on the results of the deep dives that we're doing on site in Podari right now. So as Conrad mentioned, we've gone through a number of recent trial runs. There are some good data that we're getting from that. We do think that we're reaching a point where we have a good understanding of what the bottlenecks really are, and we'll continue to work through those.

JB Rolland

Thank you very much.

Operator

The next question comes from Udeshi Chetan from JPMorgan. Please go ahead.

Chetan Udeshi

Yes, hi, thanks. I had a few questions. First is, I don't know if this was addressed earlier in the call, but did you give any color on how you think about Q1 in terms of either top line or EBITDA? Especially, I'm looking at EBITDA before exceptional items, just given the movements we see on the restructuring costs, et cetera, how do you see the Q1 EBITDA playing out, especially compared to, say, Q4?

The second question was just going back to the Catalysis discussion on sunliquid®, is it fair to assume that there were already some costs for sunliquid® even in Q4 2021? And what I'm trying to get to is, even if I strip out all the 20 million Swiss impact from sunliquid® from Q4, Catalysis EBITDA, it comes to about 55 million, it's still a fair bit below what you guys used to do pre-COVID in the Catalysis business, which used to be 60 million to even 90 million in Q4. So, I'm just curious, why is the margin and why is the absolute EBITDA still not going back to the historical levels, even ex sunliquid®? What is the underlying problem in this business or has been in the last 2 years? Thank you.

Conrad Keijzer

Sure. Chetan. Thank you for these questions. First, on Q1 and what we're seeing in terms of trading and margins versus the fourth quarter. We very much see a continuation of the trend that we saw in the fourth quarter. As a reminder, in the fourth quarter, we did see a slowdown of our business, but very much focused on Europe. So, looking at the fourth quarter in Europe, we did see a 10% volume decline. All the other regions actually still were positive.

In the first quarter, in terms of the business performance, we see a continuation of some weakness in Care Chemicals. This very much is destocking to a high degree. This destocking, we expect to continue in the first quarter, but this should be finished by the end of the first quarter. And you should even see some inventory restocking in the second quarter. We also see the same on Additives, still some destocking, some weakness.

We see continued strength and recovery in Catalysts, but we might remember that the first quarter is always a rather weak quarter for Catalysts, and that's how it turns out every year, considering the project nature of this business. Now what I will say is if you look at the order book for Catalysts, it's actually strong. It's up 15% from prior year.

In terms of margins, we should keep in mind that there were these 2 items when you look at EBITDA margin in Q4, which were of a significant impact. First of all, the restructuring charge and secondly, the negative contribution from biofuels, so, this time, in Q4, you will not see that negative 40 million restructuring charge, but like I guided earlier on, you will see a negative contribution still from biofuels.

Then your second question was on sunliquid®. And if there were already cost from the plant in the fourth quarter of 2021. I will say that until the start-up of this plant, we actually capitalized a lot of these costs. So, I would say that it is negligible what you saw in the fourth quarter of 2021 in terms of sunliquid® cost.

And finally, on Catalysts, in the fourth quarter, if you take out the negative contributions from sunliquid®, we were above 18% in EBITDA margin. To your point, that is not yet at the historic levels, but we are confident that with further improvements in product mix, which is very much the growth that we see in Petrochemicals for Catalysts that margin is going to sequentially further improve throughout the year.

Chetan Udeshi
Thank you. Can I confirm do you think Q1 EBITDA can be better than Q4?

Conrad Keijzer
Yes, we're not guiding for EBITDA.

Chetan Udeshi
This is before exceptional items.

Conrad Keijzer

Yes, sorry, but we're not guiding for EBITDA by quarter. It's already a very challenging thing right now to come up with the guidance for the year in this very volatile environment. So yes, we haven't guided for an EBITDA number for Q1.

Chetan Udeshi
Okay, understood. Thank you.

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

Andreas Heine
There are 2 questions I'd like to ask most were answered already. I would like to get some more flavor on the trends in the Oil & Mining business. So, oil price came off a little bit, and I'm not sure whether the appetite of investing of your customers has slowed down as well. So can you shed some light how the sequential trend, Q3 to Q4 is and what you see in Q1. And looking on what you have provided as restated numbers and taking out your onshore business, I would get to roughly 700 million in sales and 100 million in EBITDA, bringing the margin to 14%. You have certainly improved that business a lot over the last 12 to 18 months, but still the 14% margin doesn't look that compelling, is there upside? So then, let's say, the 2 questions on Oil & Mining Services.

