

Solvay 2020 first half results

Record cash generation and cost reductions help to weather the storm

Highlights

- Strong **Free Cash Flow** to shareholders from continuing operations of €435 million in the first half, up significantly versus €33 million in the first half 2019, with Q2 contributing €233 million. The increase was predominantly driven by disciplined working capital management.
- **Net Sales** of €4,649 million in the first half were down 11% versus first half 2019, with headwinds from aero, auto, oil & gas, and construction markets impacting volumes since April. More resilient markets, including healthcare, agro/food, home and personal care and electronics helped to offset some of the challenged markets. Net sales in Q2 were down 18% to €2,175 million as result of the lower volumes.
- Acceleration of **cost savings measures** in the first half 2020 yielded a total gross savings of €170 million, as the organization acted swiftly to align production to the lower demand levels.
- Underlying **EBITDA** in the first half of 2020 of €1,008 million was down 15.6% versus first half 2019. Second quarter underlying EBITDA of €439 million was down 29.5% versus Q2 2019 level, driven by the reduction in volumes while pricing remained positive.
- **EBITDA margin** was 21.7% for the first half 2020, despite a significant reduction in demand, illustrating the decisive cost actions and sustained pricing. EBITDA margin for Q2 was 20.2%.
- **Underlying Net Profit** in the first half 2020 was €345 million and in Q2 was €109 million.
- As indicated on June 24, 2020, a **non-cash impairment** totaling €1.46 billion was taken in the second quarter, mostly related to the goodwill of the Composites business.

Q2 2020	Q2 2019	% yoy	% organic	Underlying, (in € million)	H1 2020	H1 2019	% yoy	% organic
2,175	2,654	-18.0%	-17.1%	Net sales	4,649	5,225	-11.0%	-10.8%
439	624	-29.5%	-28.5%	EBITDA	1,008	1,195	-15.6%	-15.3%
20.2%	23.5%	-3.3pp	-	EBITDA margin	21.7%	22.9%	-1.2pp	-
233	123	+89.8%	-	FCF to shareholders from continuing operations	435	33	n.m.	-
49.1%	28.2%	+20.9pp	-	FCF conversion ratio (LTM)	-	-	-	-

CEO Quote

"I am very proud of how Solvay employees are weathering the storm by staying safe and managing what is within our control exceptionally well," explained CEO Ilham Kadri. "Our steadfast focus on customers, cost and cash resulted in strong delivery of €170 million in cost reduction and record free cash flow generation of €435 million in the first half of 2020. Our leadership positions in major markets and the breadth of our technologies and innovation enabled us to capture new business while protecting margins. We will continue to adapt to the challenges in the months ahead as we resume selective investments for the return to growth in 2021."

Outlook for 2020

In the context of continued macro uncertainty and limited visibility, Solvay expects market dynamics to remain challenging in Q3 before improving in Q4. Against that backdrop, the focus on cost will continue with an expectation of delivering around €300 million of savings in full year 2020 and free cash flow generation similar to 2019.

[Register to the webcast scheduled at 14:00 CEST here](#)

[Link to financial report](#)

Key figures

<i>Underlying, in € million</i>	Q2 2020	Q2 2019	% yoy	H1 2020	H1 2019	% yoy
Net sales	2,175	2,654	-18.0%	4,649	5,225	-11.0%
EBITDA	439	624	-29.5%	1,008	1,195	-15.6%
<i>EBITDA margin</i>	20.2%	23.5%	-3.3pp	21.7%	22.9%	-1.2pp
EBIT	202	425	-52.4%	573	801	-28.4%
Net financial charges	(64)	(79)	+18.6%	(133)	(167)	+20.3%
Income tax expenses	(22)	(98)	+77.2%	(99)	(170)	+42.0%
<i>Tax rate</i>				23.8%	28.3%	-4.5pp
Profit / (loss) attributable to Solvay shareholders	109	318	-65.7%	345	608	-43.2%
Basic EPS from continuing operations (in €)	1.06	2.30	-54.0%	3.14	4.30	-27.1%
Capex in continuing operations	(132)	(177)	+25.4%	(295)	(356)	+17.0%
FCF to Solvay shareholders from continuing operations	233	123	+89.8%	435	33	n.m.
FCF to Solvay shareholders (total)	234	224	+4.6%	431	191	n.m.
FCF conversion ratio (LTM)	49.1%	28.2%	+20.9pp			
Net financial debt	(4,629)			(4,629)		

Group performance

Net sales were down 11.0% in the first half due to lower demand which began in the second quarter. Sales were down 18.0% in the second quarter including modest changes in scope and forex, or down 17.1% organically due to lower volumes mainly related to demand declines in oil and gas, aerospace, auto and construction sectors, partly offset by growth in healthcare, home and personal care, and agro/food. Pricing was modestly higher across the group.

