CLARIANT

Q&A Regular Transcription

Second Quarter / First Half Year Results 2023

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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 Second Quarter / Half Year 2023 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:

Ladies and Gentlemen, good afternoon. My name is Andreas Schwarzwälder and it's my pleasure to welcome you to Clariant's Second Quarter / Half Year 2023 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 an overview of the second quarter developments and a few comments on Clariant's sustainability transformation commitment followed by Bill who will guide us through the Group's financials and provide some brief Business Unit specific comments. Conrad will then conclude with the outlook for the full year 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 in the Investor section of the Clariant website.

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

Conrad Keijzer, CEO

Thank you, Andreas.

Good afternoon everyone, and welcome to our Second Quarter / Half Year 2023 analyst conference call.

Slide 4, provides an overview of Clariant's results. In the second quarter of 2023 we generated sales of nearly 1.1 billion Swiss francs, a 7% decrease in local currency versus the second quarter of 2022. Although these figures reflect a strong performance in our Catalysts Business Unit, the challenging macroeconomic environment significantly impacted sales and profitability development in our other two business units, Care Chemicals and Adsorbents & Additives.

This resulted in EBITDA of 175 million Swiss francs, reflecting a 19% decline versus the second quarter 2022 and resulting in a 16.1% EBITDA margin.

Economic conditions have worsened in many geographies, and this has led to lowered expectations and revised forecasts for the remainder of 2023.

The European Chemical Industry Council (Cefic) expects the EU 27 chemical output to decline by 8% in 2023 due to weakened industry confidence, order book deterioration, and inventory levels assessed as being too large.

Meanwhile China, the largest chemical market, did not recover as anticipated at the beginning of the year, and the Chinese economy lost further momentum in Q2 2023 with GDP only expanding 0.8 % sequentially. This was primarily driven by domestic retail sales and services post COVID restrictions while the industrial manufacturing PMI remains below 50.

Whilst the US economy has held up reasonably well, the global weakness and continued monetary tightening are having an impact. Consequently, the American Chemistry Council (ACC) outlook shows slowing in production after a 2.8% decline in chemical production in June 2023. The production decline in Base & Specialty Chemicals was even more pronounced at minus 5.8%, creating a challenging business environment.

Given this economic outlook and weaker current trading, we took further actions in all Business Units to align our cost base to a lower volume environment, as we will outline later.

Given this context, I am pleased with the Group's strong operating cash flow generation of 78 million Swiss francs in the first half, which is almost 100 million Swiss francs more than reported in the previous year. This was achieved by maintaining our focus on cash flow optimization through active working capital management and increased capex discipline. The resulting last twelve months free cash flow conversion rate of 56% reflects the success of our efforts.

Slide 5 depicts the sales performance of the second quarter, which amounted to almost 1.1 billion Swiss francs, a 7% decrease in local currency. Volumes decreased by 5% in the second quarter, despite a 25% volume increase in the Catalysts business which was driven by the successful execution of our strong order book. Volumes decreased in Care Chemicals and Adsorbents & Additives due to very weak demand, particularly in key end markets such as Personal Care as well as Crop and Electrical & Electronics applications.

According to Euromonitor, the retail volume forecast for Personal Care in 2023 was reduced from 2.6% growth to 1.6% growth in the second quarter.

Meanwhile Crop Solutions is facing an over-filled supply chain in a still robust environment for farmers, which is driving global channel destocking and negatively impacting the demand for our products.

Destocking also continued in the Electrical & Electronics sector because of easing supply shortages and weak consumer demand. We are observing changed behavior in consumer spending. During the pandemic, consumers spent disproportionately on durable goods such as furniture, electronic devices, and appliances. This spending pattern has changed significantly since the end of the strict lock-down policies, in particular in China at the beginning of the year. Individuals now spend more on travel and services despite the inflationary environment. As a result, demand in the chemical sector remains low.

These developments are underpinned by the following data. International Data Corporation (IDC) forecasted an 11% year-on-year decline in global shipment volumes of Smartphones in Q2 2023. In addition, although the underlying growth trend remains valid, the e-mobility market started slowly into the year, particularly in China. This led to reduced growth expectations for EV production in 2023.

Despite this environment, and after 9 consecutive quarters with notable year-on-year price increases, we reported flat pricing year-on-year. Both Catalysts and Adsorbents & Additives increased prices by 5% and by 2% respectively. Care Chemicals pricing declined by 2%, driven primarily by formula-based pricing. This overall performance reflects Clariant's continued focus on defending pricing in a challenging environment, where raw material costs were down around 12% year-on-year, whilst energy and logistics costs both fell 2%. To put the stable prices in Q2 2023 into perspective, it is important to note that prices had increased by 19% in Q2 2022.

The net effect from the recently integrated US-based Attapulgite business assets in Adsorbents & Additives and the divestment of both the North American Land Oil and Quats businesses in Care Chemicals totaled 29 million, which had a -2% impact on the Group's sales in the second quarter.

The currency impact on revenue of -10% was mainly due to the appreciation of the Swiss franc relative to the Euro and other currencies. This resulted in 17% lower second quarter sales in Swiss francs.

Slide 6 provides an overview of our sales by geography. In the second quarter, sales in the Americas were down by 11%, with around half of this decrease attributed to the divestment of the North American Land Oil business. While volumes in Care Chemicals decreased, Adsorbents & Additives grew, in part due to the integration of the US Attapulgite business.

Local currency sales were down 10% in the Europe, Middle East & Africa region. Care Chemicals and Adsorbents & Additives sales weakened, while Catalysts was strong in the Middle East due to CATOFIN® projects.

