Q&A Regular Transcription

First Quarter Figures 2023

2023-05-05 at 3:00 pm CEST

Duration: 1 hour 9 minutes

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 First Quarter 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 First Quarter 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 first 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.

This quarter marks the first time Clariant has reported results according to its new operating model - in the Business Units Care Chemicals, Catalysts, and Adsorbents & Additives as shown on slide **3**. We have provided the full year 2022 key financial figures here according to our new structure and also the quarterly 2022 sales and EBITDA results in the backup section of this presentation for comparison purposes.

As a reminder, this conference call is being recorded. A replay and a transcript of this call will be available on 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 First Quarter 2023 analyst conference call.

As we can see on slide **5**, in the first quarter of 2023 we delivered resilient sales of 1.2 billion Swiss francs, representing 1% growth in local currency and a 5% decrease in Swiss francs. The actions we have taken in recent quarters, including the execution of a strong pricing policy which contributed 7% to sales, have allowed us to weather the current global economic headwinds.

The global environment has been characterized by significantly lower global real GDP expectations of 1.7% in 2023 vs 2.9% in 2022 according to the World Bank.

According to S&P, March PMIs, in the chemicals sector for Europe, Asia, and global are below 50 indicating a challenging environment.

Against this challenging macroeconomic backdrop, our customers have reduced their inventory levels, and demand in some key end markets has been weaker.

Our volume developments in the first quarter were more mixed, with a 7% decrease for the Group which included a 13% volume increase in Catalysts, a 9% decrease in Care Chemicals, and a 14% decline in Adsorbents & Adhesives. The declines were attributable to very strong comparison bases and the aforementioned customer destocking, which accounted for almost half of the volume decrease, as well as weaker demand in industrial applications in particular.

The demand trend overall remained stable at Q4 2022 levels, while volumes decreased by 5% sequentially due in part to the seasonality of the Catalysts business.

To put the 7% volume decline in Q1 2023 into perspective, it is important to note that the Q1 2022 comparable volume was elevated by 14% above prior year levels. Last year’s high comparison base was positively impacted by the post COVID V-shaped recovery and the refilling of supply chains.

Pricing continued to develop positively at +7% year-on-year with contributions from all three Business Units, and +2% sequentially primarily attributable to those businesses which had to catch up on pricing like Catalysts. This reflects Clariant's continued priority to maintain pricing in a challenging environment where raw materials were up around 3%, energy up around 4%, and logistics costs up around 2% despite some sequential easing.

The contribution from the recently integrated US-based Attapulgite business assets in Adsorbents totaled 8 million Swiss francs which increased the Group's sales by 1% in the first quarter.

The currency impact on revenue of -6% was mainly due to the appreciation of the Swiss franc relative to the Euro and other currencies.

Slide **6** gives an overview of our sales by geography. We had strong local currency growth in the Americas at +7% due to positive pricing. All Business Units reported higher results in Brazil, where sales rose by 5%. We reported a notable improvement in Adsorbents & Additives in the US, which was bolstered by the Attapulgite integration. Local currency sales were flat in the Europe, Middle East & Africa region, as the higher volumes and prices in Catalysts were offset by volume declines in Care Chemicals and Adsorbents & Additives, though the pricing impact was positive.

Sales in Asia-Pacific were down by 4%, due to 16% lower sales in China versus a high comparison base. This decrease was attributable to double-digit declines in electrical vehicles and in electronics production. On a positive note, we recognized continued growth in our Catalysts business. The weakness in China was partly compensated by higher sales in India and Southeast Asia.

Moving to the profitability development on slide **7**, we see that first quarter 2023 EBITDA was 167 million Swiss francs, a 24% decrease and the group delivered a 13.9% EBITDA margin.

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

The strong volume increase in Catalysts was partly offset by an unfavorable product mix and a 13 million Swiss francs impact from sunliquid®.

At Group level, a negative 11 million Swiss francs fair value adjustment was made for the Heubach Group participation.