Underlying EBITDA declined 15.6% in the first half and EBITDA margin remained relatively resilient at 21.7% thanks to the acceleration and delivery of cost measures. The underlying EBITDA was down 29.5% or 28.5% organically in Q2 as a result of the lower sales volumes. Fixed cost reduction and price offset half of the volume decline thanks to swift actions taken amid the challenging economic backdrop.

Free cash flow to shareholders from continuing operations totalled a record €435 million in the first half of 2020 versus €33 million in the first half 2019, a strong indication of the priority to generate and preserve cash in the context of a challenging environment. Previously, a €65 million one-off tax deduction was booked in Q1 associated with the use of the proceeds of the polyamide divestment. In the second quarter, free cash flow to Solvay shareholders from continuing operations rose strongly again to reach €233 million versus €123 million in Q2 2019. The strong performance reflected continued discipline in working capital management, reduced cash taxes & pension cash costs and to a lesser extent reduced capital expenditures.

Underlying net financial debt was stable compared to the end of March 2020 at €(4.7) billion at the end of June 2020, and decreased significantly by €757 million versus year end 2019, mainly due to the closing of the polyamide sale in Q1 2020.

Provisions are down by €370 million in the first half to €(3.3) billion as a result of €460 million voluntary pension contributions made in the first quarter of 2020 partially offset by remeasurements related to the reduction in discount rates.

Performance by segments

Net sales bridges

(in € million)	H1 2019	Scope	Forex	Volume	Price	H1 2020	Yoy %	Organic %
Materials	1,634	-	+17	-189	+8	1,470	-10.0%	-11.0%
Chemicals	1,667	+23	-52	-204	+24	1,458	-12.5%	-11.0%
Solutions	1,921	-	-3	-206	+5	1,717	-10.6%	-10.5%
Corporate	3	-	-	-	-	3	+4.9%	+1.2%
Solvay	5,225	+23	-37	-599	+37	4,649	-11.0%	-10.8%

(in € million)	Q2 2019	Scope	Forex	Volume	Price	Q2 2020	Yoy %	Organic %
Materials	833	-	+6	-162	+5	681	-18.2%	-18.8%
Chemicals	836	14	-38	-165	+12	658	-21.3%	-18.9%
Solutions	984	-	-10	-147	+7	834	-15.3%	-14.4%
Corporate	1	-	-	+1	-	2	+62.9%	+55.4%
Solvay	2,654	14	-43	-474	+24	2,175	-18.0%	-17.1%

Materials

First half 2020 sales were down 10.0% (11.0% organically) as a result of volume declines that began in the second quarter. First half EBITDA was down 15.4% (-16.4% organically) as the supportive cost actions mitigated part of the volume decline, protecting the segment's 27.1% margins.

Second quarter net sales were down 18.2% in the segment, including forex, and down 18.8% organically due to significantly lower volumes, mainly related to aerospace and auto.

Specialty Polymers sales were down 9.3% in the second quarter, as growth in healthcare and electronics partly offset the demand decline in auto and construction markets. Sales to auto were down approximately 26% versus Q2 2019 yet outperformed the broader market thanks to greater penetration of Solvay's technologies.

Composite Materials sales were down 32.2% in the second quarter given the significant drop in commercial aircraft production rates, while sales to military aircraft were resilient. The business has fast-tracked its restructuring plans to realize savings ahead of its prior schedule.

As a result, second quarter EBITDA for the segment decreased 27.5% (27.9% organically) driven by volumes. This was mitigated by rapidly adapting production levels to changing demand and sustaining prices, leading to an EBITDA margin of 25.0%.

Chemicals

First half 2020 sales in the segment were down 12.5% (11.0% organically) versus first half 2019 due primarily to volume declines, offset partly by price. First half 2020 EBITDA was down 14.0% (-12.3% organically), as cost mitigation measures and price actions supported much of the volume shortfall and preserved 27.8% EBITDA margins amid a challenging economic backdrop.

Second quarter net sales were down 21.3% in the segment including forex, and down 18.9% organically due to lower volumes across all businesses, offset slightly by higher prices.

In Soda Ash, sales were down 16.6% as demand for flat and container glass applications impacted volumes, while pricing was relatively stable.