Sales in Asia-Pacific were stable, despite an 8 % decline in China, which was compensated by stronger sales in India and South-East Asia driven by Catalysts projects. In China significantly weaker Adsorbents & Additives demand and a decline in Catalysts were not compensated by slightly higher Care Chemicals sales.

Moving to the profitability development on *slide 7*, we see that second quarter 2023 EBITDA was 175 million Swiss francs, representing a 16.1% EBITDA margin, while absolute EBITDA declined by 19%.

Lower volumes and business mix in the Business Units Care Chemicals and Adsorbents & Additives negatively impacted profitability, partially compensated by higher volumes and prices in Catalysts and positive pricing in Adsorbents and Additives.

In Care Chemicals, the positive impact of the 62 million Swiss francs gain from the Quats disposal was offset by lower operating leverage, inventory devaluation, and 6 million Swiss francs restructuring cost.

The strong volume increase and positive pricing in Catalysts was partly offset by a -17 million Swiss francs impact from sunliquid®, of which 7 million were restructuring charges.

While price increases had a positive impact in Adsorbents & Additives, EBITDA was negatively impacted by lower operating leverage in Additives, inventory devaluation, restructuring charges of 7 million Swiss francs and a less favorable business mix due to the sales growth in Adsorbents.

We continued to deliver on our strategic priorities, as reflected on *slide 8*. Our sunliquid® task force is delivering continued improvements in Podari. The negative impact was further reduced to minus 10 million Swiss francs operational EBITDA impact in the second quarter 2023.

Efforts to address the ramp up challenges in Podari, Romania are continuing as our dedicated team continues to work hard on these issues. Restructuring charges of 7 million Swiss francs were taken in the quarter to bring the cost structure in line with the lower operating level. Clariant is actively evaluating strategic options for sunliquid and will provide an update on this topic by the end of 2023.

We have further expanded our performance programs by implementing new and additional actions in all Business Units to align our cost base to a lower volume environment. These measures have enabled us to increase our 2025 targeted savings by 10 million Swiss francs to a new, improved goal of 170 million Swiss francs.

As of the end of Q2 2023 we have delivered total savings of 107 million Swiss francs from our performance programs across the company. The cost savings realized in the second quarter were approximately 14 million Swiss francs which more than offset inflationary impacts, including on salaries, for example.

In the quarter, we completed the divestment of our Quats business to Global Amines Company, a 50/50 joint venture owned by Clariant and Wilmar, Asia's leading agricultural business and oleochemicals business. This is a further step on our path to structurally improve Clariant's leading specialty chemical portfolio.

The preliminary gain on disposal of the Quats business is 62 million Swiss francs.

On *slide 9* we provide an update on the continued progress Clariant has made in improving its Scope 1, 2, and 3 upstream greenhouse gas emissions in the second quarter.

In the twelve months to June 2023, the Group's Scope 1 and 2 total greenhouse gas emissions declined by 8%, partly due to lower production volumes. The total reduction from the 2019 base line is now 17%.

An example of our reduction measures include decreasing the use of coal by 50% thus far in 2023 versus the baseline year of 2019.

The total indirect Scope 3 emissions decreased by 11%. With a total reduction from the 2019 base line of 15%.

On *slide 10*, are some examples of additional ESG milestones achieved in the quarter.

Green ammonia plays a critical role in achieving a net zero carbon economy. It reduces the carbon footprint for fertilizer production, and it can be used as carbon neutral fuel for the shipping industry. Additionally, it provides a way to transport green hydrogen from renewable energy rich regions to those lacking sufficient renewable energy sources.

Our AmoMax™-Casale catalyst sets new efficiency standards for ammonia production.

It has shown exceptional activity, stability, and energy efficiency in its first three commercial applications for Nutrien, Mosaic, and Yara Sluiskil. AmoMax™-Casale has been the catalyst of choice for climate-neutral ammonia production in green ammonia projects. The high-performance catalyst also reduces CO2 emissions by lowering energy consumption in traditional ammonia plants.

Clariant's focus on a sustainable bioeconomy is also reflected in the plastics-free Desi Pak® ECO moisture adsorbing packets which we have added to our range of natural clay solutions that help manufacturers and distributors protect sealed packaged goods from moisture damage. To further help customers reduce their own Scope 3 emissions, the sourcing of raw materials has been extended with a lower environmental impact to include transport packaging.

In addition, Clariant Oil Services launched PHASETREAT™ WET to offer more efficient, more sustainable solutions for the oil and gas industries demulsification needs and to enhance safe operations. PHASETREAT™ WET reduces chemical volume by up to 75% compared to current solutions and it optimizes customers' onshore and offshore programs.

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

Bill Collins, CFO

Thank you, Conrad and good afternoon everyone.

I would like to discuss our second quarter development by Business Unit, starting with Care Chemicals on *slide 12*.

Care Chemicals sales decreased by 17% in local currency, as prices declined by 2% due to formula-based price adjustments linked to raw material prices. Volumes declined by 10% as a result of weak demand and prolonged destocking, versus a high comparison base. Sales decreased by 5% due to the disposals of the North American Land Oil and Quats businesses.

Sales rose significantly in Oil Services while they declined in a mid-teen range in Personal & Home Care. The decreases in Crop Solutions and Industrial Applications were more pronounced.

From a regional perspective, sales grew in Asia-Pacific but declined elsewhere.

Care Chemicals EBITDA decreased by 6% while margin increased to 24.5% from a high 19.2% in the second quarter of 2022. The margin was supported by a 62 million Swiss francs gain from the Quats disposal. Underlying profitability levels were impacted by notably reduced volumes, which resulted in lower operating leverage. Also, inventory devaluation and additional 6 million Swiss francs restructuring charges in the second quarter of 2023 weighed on the EBITDA.