Excluding the 13 million Swiss francs negative sunliquid® impact and the 11 million Swiss francs one-off fair value adjustment, the EBITDA margin was 15.9% in the first quarter of 2023. The unfavorable business mix and lower operating leverage explains the difference to prior year's performance.

We continued to deliver on our strategic priorities in the first quarter, as reflected on slide **8**. We have generated further cost savings with our performance measures, executed our portfolio optimization, and progressed further towards meeting the Group's 2030 emission reduction targets.

Cost savings of approximately 8 million Swiss francs from our performance programs across the company contributed positively to the margin by absorbing inflationary impacts as well as higher selling, general, and administrative expenses that were for example related to trade fairs and a pickup in traveling activities.

Our performance programs remain well on track to deliver the upgraded 2025 cost savings target of 160 million Swiss francs with total savings of 93 million Swiss francs achieved as of the end of Q1 2023.

In the first quarter of 2023, we completed the divestment of our North American Land Oil business to Dorf Ketal as expected. This is a further step on our path to structurally improve Clariant's leading specialty chemical portfolio and sustainability profile.

The integration of the US-based Attapulgite business assets in Adsorbents purchased in the fourth quarter of last year is progressing on track and contributed sales of 8 million Swiss francs in the first quarter.

We expect the closing of the previously announced Quats divestment in Care Chemicals to take place in the second quarter of 2023.

I am proud to provide an update on the continued progress Clariant has made in improving its Scope 1, 2, and 3 greenhouse gas emissions in the first quarter.

In the last twelve months (from April 2022 to March 2023), the Group's Scope 1 and 2 total greenhouse gas emissions declined by 3%, increasing the total reduction from the 2019 base line to 13%.

An example of the measures which Clariant has taken to generate this reduction include increasing the share of green electricity from 47% to 56% in Q1 2023.

The total indirect Scope 3 decreased by 5%, increasing the total reduction from the 2019 base line to 10%, well on track to deliver the 2030 target of a 14% reduction.

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

Bill Collins, CFO

Thank you, Conrad and good afternoon everyone.

Slide **10** shows our first quarter development by Business Unit, starting with Care Chemicals.

Care Chemicals sales decreased by 2% in local currency, supported by positive pricing efforts of +7%, partly offsetting the 9% volume decline. Sales rose significantly in Oil Services with less pronounced growth in Mining Solutions and Crop Solutions. Sales decreased at a mid-single digit percentage rate in Personal & Home Care while Industrial Applications was down at a mid-teen percentage rate despite a positive contribution from the Aviation business in specific regions.

The quarter was characterized by softer demand against a very strong comparison base, some continued customer destocking as well as two force majeure events at our Clear Lake site in the US and at Coatzacoalcos in Mexico.

From a regional perspective, sales grew in Latin America but declined elsewhere.

Care Chemicals absolute EBITDA decreased by 14% while margin declined to 18.2% from a strong comparison base of 19.7% in the first quarter of 2022. Continued active price management reinforced profitability while raw material prices are sequentially easing. Volumes came under pressure with declining industrial demand and customer destocking, which negatively impacted plant utilization.

On slide **11**, Catalysts sales rose by 18% in local currency versus the first quarter of 2022. Both volumes and pricing positively impacted the sales growth by 13% and 5%, respectively. Sales in Propylene increased at a high-twenties percentage rate and in mid-single-digits in Ethylene. This development was exceeded by the growth in Syngas & Fuels, against a soft comparison base. Specialties sales also increased at a mid-single-digit percentage rate, despite a high comparison base.

The project nature of the business had an impact on the regional dynamics in Catalysts. Sales grew at a mid-teen percentage rate in Asia-Pacific, the largest geographic market, driven by the new

CATOFIN® (propane dehydrogenation) catalyst production site in Jiaxing, Zhejiang Province, China which came online in the first half of 2022.

Catalysts EBITDA decreased by 7%, with EBITDA margin falling to 6.3% from 7.6% due to a 13 million Swiss francs impact from sunliquid®. Excluding this impact, EBITDA margin was 12.9% in the first quarter of 2023, a 360-basis point improvement on a like-for-like basis versus the first quarter of 2022. Volume growth was counterbalanced by a less favorable product mix with a high share of Syngas & Fuels and, within Specialties, a higher contribution from the emission catalyst business.