Peroxides sales were down by 12.6% in the quarter mainly related to lower demand in construction, auto, and pulp markets, which was partially offset by growth in disinfection and home care markets. Steep volume reductions were partly offset by positive pricing.

Coatis sales were down 30.3% due to volume reduction and currency devaluation, while Silica sales were down 40.9% due to the significant volume declines in the auto market.

Second quarter EBITDA in the segment declined 32.0% (29.6% organically) as a result of the lower volumes. Fixed cost reductions mitigated some of the impact, leading to 25.3% EBITDA margins in the quarter.

Solutions

First half sales in the segment were down 10.6% (10.5% organically) due to the Q2 volume declines and first half EBITDA was down 16.8% (-16.4% organically) reflecting the supportive cost measures and resulting in an EBITDA margin of 16.7%.

Second quarter net sales were down 15.3% including forex, and down 14.4% organically.

Sales in Novecare were down 16.1%, as growth in home and personal care and agro was able to offset a significant part of the oil & gas decline, while coatings was relatively resilient.

Technology Solutions sales were down 17.8% due to lower demand in mining, while Special Chem sales dropped by 25.0% related to volume declines in automotive and other industrial applications, whereas electronics was resilient.

Aroma Performance grew sales by 14.7%, outperforming the general industry, mainly attributable to higher volumes for Natural vanillin as a result of strong demand in the food industry.

Second quarter EBITDA in the segment was down 27.6% (26.3% organically) reflecting the lower volumes. Cost control actions combined with pricing initiatives helped maintain an EBITDA margin of 16.0% in Q2.

Key segment figures

<i>(in € million)</i>	Underlying					
	Q2 2020	Q2 2019	% yoy	H1 2020	H1 2019	% yoy
Net sales	2,175	2,654	-18.0%	4,649	5,225	-11.0%
Materials	681	833	-18.2%	1,470	1,634	-10.0%
Specialty Polymers	462	509	-9.3%	942	989	-4.7%
Composite Materials	220	324	-32.3%	528	645	-18.2%
Chemicals	658	836	-21.3%	1,458	1,667	-12.5%
Soda Ash & Derivatives	350	419	-16.6%	740	827	-10.5%
Peroxides	150	171	-12.6%	321	343	-6.4%
Coatis	92	133	-30.3%	220	271	-19.0%
Silica	67	113	-40.9%	177	226	-21.3%
Solutions	834	984	-15.3%	1,717	1,921	-10.6%
Novecare	399	476	-16.1%	820	953	-13.9%
Special Chem	174	232	-25.0%	380	442	-14.1%
Technology Solutions	141	172	-17.8%	281	316	-10.7%
Aroma Performance	119	104	+14.7%	235	210	+11.8%
Corporate	2	1	+62.9%	3	3	+4.9%
EBITDA	439	624	-29.5%	1,008	1,195	-15.6%
Materials	170	235	-27.5%	398	471	-15.4%
Chemicals	167	245	-32.0%	405	472	-14.0%
Solutions	133	184	-27.6%	287	345	-16.8%
Corporate	(31)	(40)	+23.4%	(83)	(92)	+10.6%
EBITDA margin	20.2%	23.5%	-3.3pp	21.7%	22.9%	-1.2pp
Materials	25.0%	28.2%	-3.2pp	27.1%	28.8%	-1.7pp
Chemicals	25.3%	29.3%	-4.0pp	27.8%	28.3%	-0.5pp
Solutions	16.0%	18.7%	-2.7pp	16.7%	17.9%	-1.2pp

Key IFRS figures

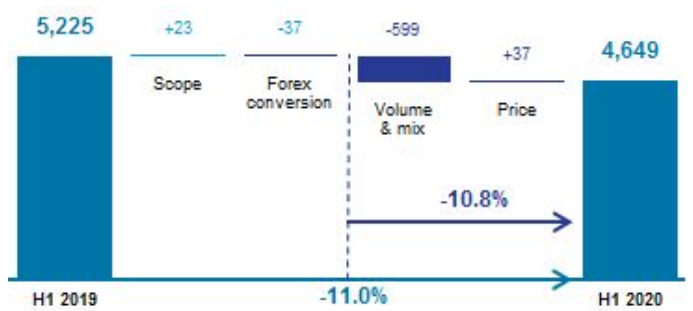
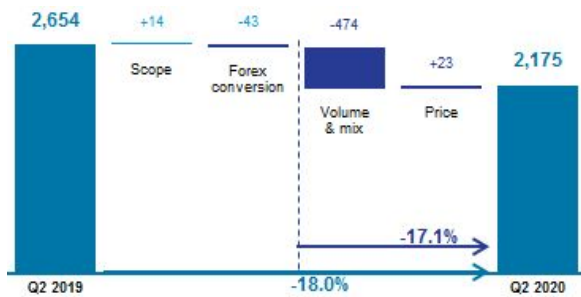
As announced on June 24, 2020, a non-cash impairment charge of €1.46 billion was recorded in Q2 2020. As a result, the underlying profit/(loss) attributable to Solvay shareholders was €109 million, whereas it totaled €(1,540) million on an IFRS basis. Further details are available in the financial report.