On *slide 13*, Catalysts sales registered a very strong increase of 30% in local currency versus the second quarter of 2022. Both volumes and pricing positively impacted the sales growth by 25% and 5%, respectively. Sales in Propylene increased more than 50%, followed by Syngas & Fuels and Ethylene.

Sales in Asia-Pacific, the largest geographic market, grew at a mid-teen percentage rate driven by the new CATOFIN® catalyst production site in Jiaxing, China. Project timing effects drove sales growth in the Europe, Middle East & Africa region.

In the second quarter, the Catalysts EBITDA margin increased to 15.2% from 5.6%. Excluding the 17 million Swiss francs negative sunliquid® impact (of which 7 million was for bioethanol restructuring) the EBITDA margin was 21.3%. Pricing as well as the business mix had a favorable impact on profitability while the operating leverage improved because of strong volume growth.

On sunliquid®, as mentioned by Conrad, the EBITDA impact excluding restructuring charges further improved to -10 million Swiss francs compared to -13 million Swiss francs in the first quarter of 2023. The Clariant team has continued its efforts to address the mechanical, bio-chemical, and operational challenges involved in the ramp-up of this first-of-a-kind technology.

On *slide 14*, Adsorbents & Additives sales decreased by 12% in local currency in the second quarter. A 2% price increase was countered by 17% lower volumes as the prolonged destocking cycle and very weak demand in key end markets continued in the Additives business against a very strong comparison base in the second quarter of 2022.

Sales increased by 3% due to the recently acquired US Attapulgite business. The positive trend in Adsorbents persisted across the globe with higher sales at a lower-double-digit percentage rate, driven by foundry and purification applications.

From a regional perspective, sales in the Europe, Middle East & Africa region, were down by a low-double-digit percentage rate. Asia-Pacific reflected a weaker development, with a significant decline in China. In the Americas, sales grew slightly, particularly in the US, given the impact of the acquisition of the Attapulgite business assets.

EBITDA decreased by 77% and margin fell to 6.8% from 24.0% in the second quarter of 2022. Profitability levels were impacted by substantially lower volumes and continued customer destocking in Additives in particular, which resulted in lower operating leverage. Restructuring charges totaled 7 million Swiss francs whilst the strong Adsorbents performance led to a less favorable business mix. In the same period of the previous year, raw material price volatility caused a positive inventory revaluation, which, together with the strong operational performance in 2022, resulted in an elevated level of profitability. In the second quarter of 2023, the inventory devaluation was negative.

Slide 15 shows, as Conrad mentioned earlier, that we delivered cost savings of 14 million Swiss francs in the second quarter from performance programs. We have increased our total 2025 cost savings target by 10 million Swiss francs to 170 million Swiss francs.

Thus far, savings of 107 million Swiss francs have already been realized from efficiency and rightsizing measures as well as initial savings from the new operating model. I'm pleased to confirm that we continue to expect most of the savings related to the implementation of the new operating model to be realized in 2023 and to more than offset continued inflation, in particular relating to wages in 2023.

Let's now move on to cover the first half year financials on *slide 16*.

In the first half year 2023, sales were 2.3 billion Swiss francs, compared to 2.6 billion Swiss francs in the first half year 2022. This corresponds to a 3% decline in local currency, 2% of which was organic. Pricing had a positive impact on the Group while volumes were down.

In the first half year 2023, EBITDA decreased by 22% to 342 million Swiss francs, negatively impacted by lower volumes, the -23 million Swiss francs impact from sunliquid®, the -11 million Swiss francs fair value adjustment of the Heubach Group participation in the first quarter, restructuring charges of 20 million Swiss francs, as well as inventory devaluation. Pricing effects overall remained positive, raw material cost decreased by 5%, and the execution of the performance improvement programs resulted in additional cost savings of 22 million Swiss francs in the first half year of 2023. As a result of these factors, EBITDA margin decreased to 15.0 % from 17.0 %.

In the first half year 2023, the net result from continuing operations was 230 million Swiss francs versus 189 million in H1 2022. The net result was lifted by the strong business performance in Catalysts, the 62 million Swiss francs gain on the Quats disposal, as well as the positive impact on the tax rate from the reassessment of provisions related to prior years.

The cash generated from operating activities for the Group increased significantly to 78 million Swiss francs from negative 17 million as a result of active working capital management. The net cash used in financing activities was negative 423 million Swiss francs in the first half year 2023 compared to negative 419 million in H1 2022, driven by the annual distribution to shareholders and financial debt repayment.

Group net debt increased to 908 million Swiss francs from 750 million due to the payment of the shareholder distribution.

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

Conrad Keijzer, CEO

Thank you, Bill.

Let me conclude our review with the outlook on *slide 18*. We do not expect to see a substantial economic recovery in the second half of 2023, while uncertainties and risks related to the economic environment remain.

We are confirming our outlook from the trading update on July 7. For full year 2023, we expect sales of between 4.55 to 4.65 billion Swiss francs. We expect a net top line impact of around 150 million Swiss francs from the completed divestments of the Quats business and the North American Land Oil businesses. This sales decrease will be partly offset by the completed acquisition of the US Attapulgite business.

We anticipate the full year 2023 reported EBITDA to be within the range of 650 to 700 million Swiss francs, which implies an EBITDA margin range of 14.3% to 15.1%. We expect continued growth in Catalysts to offset lower sales in the other Business Units. We also expect an increased negative annualized sunliquid® impact, an easing inflationary environment given the current economic outlook, plus a continued positive impact from the savings benefits generated by our restructuring programs.

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

Clariant has rapidly reacted to the current economic environment and is well positioned to benefit from an economic recovery. We remain 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, 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.