On slide **12**, Adsorbents & Additives sales decreased by 5% in local currency in the first quarter. A 7% price increase was countered by 14% lower volumes as destocking and softer demand continued in the Additives business. Sales increased by 2% due to the recently acquired US Attapulgite business.

Adsorbents started the year well with higher sales at a double-digit percentage rate, driven by purification and foundry applications. Additives sales slowed at a double-digit percentage rate, against a very strong comparison base in the first quarter of 2022 due to continued destocking which represented close to 50% of the decline, and cautious demand in key end markets.

For example, industry data shows that global smart phone production declined by 18% year-on-year and automotive sales growth slowed after China ended decade-long EV subsidies in January resulting in a sequential electric vehicle production decline of 29% in Q1 2023 in China and 15% globally according to a report by Global Data Automotive.

From a regional perspective, sales growth was particularly strong in the Americas, due in part to the US Attapulgite acquisition, while sales slowed in the Europe, Middle East & Africa region as well as in Asia-Pacific, particularly in China, where growth in Adsorbents did not offset the decrease in Additives sales.

EBITDA decreased by 35% and margin fell to 18.5% from a record high of 26.0%. Profitability levels were impacted by softer volumes and continued customer destocking, especially in Additives. The business mix was less favorable due to the strong Adsorbents performance. The profitability level in Q1 2022 was positively impacted by inventory revaluation resulting from higher raw material prices, whereas in the first quarter of 2023 the inventory revaluation effect was slightly negative.

On slide **13**, we would like to provide additional details on the extraordinary factors which impacted the Group's profitability in the first quarter. Sunliquid® recorded a 13 million Swiss francs loss in the first quarter. This is a notable sequential improvement from the 20 million Swiss francs loss incurred in the fourth quarter of 2022 and is the result of the team's efforts to address the operational challenges involved in the ramp up of this first-of-a-kind technology. In the second quarter of 2023, we expect to see sunliquid-related cost on a similar level sequentially with further improvements in the second half of 2022. Our dedicated team continues to work hard to commercialize this unique technology and address the increasing demand for second generation bioethanol.

At Group level, a negative 11 million Swiss francs fair value adjustment was made for the Heubach Group participation. The reporting method was changed to that of a financial asset which triggered the need for the adjustment.

Slide **14** shows that, as Conrad mentioned earlier, we delivered cost savings of 8 million Swiss francs in the first quarter from performance programs. We are making good progress towards our 2025 target of 160 million Swiss franc total cost savings - which we had increased in the fourth quarter of last year due to an additional 50 million Swiss franc contribution from simplified leadership structures and organizational processes.

Thus far, savings of 93 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 the programs remain on track and that the majority of the savings related to the implementation of the new operating model are expected in 2023 and will absorb continued inflation, in particular wages in 2023.

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 **16**. Our current expectations are based on the continuation of a soft recessionary environment in the first half of the year, followed by a recovery in the second half, however uncertainties and risks related to the economic environment remain.

For full year 2023, we expect sales of around 5 billion Swiss francs. We expect a net top line impact of around 130 million Swiss francs from the disposal of the Quats business and the completed divestment of the North American Land Oil business. This sales decrease will be partly offset by the completed acquisition of the 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 continued growth in Catalysts, which is expected to offset lower sales in the other Business Units. We expect an increased negative annualized sunliquid® impact and we are seeing an easing inflationary environment given the current economic outlook, counterbalanced by savings benefits from the restructuring programs. We have adjusted our expected CAPEX spend to 250 million Swiss francs in 2023. This will positively impact our cash generation towards our 2025 cash conversion target. We remained focused on cash and noted a positive momentum in the first three months compared to last year.

In our view, with our new operating model, innovation strength, and sustainability leadership, Clariant is well positioned to deliver on the 2023 guidance. Our team remains 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. Operator, please go ahead.