H1 key figures (in € million)	IFRS			Underlying		
	H1 2020	H1 2019	% yoy	H1 2020	H1 2019	% yoy
Net sales	4,649	5,225	-11.0%	4,649	5,225	-11.0%
EBITDA	883	1,115	-20.8%	1,008	1,195	-15.6%
<i>EBITDA margin</i>				21.7%	22.9%	-1.2pp
EBIT	(1,114)	607	n.m.	573	801	-28.4%
Net financial charges	(72)	(114)	+36.2%	(133)	(167)	+20.3%
Income tax expenses	(203)	(127)	-59.4%	(99)	(170)	+42.0%
<i>Tax rate</i>				23.8%	28.3%	-4.5pp
Profit / (loss) attributable to Solvay shareholders	(1,290)	497	n.m.	345	608	-43.2%
Basic EPS, from continuing operations (in €)	(13.64)	3.36	n.m.	3.14	4.30	-27.1%
Capex in continuing operations				(295)	(356)	+17.0%
FCF to Solvay shareholders, continuing operations				435	33	n.m.
FCF to Solvay shareholders				431	191	n.m.
Net financial debt				(4,629)		

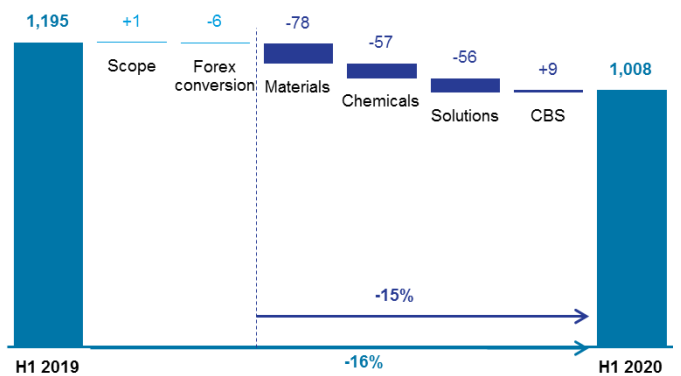
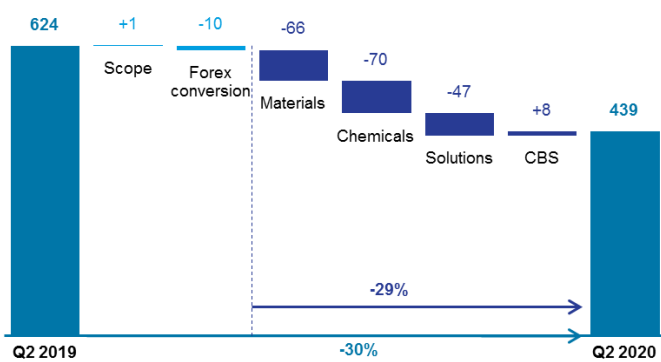
Q2 key figures (in € million)	IFRS			Underlying		
	Q2 2020	Q2 2019	% yoy	Q2 2020	Q2 2019	% yoy
Net sales	2,175	2,654	-18.0%	2,175	2,654	-18.0%
EBITDA	398	586	-32.0%	439	624	-29.5%
<i>EBITDA margin</i>				20.2%	23.5%	-3.3pp
EBIT	(1,347)	328	n.m.	202	425	-52.4%
Net financial charges	(45)	(60)	+24.3%	(64)	(79)	+18.6%
Income tax expenses	(155)	(75)	n.m.	(22)	(98)	+77.2%
Profit / (loss) attributable to Solvay shareholders	(1,540)	269	n.m.	109	318	-65.7%
Basic EPS, from continuing operations (in €)	(15.08)	1.78	n.m.	1.06	2.30	-54.0%
Capex in continuing operations				(132)	(177)	+25.4%
FCF to Solvay shareholders, continuing operations				233	123	+89.8%
FCF to Solvay shareholders				234	224	+4.6%
FCF conversion ratio (LTM)				49.1%	28.2%	+20.9pp
Net financial debt				(4,629)		