Operator
We will now begin the Question & Answer Session. Anyone who wishes to ask a question may press * and 1 on their touch-tone telephone. You will hear a tone to confirm that you have entered the queue. If you wish to remove yourself from the question queue, you may press * and 2. Participants are requested to use only handsets while asking a question. Anyone who has a question may press * and 1 at this time.

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

Andreas Heine
Yes, let's start then with 2. The first is actually on the networking capital, looking on that there was still quite an outflow in the first half mainly due to the lower payables. I would like to understand how you see the networking capital going forward, especially inventories which seems to be still up in the first half?

And secondly, on Catalysts, could you elaborate what do you expect from the second half in the various business segments as trends for until the end. Now the main squeeze in the third, just very briefly, the devaluation you had in Additives and Care Chemicals, could you quantify them please?

Conrad Keijzer
Okay good afternoon. And Andreas thanks for your questions, I'll let Bill discuss working capital and briefly comment on devaluation, and I'll talk about the outlook for Catalysts.

Bill Collins
Yes, thank you Andreas. If I look at the networking capital progression, we saw improvement in the second quarter and the first half of this year, largely due to a smaller increase in overall networking capital, lower increases in inventories, but also as you correctly pointed out, also decreases in receivables and payables which you would expect in this type of environment.

With respect to inventory specifically, we have some of our businesses which are doing really quite well with regard to managing inventory levels in this period of lower volumes.

We do have a business or 2 that is struggling with that at this point at the end of Q2, but keep in mind that through the end of Q1 and even the early days of Q2 we had expected still the second half recovery and our inventory levels reflected that. Now that we said that at the end of Q2, and we don't see this recovery coming in the second half of this year. We're pushing those businesses very, very hard to make sure that we reduce the inventory levels accordingly.

While I'm on the line, and because it actually relates to the whole inventory devaluation topic, so as you well know, as raw materials are rapidly increasing, that gave us quite some uplift in our P&L in the second quarter of last year. The flip side occurs when you start to see the raw material prices decline as they have rather precipitously in the second quarter of this year. So we went from having an uplift in the second quarter of last year to EBITDA to having a negative impact on EBITDA this year.

In terms of the overall impact, I mean, we are probably maybe talking about, I mean it's probably a double-digit number but it's not something we are really going to go into by business.

Conrad Keijzer
Okay, thank you Bill. Yes, so let me briefly comment on Catalysts. So first of all, we obviously are extremely pleased with the current performance in Catalysts where we delivered 30% growth in the second quarter, 25% volume but also very important 5% pricing.

So where we see the growth right now and this is also very positive, is in the PDH units, so it is actually CATOFIN® sales that are driving the growth, but we also actually see very strong growth in our Syngas business.

So we have actually been awarded projects in terms of ammonia for, let's say, traditional ammonia considering the high gas prices, customers really are willing to pay for the best and the most efficient catalysts, but we've also been awarded projects actually for green ammonia, and so the large projects that have been announced in Australia, in Oman, we will actually supply the catalysts for these projects.

Further, important to note for our Syngas business if you also basically look and this is something we are extremely proud of, is actually the first green methanol plant in Europe, in Denmark which is starting up now, 30’000 tons of green methanol which is going to be used actually for green shipping fuel, climate neutral shipping fuel for A.P Moller Maersk they have 20 ships on order. Here again uniquely supplied by Clariant Catalysts, so I think both the current performance, we are very pleased with... but also the order book for the remainder of the year, very solid, so it is all about the delivery of the order book. I think you will see this year, Andreas, a more balanced distribution between Q3-Q4 normally you saw relatively strong Q4, a weaker... much weaker Q3, here that is more evenly balanced this year.

And finally, maybe in terms of the profitability, yes, for the second quarter the EBITDA margin increased to 15.2% from 5.6% last year, a nice pickup. If you take out sunliquid®, we have now an EBITDA margin in the second quarter of 21.3% for Catalysts, and I think you should be able to expect margins around 20% also for the remainder of the year.

Andreas Heine
Thanks a lot, that’s helpful.

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

Christian Faitz
Yes, good afternoon everyone. 2 questions if I may, first of all, kind of related to working capital evolution. How do you see the free cash flow evolution into year end, if you could give us any rough idea from here on.

Second would be I understand that agrochemical precursors are a rather important portion of your Care Chemical activity. The demand issues you had in Q2 were understandable, but how is demand going at present, the Brazilian season being in full swing. Thank you very much.

Conrad Keijzer
Yes. Thank you, Christian. I'll let first Bill comment on OWC, and then I'll comment on agro chemicals.

Bill Collins
Yes. As I just mentioned in the response to Andreas, that we would continue to expect inventory levels to further improve as we move throughout the balance of the year, so from an overall working capital perspective, I feel pretty good actually in terms of the direction that we have.

In terms of where we're going to land on cash, for the end of the year. Well, that's probably a more difficult one, but I will say that we do expect still solid free cash flow for the balance of the year, I would say that from a cash conversion standpoint, and this goes back to even guidance that we have given before, the overall percentage will likely be less this year than what we had seen in 2022. But I still expect it to be very strong. I mean we've put enormous focus on cash throughout the organization, really over the course of the last year, and I think we've got some really positive momentum there.

And the working capital figures, the cash flow figures are something that we talk about in our meetings, at every executive leadership team with all of our businesses on a monthly and quarterly basis. So again, I think we'll make sure that we land the end of the year with a strong free cash flow position.

Christian Faitz
Thank you very much.

Conrad Keijzer
Thank you, Bill. Yes, Christian. So your second question on Crop Solutions, maybe good to put this a little bit in perspective. So, this is for us an important segment, it's very attractive, but it's obviously, within Care Chemicals by far not as large as Personal Care and Home Care. What we've basically seen in Crop Solutions, since last year we had a very strong year, very strong volumes, as well as pricing and conditions were at least for Crop Protection chemical sales close to perfect, and both from a volume and a pricing point of view.