QUESTION & ANSWER

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

Thanks for the opportunity to ask these 2 questions. The first is actually on the guidance. The 15.6% EBITDA margin, which is a reference for the increase this year. On the slide where you talk about the EBITDA margins, you basically have given 3 different ones. What is the right way to look on where you want to improve the margin? I'm referring to slide 7, where you have the reported the clean and then the margin adjusted for sunliquid as well. That's the first question.

And the second is digging a little bit more in Care Chemicals. So we see that oil prices came down, gas prices came down, and peers also being active in the oil and mining business have seen in part already a decline in the first quarter, year-on-year. That seems not to have been the case with you, but what do you see as a sequential trend for oil and mining services? Do you see already a flattening or even indicating a decline for the coming quarters for this business? Yes, these were my 2. Thanks.

Conrad Keijzer

Yes, sure. Andreas, let me get the second question first, actually, where you're talking about the impact of the energy prices which have come down and also our outlook on the oil and mining business. And then Bill will comment on the bridge, in terms of our EBITDA margins towards the guide.

Yes, if you look at the situation with energy prices, it's been... as you are aware, very volatile. Actually today. If you look at the gas prices in Europe, spot TTF gas prices for LNG are around 35 Euros per megawatt hour. That's obviously down significantly from the peak of 340 million Euros per megawatt hour that we saw in August.
Now, mind you, at this level of 35 Euros per megawatt hour, we are still more than double the gas price in Europe as what we had before the energy crisis. And also, let's say from a competitiveness point of view for the industry in Europe, as you're probably aware, the gas

prices, if you look at the U.S. their Henry Hub prices, that's actually about 4 times lower than the 35 Euro per megawatt hour, that we're currently facing in Europe.

Now, putting it in perspective, if you look at the first quarter, we actually did see the gas prices ease. Year-on-year, we're still up, but... actually sequentially we're down about 4% from the last quarter. I believe year-on-year we're still up 4%. But we should see a continued easing throughout the coming quarters. And actually, yes, we're also planning to hold prices. So you should see some margin expansion from that.

If you look at our oil and mining business, it has been doing very well. And when I say that, what I mean is that we're up double-digits in gross. If you look at the first quarter last year, and we actually don't see any signs here of slowdown, so we anticipate this oil and mining business to continue to do well, oil even better than mining, but mining also didn't correct as much.

So this within Care Chemicals is actually right now the strongest growing segment. in terms of volumes and revenues. We've also been able to get some pricing there, which was very much needed. So we're actually quite pleased about the performance in oil and mining.

Bill, to you for the guide and the margin bridge.

Bill Collins

Yes. Thanks, Conrad. And thanks, Andreas. Just to be super clear, our focus is on reported EBITDA. We're showing the bridge here with the adjustments for the fair value for the sunliquid impact only give you a sense of the underlying performance of the businesses. But our focus as a business, our focus with regard to the guidance for the full year is on a reported EBITDA figure.

Andreas Heine

Crystal clear. Thanks.

Operator

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

Christian Faitz

Yes, good afternoon, everybody. I hope you can hear me. The sound quality in the call at least for me is a little wobbly. The Catalysis business is sailing well below its margin potential for quite some time with or without sunliquid. When do you see a turnaround from here on? That's Question 1.

Second one would be, can you comment on Q2 trading conditions for Home and Care within Care Chemicals. The weaker Q1 trend in this sub-segment, is that more volume driven on the customer side or do you also see customer resistance for price hikes? Thank you very much.

Conrad Keijzer

Yes, thank you, Christian, for the 2 questions. So first on Catalysts. Yes, we still are targeting obviously further improvement. Unfortunately, we report the negative contribution from biofuels minus 13 million Swiss Francs in the quarter in the Catalysts segment that brings the EBITDA margin down. If you correct for that, Catalysts achieved 12.9% EBITDA in the first quarter, which is a 360-basis points improvement on a like-for-like basis versus the first quarter 2022.