Supplemental information: bridges

Net Sales

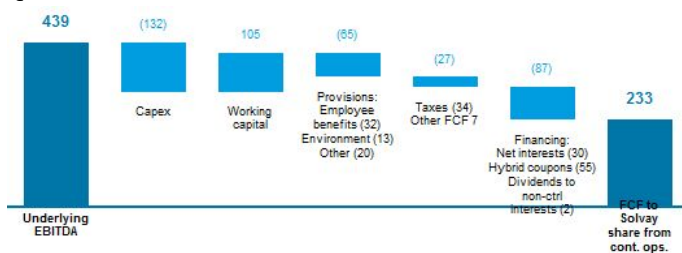


Underlying EBITDA

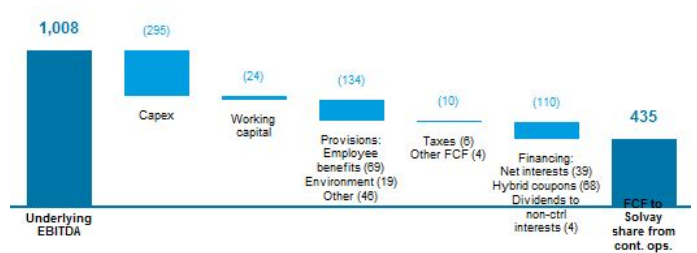


Free cash flow

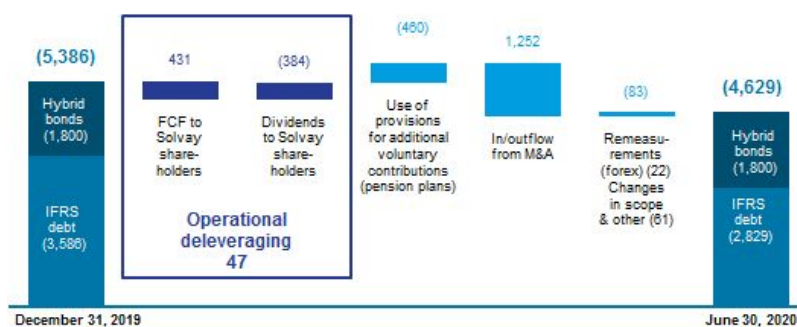
Q2 2020



H1 2020



Underlying net debt



Glossary

EPS is earnings per share.

Free cash flow to Solvay shareholders is the free cash flow after payment of net interests, coupons of perpetual hybrid bonds and dividends to non-controlling interests. This represents the cash flow available to Solvay shareholders, to pay their dividend and/or to reduce the net financial debt.

Free cash flow conversion ratio is calculated as the ratio between the free cash flow to Solvay shareholders of the last rolling 12 months (before netting of dividends paid to non-controlling interest) and the underlying EBITDA of the last rolling 12 months.

Organic growth excludes forex (foreign exchange conversion) and scope effects related to small M&A not leading to restatements.

Underlying figures adjust IFRS figures for the non-cash Purchase Price Allocation (PPA) accounting impacts related to acquisitions, for the coupons of perpetual hybrid bonds classified as equity under IFRS but treated as debt in the underlying statements, and for other elements to generate a measure that avoids distortion and facilitates the appreciation of performance and comparability of results over time.

Underlying net financial charges include the coupons on perpetual hybrid bonds (accounted as dividends under IFRS, and thereby excluded from the income statement), as well as the financial charges and realized foreign exchange losses from the RusVinyl joint venture (part of earnings from associates under IFRS, and thereby included in the IFRS EBITDA).

Underlying net financial debt includes the perpetual hybrid bonds, accounted for as equity under IFRS.

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Safe harbor

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About Solvay

Solvay is a science company whose technologies bring benefits to many aspects of daily life. With more than 24,100 employees in 64 countries, Solvay bonds people, ideas and elements to reinvent progress. The Group seeks to create sustainable shared value for all, notably through its Solvay One Planet plan crafted around three pillars: protecting the climate, preserving resources and fostering better life. The Group's innovative solutions contribute to safer, cleaner, and more sustainable products found in homes, food and consumer goods, planes, cars, batteries, smart devices, health care applications, water and air purification systems. Founded in 1863, Solvay today ranks among the world's top three companies for the vast majority of its activities and delivered net sales of €10.2 billion in 2019. Solvay is listed on Euronext Brussels (SOLB) and Paris and in the United States, where its shares (SOLVY) are traded through a Level I ADR program. Learn more at www.solvay.com.

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