What we see actually this year is that in terms of volumes, they're not as strong as last year. So, if you look at basically the conditions... the weather conditions, particularly in North America, heat... a very hot environment, and these are not the optimal conditions for spraying out. So, slight reductions here on volumes, but the bigger issue for Crop Solutions this year is really destocking.

So, we actually have in this business, very long distribution channels all the way down to the farmers. And as you can imagine, last year with the very high demand, but also, quite frankly, the high inflation that everybody experienced in this supply chain, we had very well filled channels all the way up to the farmer.

And what we're seeing now is a massive destocking, which really begun also a little bit later than in the other segments. It really begun in Q1, and it did continue into the second quarter. And actually we still see that the supply chains are well filled. So, we... this is one of the few segments, actually, Christian, where we'll continue to see some destocking in the third quarter. But again, the underlying conditions are still very robust. The farmers are doing very well, and actually, we will see continued demand when actually, this destocking is behind us, we'll see continued strong demand.

Christian Faitz
Thanks very much, Conrad.

Conrad Keijzer
Thank you, Christian.

Operator
The next question comes from Matthew Yates from Bank of America, please go ahead.

Matthew Yates
Hi, afternoon everyone. Sorry, Bill, just to come back to the inventory devaluation in Care Chemicals, why can't you be more specific about that number. Is that commercially sensitive or it's just difficult to quantify? I don't understand why that number can't be disclosed?

Conrad Keijzer

Yes, Matthew, this is Conrad here. You haven't seen, I think, anybody, frankly, in chemicals disclosing exact inventory deval, nor have you heard the exact numbers on purchase price variances. I mean, obviously the 2 balance each other out. So, as Bill explained, when the raw material prices come down, yes, you first get a hit on your inventory, but that actually balances out completely with your purchase price variances over time. Now, that obviously depends on a number of things like order books, it depends on days of inventory.

So, yes, if we were to break that down at a granular level for you, that would certainly not be appreciated by our commercial folks, because they're still having intense pricing discussions, as you can imagine, at the moment, we have overall, Matthew, been able to hold our pricing. In Care Chemicals, you saw a decline of 2%, but you may also have seen our raw materials down 12%. So, you can imagine that it is a huge challenge to hold pricing, as we're doing right now. We're successful with it, we're happy about it. I think, it's a tribute to a lot of hard work by also our commercial colleagues in the field. But it's also the specialty chemicals portfolio that really delivers value to our customers and they're willing to pay for that.

Matthew Yates

Okay. Second question, if I can ask about Additives. I think you said that volumes were down in the low-30s or sales were down in the low-30s, forgive me. I guess, Additives go into an awful lot of different applications in end market. So, this might be difficult, but how are you thinking about the degree of inventory that your customers are sitting on or how are you seeing the order book evolve in recent weeks and months to understand that huge decline at one point, we start to see a normalization or a pickup?

Conrad Keijzer

Yes. Thank you, Matthew. Yes. So, if you look at Additives, you're absolutely right. It's a very broad set of applications and end markets if you sort of look at... sort of the big categories is we have additives for paints and coatings, we have additives for adhesives, and we have additives for plastics. What you are seeing is destocking, just as we see in Care Chemicals. But we're also actually seeing weak underlying demand. So, that is clearly a big factor in our Additives business as well.

So, very briefly, if you look at paints and coatings, we actually see weak demand, particularly for industrial coatings. And actually there's weakness even in architectural coatings considering the housing markets, which have been stronger in the past. So, there is a certain weakness in paints and coatings.

Then, there is actually much more weakness in additives for adhesives, a lot of these find their application in furniture, and that is actually things like wood furniture, but it is also things like, for example, components of the beds, mattresses. These are glued with adhesives and actually Clariant supplies, solvent-free adhesives, it's normally a great product with great sales our Licocene® range. But you may have seen numbers of companies like IKEA. I mean, the mattress sales were high during COVID, but as you can imagine right now people spend most of their time outside their houses and are not buying new mattresses. So, this is really big... we see big declines there in that segment.

And finally, where we see even bigger declines is in consumer electronics. So, here again a shift in consumer spending during COVID when people were in lockdowns. They were buying new cell phones, they were buying new computers, they were actually watching Netflix and buying new television sets. And we have seen actually now significant declines in this segment.

For cell phones, yes, the number was basically down 18% in production rates in the first quarter. In the second quarter, the estimates are around minus 11%. So if you sort of wrap it up in Additives, yes, we have seen destocking, but we've also seen a serious reduction in demand due to this switch in consumer spending. Now, that will come back. So we're very confident that these volumes come back.

But yes, we first not only need to see the destocking to a full end, which actually we think has ended in these segments, but we also need a pick-up in consumer demand. And that needs a few quarters before consumer demand balances out, where now people spend their money in restaurants, on travel, in hotels, and not so much on durable goods. But over time, this will come back.

Matthew Yates

Thanks very much.

Conrad Keijzer

Thank you.

Operator

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

Markus Mayer

Good afternoon, gentlemen. Sorry to come back on this inventory devaluation in Adsorbents & Additives. Was this mainly related to phosphorus chemicals and therefore flame retardants? That would be my first question.

And then related to this, this high inventory levels, as I said, that you expect the recovery in the second half, I guess these inventories are on higher prices than the current price levels. So is there still then the effect that basically you're working through these inventory levels and then there will gross-margin improvements from lower raw mats only kicking in maybe third or in particular maybe fourth quarter of this year?