If you look at the Catalysts business, Christian, the first quarter is actually the weakest, so the 200 million revenue... 200 million Swiss Francs revenue you saw in the first quarter will actually sequentially build-up, with a step up if we are looking at the order book in the second quarter and then a further step up in Q3 and in Q4. So we are actually quite pleased with the margin pickup that we are seeing in Catalysts, and also like to note that this is not the full run rate by any means for Catalysts yet that will actually happen as the bigger quarters come through.

To your second question on the business Care Chemicals and specifically also if you look at Home Care. Yes, what we basically see in this segment is reduced volumes, let's say, mid-single-digits in Care Chemicals, which is a much better performance than the double-digit declines in Care Chemicals in the industrial segments.
If we analyze it in Home Care, it is primarily destocking. So it's not that people suddenly put more laundry in their washing machine or in their dishwasher. No, it is primarily a destocking, what we're seeing. And if you look at this effect, this started a little bit earlier in Europe,

certainly in Q4 in last year. The volumes in this segment were already affected. We didn't see much of destocking in America in Q4 yet. And in Asia, this was actually not a real issue to begin with.

In the first quarter, we saw significant destocking in Home and Care, both in Europe as well as in the U.S. Your question as to the pickup in the coming quarters, we actually do believe that in Home Care in Europe, the destocking is now behind us. We still have a little bit to go in the U.S. But you would see a sequential pickup, and particularly in the second half. Now, there is one additional element, unfortunate, which has hit us. I think Bill mentioned this too in his commentary. We unfortunately had 2 force majeure events, one at our Clear Lake site in the U.S. and one at our site in Mexico. And that actually did have also a negative impact on volumes in this segment. But from a demand point of view, we do see that this business certainly will recover in the coming quarters.

Christian Faitz
Okay, great. Actually, the force majeure would have been my Question 3. Since you mentioned it, Conrad, can you elucidate, because you also mentioned the supplier force majeure. So not your own force majeure, but supplier force majeure. What's behind that? And will that still impact you too?

Conrad Keijzer
Yes, Christian, this is a third question I'm being pointed at here around the table. We would only do 2. But it's a legitimate question, Christian. Yes, we had these 2 force majeures. In general, we're actually not seeing force majeures. So if you remember a year ago where we had the V-shaped recovery from corona with a larger demand than underlying capacities, we had several shortages. And actually, also suppliers calling for force majeures. What we now see is 2 incidents. The total impact of this was in the low-teen million amounts. Unfortunately, caused by a key supplier to our Clear Lakes site in the U.S. and a key supplier to our Mexico site. And we're dealing here with obviously ethylene that we're not making ourselves. And in one instance, it's also basically the ethylene oxide chain. This is unfortunate. And the only positive is that the plants are up and running again.

Christian Faitz
Okay, great. Thank you very much for all 3 answers. Very helpful.

Conrad Keijzer

You're welcome, Christian.

Operator

The next question comes from Andrew Stott from UBS. Please go ahead.

Andrew Stott

Yes, good afternoon and thank you for taking my question. It's actually just the one question. It's more on the guidance for full year. I mean, I'm going to be broad-brushed because obviously the world is a volatile place, as we know. But if you take your full year guide and assume 30, 40 basis points of margin growth, broadly would imply 15% improvement in EBITDA versus the first half in the second half. And my assumption there is that you do a bit better in Q2, but not a lot better.

First of all, you know, if you've got any difference of opinion on the math, then let me know. But mainly, what's behind that confidence on your part that you can see such a big improvement? So Conrad, I heard you on the order book in Catalysis. So obviously, that's registered. But are there any other should we say, bottom-up, Clariant specific factors that we need to think about? Thank you.

Conrad Keijzer

Yes, thank you, Andrew. First of all, your math is highly accurate, so nothing to add there from our side here. Yes, we do see the margin pick up in the second half. A brief comment on Catalysis, this is very much based on operating leverage and even in Catalyst the mix can be better than what we saw in the first quarter. The order book reflects right now a sequential build through the year.

And yes, unlike prior year, where we have quite some shortages also in availability of shipping containers, things like that, we're actually quite confident that we will be able to deliver this whole order book.