And then sorry for that, again, one question on sunliquid®. So, you said there are some de-bottlenecking that you have found out and that might lead to additional Capex, just kind of housekeeping question. When you do this additional Capex and you have written off already, maybe just, yeah that you have spent, you're saying that Capex you have to do, is then expensed immediately? Or can you still capitalize this so to understand what we might see then as EBITDA losses going forward from this business? Thank you.

Conrad Keijzer
Thank you, Andreas. Your first question on Oil & Mining and what we're seeing there, it is actually a very positive story. You came out with some, I think, pretty good estimates as far as revenue and margins.

In terms of revenue in Q4, this was actually a double-digit growth for our Mining business and even also double digit, but an even stronger growth for our Oil Services business. This is really a very strong recovery, which we see in our Oil Services business, not just on revenue, but also to your point on EBITDA margins, and we are seeing a continuation of that actually in the first quarter. So, we are actually very pleased with the recovery that we see in this business right now.

Your second question on sunliquid®.

Andreas Heine

Sorry, if I may clarify on these Oil & Mining services. This double-digit growth in mining and in Oil Services, was that meant sequentially from Q3 to Q4 or year-over-year. I just want to understand that the curve of this momentum is slowing down or whether you still see a sequential improvement?

Conrad Keijzer

Sure. No, that was meant to be a year-on-year improvement. Yes, so we did see actually …

Andreas Heine

And how was it sequentially?

Conrad Keijzer

Yes, sequentially, we see it basically slightly up as well, but the double-digit that I mentioned is actually year-on-year.

Andreas Heine

OK.

Conrad Keijzer

Your second question on sunliquid®. Yes, as Bill also mentioned, what we are extremely pleased with is that we have a good visibility now on what the issues are, both in terms of variations in feedstock both in terms of what the requirements are for adaptations of our enzymes, and finally, to your point on Capex that we also indeed have identified some bottlenecks in the plant.

If you look at Capex, no worries, this is not... these are not significant figures. They are not impacting our guidance on Capex for the year, so, no worries there.

And yes, these would be capitalized. They would not be expensed. And yes, it is all part of the improvement actions that we are targeting to basically deliver a profitable business. Bill, if you want to add some further guidance on Capex maybe.

Bill Collins

Yes. Thanks Conrad. Thanks, Andreas. I would say we will obviously keep a close eye on the overall book value that we have in the plant in Podari, obviously, we don't want to get into another situation where we have a need for an impairment. However, any investments that we would do at this point would be specifically tied to improving the output in the yield in the facility and either one of those would then improve the overall business case and the projections going forward.

But to be clear, your point is certainly well taken. It's something that we will watch very carefully as we move forward.

Operator

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

Jaideep Pandya

Thanks. Firstly, on Catalyst actually. I know it's going to be difficult, but could you give us some sense of how big it was CATOFIN® or PDH Catalyst in 2022 and what is the expectation for 2023? And whether the margins in this business is significantly better than the underlying margins in Catalyst?

And the second question is actually on your anchor shareholder, SABIC, just curious what is the latest shareholding they have in the company? And what are your current dialogues with them? I mean they've been a shareholder now for 5 years. The share price is roughly the same where they invested or probably a bit below. So how much pressure are you under to sort of execute a strategy because at the end of the day, they are at least to my perception, a financial shareholder. So any update on that would be great. Thanks.

Conrad Keijzer

Thank you, Jaideep. First, on Catalysts. Yes, your question on margins for CATOFIN®. yes, we need to be careful because this is also obviously some sort of information that our competitors will be interested in. But I don't think it's a secret that this is very accretive to our Catalyst margins. And it is part of our further road map to further EBITDA margin improvement for the Catalyst business,

Secondly, a breakout or a breakdown of how much CATOFIN® sales we have is certainly not something that I'm able to give for competitive reasons. But I could give you maybe some indications just to sort of allow you to model this. When I was talking about China growth, and when I was mentioning the figure that in China, we saw a 23% year-on-year improvement last year, a significant part of that incremental growth in China actually came from the ramp-up of the CATOFIN® plant. And that was only representing 6 months of sales, whereas in the year ahead, we will have 12 months of sales included there for CATOFIN®. That plant is sold out. This has been, by the way, a very successful ramp-up and our people have done, I think, a phenomenal job locally in China to basically start up this new plant amidst COVID lockdowns. And this is really a success story that the entire company is very proud of.

Sorry, the second question on the SABIC. Yes, you were asking for a position of shares that SABIC is holding and any changes here. No news here, no changes. SABIC is holding right now roughly 31.5% of our shares, no change there. Also, no change in Board representation. SABIC has 4 out of the 12 Board members... out of the 11 Board members, sorry, are actually SABIC representatives. Yes, the only change perhaps, which is worthwhile mentioning is that SABIC has been extremely pleased with our performance right now and especially the enormous operating cash flow that we generated, more than... an increase of almost 40% from the prior year, more than 500 million of operational cash flow. As you can imagine, as an anchor shareholder, you're quite pleased to see these numbers being achieved.