And then lastly, maybe a stupid question, but what was the difference of the expected EBITDA range you gave when you pre-released versus the actual reporting? What was basically the moving part there? Thank you.

Conrad Keijzer

Yes, Markus, I'll let Bill comment on inventories and the development that we expect to see in the second half. And then also, I think, Bill, you can comment on the EBITDA delta between our trading update and where we now are. I'll then take the flame retardant and also once again, this inventory devaluation question.

Yes, so basically, I think on inventory devaluation more broadly, you're correct, Markus. So you first have the deval in inventory, but it gets corrected one-on-one in the purchase price variances. And that's basically all we can say right now about it.

Then actually, your very specific question on inventory devaluation in Additives on flame retardants.

Yes, I think it's fair to say, and you're well-informed here, that last year, we saw the... a very significant cost increase in phosphorus materials, particularly yellow phosphorus. There had been shortages at some point in time because of shutdowns of mines in China. So it is fair to say that we see the biggest inventory devaluation in those businesses, obviously, not only that have the highest inventory, but also that have the biggest reductions in raw material costs. And indeed, your assumption is right, that we are seeing quite some reductions on the procurement cost here of the phosphorus materials.

So with that, maybe Bill, if you can comment on the inventory development in the second half and also these EBITDA deltas.

Bill Collins

Yes, let me start with the EBITDA delta. So we had projected an upper range of 165, we came in at 175. The difference was really 2 items. One, the expected gain on the Quats business came in a little higher than what we had originally expected at the end of June. And our Catalysts business had really a phenomenal shipment pattern in the last couple days of June itself. So those are really the 2 reasons that why we ended up being higher than what we had in the original projection. The other businesses were spot on.

Coming to the inventories. So, if I start with the notion that you expressed that the inventory values in certain products would be inflated because they were produced at times that there was a higher raw material cost. The reality is that because of the inventory revaluation process, we actually relook at the value of our inventories on the basis of the lower of cost or market, it's basic IFRS guidance.

So in those cases, if we produced a product that sits in inventory, when raw materials or labor costs were in fact higher, this revaluation process actually reduces the value of that inventory to current market. And then we take the... either the hit or the benefit in the P&L at that time. So now that we've done that through the end of Q2, anything that we sell going forward in Q3 and Q4 to bring those inventory levels down will in fact represent a margin that's reflective of the current market pricing for raw materials. Does that answer your question?

Markus Mayer

Yes, understood. Only add-on question. So basically you're not taking the average prices. So the moving average basically take then the price at the end of the reporting period, correct?

Bill Collins

It's a little more complicated that we don't take a last price paid. We do take an average. But yes, we take an average, not last price paid.

Markus Mayer

Okay, thank you.

Operator

The next question comes from Jaideep Pandya from Onfield research, please go ahead.

Jaideep Pandya

Yes, hi. The first question is on Sunliquid actually. What is the strategic options review process? Where are you guys at? And let's say you do go ahead and decide to exit this. I mean, what is the minimum sort of cutoff? Like, are you going to expect the replacement value of the sort of 100 million CAPEX that you spent? I mean there are market rumors that some of the renewable companies might be interested in M&A. So, just want to understand, you know, given that we are only 6 months away now from you giving an update on this, where is the Plan B on sunliquid®. And what happens if you exit the business? What happens to the licenses that you have sold to the 4/5 plants? I mean, do... can you keep that or do you have to forego that as well? That’s my first question.

The second question is on Catalysts. I mean could you give us... given the, you know, visibility of this business. Could you give us some color in terms of 2024 outlook? How do you see CATOFIN® ramp? And then, how do you see the other areas like in Syngas and petrochemicals. How do you see growth in that, with regards to your new products?
I mean should Catalysts go back to the 7%-8% growth range next year or could it be even higher because of the momentum CATOFIN® has? That’s my second question. Thank you.

Conrad Keijzer

Yes, sure Jaideep. So, a lot of questions. Let me start with bioethanol. So, yes, your question on the strategic review and where are we in the process. First, I'd like to actually reemphasize that we're very much committed and we continue to be committed to a successful ramp. So, we are actually very grateful to the team, the task force that is working on this for the achievements that the... that they have actually realized also in the second quarter. The burn rate is now minus 10 million Swiss francs in the quarter that's actually down from 13 in the first quarter and that was actually down from a burn rate of 20 million a quarter in Q4 last year, and I believe it was a similar amount around 20 also in Q3. So, we've basically cut the burn rate in half and we continue to obviously make these improvements moving forward.

Now as far as the strategic review, this is not so much new. I mean we never intended to own a bioethanol plant. So, that is the second question you were asking. What happens to the license business? Well, those are separate businesses. We are very much interested in the license business. We have a unique technology here, but the plant was only built basically as a demonstration of the technology.

So, that also may be leads into the question about strategic review, and who would be the right partners for this? Well, we would only partner with someone who actually has the same commitment as us, but to basically further ramp this up because that is basically for us the objective and yes, so in terms of your specific questions on replacement value, yes for us the much more strategic question is who is the right strategic partner that we basically can team up with to make this technology a success.

Now, as far as your second question on Catalysts, can we continue to see the growth rates moving forward? I think what is very interesting on the Catalysts business is that you have both a volume question here as well as a mix question and what we are very happy with is that the areas that we find the most interesting which is petrochemicals and Syngas are also the areas where we actually have most traction right now. That's not a coincidence. We have prioritized these areas. We mentioned that already back at our Capital Markets Day.

If you look more specifically propane to propylene, there is a... yes, there is a continued very strong momentum. You will see a shift. So, basically we initially were having a lot of new-build projects in China. We are seeing a shift. We see actually now a lot of interest and also concrete projects in the Middle East. Yes, but that continues to run very well.