Yes, then actually, if you look at Care Chemicals and Adsorbents & Additives, like I mentioned, in Care Chemicals, particularly on the consumer side, a lot of the decline in volumes was explained by destocking. And actually, that is mostly behind us now. And you may even see some level of restock in the second half on that business. I'd also like to point out here that in terms of margin expansion, we see easing of raw material cost and we expect this to continue.

Our outlook for the full year is now mid-single-digit declines in our raw material cost. And hopefully, we can see some of that coming through also in margin expansion. That is certainly our target.

And then finally, on Additives & Adsorbents, we had an unusual start of the year in China. You may have picked this up, but if you look at consumer electronics production numbers. If you look at cellphone production numbers down double-digits and even electric vehicle production in the first quarter in China, down double-digit from the fourth quarter. So, certainly there came an end to what was almost a decade long of subsidies for electrical vehicles which actually pulled some of this business into the fourth quarter last year, and certainly caused a slow start here in China. We do expect some of these incentive programs to come back in. We also expect at some point in time electronics and cellphone demands to pick up.

So, we should see Additives coming back. We had actually quite a large destocking in the additive business, particularly around flame retardants which were really short in supply last year. So, that is also a part of the build in terms of the business improvement towards the second half.

And finally, in Absorbents we see continued strong momentum particularly for absorbents in the U.S., when we are talking about biofuel and the... basically the purification here specifically of diesel. Last, but not least we increased our cost savings target at the end of last year from 110 million to 160 million, and maybe Bill can provide some color here as well, because this is also part of the bridge to our full year profitability guide which we indeed confirmed. Bill.

Bill Collins

Yes, thanks Conrad and hello Andrew. So if you remember at the end of last year or early this year, we mentioned that we had basically a supplementary restructuring program focused on implementation of the new operating model within the company. We took a 40 million Franc charge for that in Q4, and that is already starting to produce savings and we will see a sequential ramp-up in those savings over the course of this year. So, from a cost programs perspective, we are doing quite well. Certainly given the macroeconomic environment, we continue to scrub all of our cost structures and make sure that any opportunity we capitalize on so we will continue to look at that, but we are quite happy with where we are, and we are very confident that what we have in the hopper today will more than cover the expected inflation that we will see this year.

Andrew Stott

Thanks Conrad. Thanks Bill. Just so, just one follow-up to that very coherent list. It was really around the sunliquid. Are you expecting in that guidance any further improvement in sunliquid or not?

Conrad Keijzer

Yes. Well, it is actually part of it Andrew, but don't expect miracles here. I mean this is a highly-challenging ramp. We are pleased that we see sequential improvement from the fourth quarter where we had a 20 million drag on EBITDA last year in the fourth quarter. This first quarter we see a 13 million drag. We are working ourselves through the various issues. In the second half, we should see an improvement here though.

Andrew Stott

Got it. Thanks again. Appreciate it.

Conrad Keijzer

Thank you.

Operator

The next question come from Jaideep Pandya from OnField Research. Please go ahead.

Jaideep Pandya

Thanks. First question is really on Catalyst. How is your R&D on new product pipeline, if you sort of ignore CATOFIN as a product for a second? You know what are the other sort of CATOFIN like products that you have, because my main worry is when you finish your first fill in CATOFIN, you know, is there an air pocket then that is developing in Catalysts with regards to growth. So, whilst margins may come up, but growth may start to sort of wane off. That's really my first question.

And the second question really is sort of on the answer you gave to Andrew. What I am confused is you know, it seems like you had a lot of operational issues in Q1, you know, yet you did sort of 184 clean EBITDA. So, should we not see a marked improvement in Q2 already or what holds you back for Q2, because if I just look at your price of 7% and look at the raw material cost increase of 4%, that gap already in Q1 was quite meaningful. So, I'm sort of scratching my head what as to how EBITDA dropped 54 million despite such a big price versus raw material gap. Thanks a lot.