Jaideep Pandya
Thank you.

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

Matthew Yates
Good afternoon, gentlemen. A couple of questions. Maybe first one to Bill. I just want to make sure I'm understanding all of the messages that you've been giving on this call, particularly around the implications of the divisional reporting change. So maybe if we use Slide 21, can you perhaps be a bit more explicit what you're implying for each of the division in terms of margins or even better absolute profit in 2023? Because I think you said in response to Markus' question, you're expecting margins in Care Chems and Additives to be down. I just want to understand exactly why, is that the lag in formula pricing coming through, or was that volume-driven?

And then my second question is maybe more directed at Conrad and it's a follow-up on what Mubasher asked earlier about this divisional restatement. When you weigh up the internal merits of moving revenue around the company in terms of the way the business is being run perhaps better, are you sure that more than offsets the punitive perception from investors that they're going to struggle to understand the divisions and we lose the accountability of monitoring track record in performance.

Conrad Keijzer
Why don't I start quickly with your second question that gives Bill a bit more time to also reflect on your first question. We do not take it lightly to change reporting structures. But the reality of it is that we did do a significant simplification of our operating model. We reduced the number of management layers, but we also reduced the number of business units. So, we actually no longer have more than 6 layers of management between myself and some of our frontline operators. That's one thing. But the other thing is we reduced the number of business units from 5 to 3. So, there is obviously clear savings with this associated. And Bill mentioned this before, there was a 50 million Swiss Francs savings associated with this new operating model. So, we can also not ignore those benefits for the

company. But I see your point, and we don't take it likely to change the reporting structures. Maybe Bill, you could add then more on the first question.

Bill Collins

Yes, happy to. Thanks, Conrad. Thank you, Matt. So, if I go to Slide 21, as you first mentioned, what we're trying to do here is show you for 2022, what the old reporting format looks like and what the new reporting format looks like. We're not giving any guidance here by specific business. The easiest way to think of this is that we're effectively moving Oil and Mining Services out of Natural Resources and moving it up into Care Chemicals.

The Catalysis Business Area still stays roughly the same. We're basically combining Functional Minerals and Additives into Absorbents & Additives organization. So that's all we're trying to do here. Just trying to give you a pre-reorganization view versus a post-reorganization view and not necessarily trying to give you any kind of indication with regard to 2023. I will say building on a few of the things that Conrad mentioned. Part of the change in the new operating model really gives us much more visibility and much greater accountability at the segment level.

We've seen this in other environments where we can have a discussion with the individual businesses around what's happening in a segment globally with key customers, what are the manufacturing challenges, what are the competitive challenges that actually gives us much greater insight into what's happening there, and it allows us to push much greater accountability on to those business leaders. And when we combine that focus with the EBITDA margin by segment, it really gives us the tools to be able to drive improved profitability in the organization as we drive towards the 2025 targets that we have. So I can appreciate that the change might be somewhat confusing, but I think it is absolutely essential as we kind of reformat the operating structure of the company for growth going forward.

Matthew Yates

And Bill, sorry, I apologize, if this is me, it's been a lot of results today. So, when you say Care Chemicals margins likely down next year, is that relative to the 22% as reported or the pro forma 19.5%. What's the starting point for that statement?

Bill Collins

Starting point for the statement, I believe, is that we do expect a marginal volume decline in Care Chemicals next year. We should see some benefit come through from the slight decline in raw materials, Conrad had already mentioned that earlier. So, as we really fight to hold our pricing stable, we should see some benefit, but it really is on the pro forma base.

Matthew Yates

Okay. Thanks for the clarification.

Operator

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

Alex Stewart

Hi. I'll be really quick because I know we've had a lot of questions already. You talked about destocking being a major feature of Q4 and Q1, every other chemical company has said the same thing. But when you sit in your office or the Board room, how do you differentiate between destocking and real demand. I'm interested if you could just give us 20 seconds, maybe on how come... how you know that it's really destocking, it would be very interesting. Thank you.

Conrad Keijzer

Thank you for this important question. First of all, this is obviously not an exact science, but this is very much based on customer feedback, and that's what very much is leading us to this. Maybe a bit more color to your question. So, if you look at what happened in the fourth quarter last year, the slowdown in volumes, and particularly, I mentioned the 13% slowdown in Care Chemicals volume, roughly half of that is based on destocking. And this is based on feedback from large home care companies, large personal care companies. And what they're basically telling us is the following. They are seeing also at their end, the beginning of deflation in raw materials which actually leads them to the strategy that they don't want to... they didn't want to finish the year sitting on high inventories. And that is still actually a level of destocking that they're doing in the first quarter.