Then on Syngas, yes that is actually what I mentioned the efficient catalysts and reliable catalysts for ammonia production, for methanol production and here we have seen also a very strong pipeline coming in. Short term, this is more sort of gray and blue hydrogen, but actually longer term, this is all going to be green hydrogen to a large extent. So, yes short term, strong momentum, medium term, you'll see a continuation and long term, you'll really see the green hydrogen economy picking up.

Jaideep Pandya
Can I just ask one follow-up on Sunliquid? Just I wanted to check on what is the status with the Shell contract. You, I think earmarked that you will sell 50'000 tons. So, are you selling any volume right now and I mean like what is the patience level from their side, with regards to the contract?

Conrad Keijzer
Yes, that last question is a question you should ask them and not me. I can only say that the relationship with Shell is very strong and it's a strategic relationship. Both parties are pleased with this. Obviously there is a commercial sensitivity in terms of specific sales volumes and values, but yes we are selling to Shell if that was your question, the volumes that we produce in this plan go to Shell.

Jaideep Pandya
Thank you so much. And good luck with it. Thank you.

Conrad Keijzer
Thank you. Thank you Jaideep.

Operator
The next question comes from Andy Schnyder from zCapital. Please go ahead.

Andy Schnyder

Hi, gentlemen. My first question would be again on the inventory devaluations that you mentioned earlier at a double-digit million number that's for H1, right?

Bill Collins

Sorry, yes. The... it's a double-digit for Q2.

Andy Schnyder

For Q2? Okay. And for H1, that would be then somewhere around 10-20-plus million?

Bill Collins

Well, I would say I mean it accelerated in Q2 because that's when we saw the most rapid declines in raw materials. We had a lot more stability in raw material prices in Q1 of last year... this year. Plus keep in mind too that we are talking about a delta year-over-year. So, where you had a very significant uptick last year and raw material prices, you see not quite a corresponding downturn in raw materials, but it's quite significant. What we would expect going forward is for that .. that impact to abate, I mean the amount of inventory reevaluation that we saw in the second half of last year was much more muted because raw materials had basically for the most part capped out at the top of Q2.

Andy Schnyder

But the total amount of devaluations in H1, can you give us the number or approximately?

Bill Collins

I am afraid, we can't.

Andy Schnyder

Okay. And then the question which might be related to that. If I take out the Catalysts business and all the divestments, and look just at the other businesses then, I see a huge margin decrease from not '22 of course but from 2021 to now H1 2023.

Also, when I look at your guidance I see 300 plus basis point decrease in the adjusted EBITDA margin for the rest of the business ex-Catalysts and ex-divestments and I fail to understand why there is such a big drop, and in my opinion inventory devaluations are not explaining everything there. Can you help me there a little bit.

Conrad Keijzer

Yes, Andy let me make some high-level comments but Bill can fill in with more detail. So yes, it's a fair comment, our margins are down, but this is frankly the situation in the entire chemical industry right now. I mean we are actually seeing significant challenges with volumes. I mean our volumes are actually minus 5% year-on-year. To put it in a broader perspective, if you look at the raw material increases that we've seen in all the recent quarters, we have all more than offset them actually through pricing. So we actually finished this quarter, 9 consecutive quarters where we had actually positive pricing year-on-year, and we have actually been very successful. So you are looking at the contribution margin line. We've actually been very successful in offsetting that entire increase.

Now, what you are now seeing is raw materials down, energy, freight down, so we are talking 12% down on raw materials and roughly 2% on freight and energy. And for us, now we try to hold on to prices as much as possible to basically offset, and now I come to that... the negative operating leverage. So what you are seeing from volumes is negative operating leverage.

Now, what have we done here? I mean, Andy you remember our Capital Markets Day in November 2021, where we announced a target... cost savings program of 110 million Swiss francs. Now, that was to a large extent focused on addressing also remanent cost from prior divestments, but actually we've increased that target last year from 110 million Swiss francs to 160 million Swiss francs, 50 million entirely coming from the delayering of the company, taking out duplicating managerial roles and actually what we find right now and actually you do see that even in the volumes, because if you look at the businesses, we are not actually coming as down as much as the overall market. So we are much closer to our customers, much closer to our sites. We can actually decide much quicker, much better level of accountability in the company.

Now, that said, the overall cost savings target is 160 million. This quarter what we said in response to the lower volumes is we are going to further increase the target from 160 million to 170 million and that actually addresses very much the lower volumes that we see in plants and in operations. So we have a total program of 170 million. What is important to know is we already delivered 107 million out of this cost savings program.

So what you will see is actually when volumes return and they will return that we have a tremendous operating leverage, and yes there is the saying never waste a good crisis but we clearly, in Clariant, will come out of this much stronger than how we went in, because we've structurally and fundamentally improved our cost base and we've done it actually by not damaging anything in the company. We've not saved anything on R&D. We continue to invest in innovation. It's primarily managerial roles that we've taken out with these new programs. So we will see a tremendous operating leverage.

So yes, please, we are in a challenging situation there have been more than 15 profit warnings in chemicals in recent weeks. So yes, margins are down Andy, but please compare it with competitors and take a look at the underlying things that we've done to improve the company. Maybe, Bill, if you have any additional details, you can feel free to add.

Bill Collins

No, I think you said it very, very well. The decline in volumes in certain of our businesses, specifically Care Chemicals and on Additives has really been very substantial with regard to the operating leverage. I mean, not to be too much of an accountant here, but it's really your fixed burden absorption that has a very significant impact. And when we thought those volumes were coming back, you don't make as many adjustments but now, we are in an environment where we need to make adjustments as Conrad mentioned.