Secondly, there were only a year ago, serious shortages, and that affected actually also particularly Care Chemicals customers, but in our case, also our Additives business, flame retardants where we were short on the yellow phosphorus.

So the second reason why customers are destocking is that there were serious supply constraints only a year ago. And they were sitting on unusual high inventory levels, which also reflected levels of safety stock, which are no longer needed when these constraints, supply chain constraints are removed. There is plenty of supply of raw materials right now. And finally, regarding destocking and this is more a topic for industrial markets. There is a noticeable slowdown in Europe. There is a level of slowdown in the U.S. And certainly, on the industrial side of the business with our customers having more negative sales outlooks themselves, they also are adjusting inventory levels down accordingly.

Now, destocking was a serious element in the fourth quarter. It is still a serious element in the first quarter. But as I said before, the inventory levels are coming down. We also see it, by the way, with our own inventory levels. And there will be a certain level of destocking actually... sorry, restocking, I should say, starting in the second quarter, and then we should see a sequential improvement here.

Alex Stewart
Thank you very much.

Conrad Keijzer
Thank you, Alex.

Operator
The last question for today's call comes from Giorgina Fraser from GS. Please go ahead.

Georgina Fraser
Hi, thank you and also a quick question. Thank you for taking it so late. Your 2025 targets that you've reconfirmed obviously not that far away. Just wanted to understand what you think the major driver to lifting EBITDA margins to 19% to 21% will be? Do you still have a lot of internal work to do? Or is it more there's just a particularly strained external environment at the moment that could reverse quite quickly? Thanks.

Conrad Keijzer

Yes. Georgina, thank you for this very important question about our 2025 targets. We are confident that we will deliver our 2025 targets.

Maybe a bit more specific, starting with revenue, we guided for a 4% to 6% CAGR and with the revenue projection of this year around 5 billion Swiss Francs, we are actually well ahead of the targets that we communicated in November 2021. Now, an important comment to make here is that if you look at our growth last year, it wasn't only based on pricing. So out of the 24% growth last year, 7% was actually volume growth, and this is clearly outgrowing our end markets. And that was exactly the target that we were setting back in 2021 in November, we want to outgrow our underlying markets.

Now if you then look at our second target of EBITDA margins, the lift, the improvement to a range of 19% to 21%, let's remind ourselves, we had our Capital Markets Day before the war in Ukraine. This was before several rounds of inflation, and this was before a serious slowdown in the major economies and in particular, in Europe. I will say that we have adjusted our plans accordingly to achieve the targets. At the time, we said the increase in EBITDA margins, two-thirds will come from growth, one-third will come from cost.

As you have seen, we are stepping up the actions on cost. With the new operating model, we deliver an additional saving of 50 million, which will help us actually to build the bridge towards the 2025 EBITDA margin targets. I think what is also good is M&A, where you actually have seen the addition of the Attapulgite business from BASF. Again, that will be margin accretive and it will also actually help with revenues.

Finally, on cash conversion, we had a target of 40% cash conversion, free cash flow from our EBITDA here with our achievement of 36% last year. I think we're well on track to also see here us delivering the 40% cash conversion that we committed to be achieved by 2025.

Bill Collins

Conrad, if you don't mind, I can jump in on just a couple of additional points and hi, Georgina. Not to be the salesperson for the new operating model, but I do believe that this is one of the fundamental measures that will help us get where we need to be in 2025 because it's not just a cost gain. So yes, we take layers out of the organization. We strategically prune our functional costs across the organization. But what we're really looking at too through the implementation of the segmentation in each of the business units is to really drive in and understand what does our cost to serve look like in key markets? What is our profitability by customer? What are those levers that we have?

And we're already starting to see some really interesting discussions involved around the granularity how we make money in some of these specific businesses, which is a level of transparency and visibility, we didn't necessarily have before the implementation of the new operating model. So I will say again, not to beat the drum even more, but I do think this is one of the fundamental levers because it gives us all that transparency and the accountability within the organization to make sure we hit those targets. Thank you.

Giorgina Fraser
Great. Thank you, both.

Conrad Keijzer
Thank you, Giorgina.

Andreas Schwarzwälder
Thank you. This is Andreas speaking again. Ladies and Gentlemen, this concludes then today's conference call. The Investor Relations team obviously is available for any further questions you might have. Once again, thank you for joining our call today, and goodbye.