We have upped our cost program for the coming year to really optimize on that. And I would say, and again to echo what Conrad was saying is the sliver-lining in this low volume environment is the fact that it really exposes where we still have you know, a lot of opportunities, and we are really capitalizing on those. You see it coming through in the performance programs, not only the overall targets that we have but also the realization that we are seeing on the savings. So that when the volumes do come back whenever that is, we are in phenomenally strong shape. I mean, so when the volumes come, we are ready.

Andy Schnyder
I can see that... I can totally see that the volumes came down heavily in this year versus last year, but that's why I compared H1 '23 versus H1 '21 and compared to '21 volumes haven't come down because they went up each year... last year probably, I mean, you reported 11% in H1 last year and some of that was M&A, but it didn't come down that much versus 2021, if at all. And still there is quite a big margin drop which I can only explain by mix effect or high, really really high inventory devaluations or probably something else you can tell me?

Bill Collins
Well, and I will throw back to Conrad in a minute. But, the mix is an issue this year, I mean because if you look at where we had some of our strongest margins last year, Care Chemicals, Personal and Homecare was doing phenomenally well, this time last year. So, was Additives, I mean, we were really killing it on Additives this time last year, and those are the businesses, the highest margin businesses are the ones that are suffering the steepest volume declines, sitting here in 2022.

So, that mix effect is substantial and even if you look at it within the Additives and Absorbents Business Unit, I mean the fact that Functional Minerals remains so strong creates part of that mix effect even there as well. So, you are exactly right on the mix, because the businesses that are doing particularly well right now aren't necessarily our strongest margin business. But, compared to 2021 I...

Conrad Keijzer
I can comment on that, it was also before your time Bill. So, basically, the comparison to 2021, what is important to realize Andy is first of all, if you look 2021/2022 we actually were up substantially in Care Chemicals as well as in Adsorbents & Additives. The problem last year were basically 2 areas it was Catalysts and it was also our biofuels business. If you now look where we are this year...

Andy Schnyder
Yes, but that I took that out, I took that out of my calculations and I am just talking about the rest of the business.

Conrad Keijzer

Well, if you strictly look Care Chemical and Additives they were both actually up substantially in EBITDA margins last year versus 2021. So, yes, that is the reality, and then if you look this year what we see is that we are certainly not out of the woods yet, with biofuel but we are coming back on that, also later in the year, but in Catalysts you actually do see the recovery in the second quarter really that was building already in prior quarters. So, yes...

Andy Schnyder

Yes, that recover is quite impressive, it will be really great for 3Q probably if you could give us some more numbers on the mix effect, because it’s a little bit hard to understand what happened. But, thank you very much.

Conrad Keijzer

Yes, we report by segments, we report by segments. So you can see actually the EBITDA development by segment but we certainly can try to provide even more granularity in Q3.

Andy Schnyder

That would be great. Thank you.

Conrad Keijzer

Thank you.

Operator

The last question for today’s call is a follow up from Markus Mayer from Baader Helvea. Please go ahead.

Markus Mayer

Yes, thank you. Coming back to Catalysts and also related to Andy’s question. So, you now have an underlying margin of 21% in the second quarter, which is normally not a strong quarter for Catalysts as Q3 and in particularly Q4 are the strongest quarters. And this ’21 margin... underlying margin was despite the potential negative product mix effect from Syngas catalysts which normally have a lower margin even if you have a high business in Petrochems which have a higher margin.

So, and they had this (unintelligible) this question on the last call as well. What is again the underlying margin you are targeting the Catalysts business for, as far as I understood the high margin joint venture business was sold to SABIC and therefore a certain EBITDA margin from the past is missing so, therefore again the question should we now think that this above 20% level maybe 20% to 23% is the new kind of level you should look for or is therefore no upside to above the 25% level we have seen in the past?

Conrad Keijzer

Yes, thanks for the question Markus. So, I think you pointed out correctly, so there is basically 2 factors that drive profitability in Catalysts and that is very much volumes, so operating leverage and it is also mix. Well, if you look at them individually what you see in the second quarter is obviously significant sequential improvement in volumes versus Q1. But what you also see is actually a mix that's working really well for us.

So, to your question on margins or your observational margins in Syngas & Fuels versus CATOFIN® and the rest actually yes, we see strong margins for CATOFIN® for propane to propylene. But, we also actually see strong margins for Syngas the one that is actually lower in margins is what we refer to as Specialty Catalysts, these are things like, like emission control particularly for transportation and these are weaker in margins typically.

So, we actually are very pleased with the mix that we see right now, if you then look at Q3-Q4, so let me first mention that second quarter indeed was unusually strong, I think Bill made the comment that we also saw even some orders earlier coming in from the third quarter, so but we expect a Q3 and a Q4 even slightly above what we saw in Q2. So, with that, we think that you can expect margins around 20% in the remainder of the year.

Markus Mayer

But is this then a level you also feel confident for the future or is there further upside as now taking all the negative effects from sunliquid® away and all the problems we had with the polypropylene ramp up, et cetera. So should we also get go towards the 25% level or is it something around 20% plus?

Conrad Keijzer

Yes, I think you mentioned yourself the very profitable joint venture that we had for the EO catalysts that was divested back to SABIC so that is not in anymore, so it's not really apples and apples, but we are actually very comfortable with right now the performance around 20% and we are committed to bring it above that. But yes, on a like for like basis.

Markus Mayer

Okay. Thank you. Thank you.

Conrad Keijzer

Thank you.

Andreas Schwarzwälder

So, thank you Ladies and Gentlemen, this concludes today's conference call. A transcript of the call will be available on the Clariant website in due course. The Investor Relations team are available for any further questions you may have. Once again thank you for joining the call, enjoy the summer, and goodbye.

Operator

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