Conrad Keijzer

Yes, sure. Jaideep, thank you very much, especially also for your first question, the innovation pipeline and Catalyst, and I can say this is actually a highly-promising innovation pipeline, and we were even debating if we should pull in some slides, but we actually do need permission here by clients to communicate about it, but the big opportunity obviously for Catalysts is about the energy transition. You probably have seen an announcement by one of the largest shipping companies about their new ships based on methanol. It is actually very encouraging that actually we got there... actually our first fill order confirmed. So, this is very promising.

So, just maybe for everybody on the call, shipping for it to become carbon neutral either should move to green ammonia or green methanol and some companies like Trafigura for example, I think I can say this, because it's a public announcement, they have said green ammonia is the direction to go. Others have said green methanol. So, it is extremely promising for us, this development. As you know, if you convert from gas to liquid, you need to do this with catalysts, the syngas technology. So, the chemicals based on green hydrogen can only be produced with the aid of catalysts of Clariant and we have only a very limited number of competitors in this area as you probably know.

So we are actually see good traction. We also see a very promising projects announced on green hydrogen in North America and here also... we don't have here yet the orders received but we are definitely, I think, in a very good position to also get some new business here in the U.S.

And finally, as a broader comment on Catalyst, it's certainly indeed not just CATOFIN, we actually see a solid refill business right now, very good plant activity levels in the Middle East.

Your second question on Q2 and operational issues in Q2 and improvements relative to Q1. Yes, the operational issues certainly the 2 force majeures I mentioned in Care Chemicals are behind us. There is unfortunately one other force majeure which is going to hit in Q2 which is affecting our additives business, our montan wax business that is not a very significant impact but it is an impact.

The big topic for us Jaideep for Q2 is not so much the operational issues, but it is that we don't see the topline recovery yet. We do see that later in the year, as a reminder, the comparison base in Q2 is very steep. That was actually our strongest quarter by far last year.

Bill Collins
Yes, maybe if I can add just a point on that. In addition to the fact that the first half was really an exceptionally strong start to last year, and with that in the environment of rising raw material prices, we did have some positive inventory re-val. So I wouldn't call that an operational issue at all. That is just the accounting side effect of increasing or decreasing raw materials. We've already talked about the biofuels impact which is actually better than... little bit better than what we were expecting, and we've talked about the declining volumes, and I think as we come into Q1, we start looking at Q2 and also the balance of the year. The year is shaping out pretty much exactly like we were expecting it to. We knew that the first half was going to be a very difficult comparison because the first half of last year was so strong.

We had already modeled into our guidance the impacts of this Heubach revaluation for example. We already knew the impact of inventory reval. So I wouldn't exactly call it operational issues but there are issues that we are definitely focusing on, not the least of which is cash. I mean and I think that is a very positive story to bring forward. We are actually cash positive on a free cash flow perspective as of the end of the first quarter as compared to a triple-digit negative number in the first quarter of last year.

I know we don't disclose those figures on the odd quarters but at the same time, we are very happy with the progression that we are making, especially with regard to the operating working capital. This is one where we talked about it before. We put a lot of focus on this last year and even with the decline in overall volumes, which you would expect to see in terms of your receivables in your inventories, we are actually performing even better than what the volume decline would suggest, which really means that the actions of our business is to get really better at... really integrated business planning, really bringing your operations together with your sales and marketing teams to understand the forecast and manage that appropriately. So we are very happy with the progress that we have made.

Jaideep Pandya
Alright. Thanks a lot for the time.

Operator
The next question comes from Peter Clark from Société Générale. Please go ahead.

Peter Clark
Yes, thanks for the questions. I've got 2. The first one is around the pricing and particularly in Care Chems. I know it's very difficult with the restructuring and Oil and Mining going in but it looks to me like pricing in that segment sequentially was potentially down. So I am just wondering if you could discuss that and also potentially the amount of formula pricing in that division now.

And then the second thing is the additives business you alluded to, obviously, the Q2 being tough. That's got a very tough comps, certainly till the third quarter and it's a very margin accretive business. I know it's relatively small in the scheme of things, but just how long you see that remaining a drag on your margin ambitions? Thank you.

Conrad Keijzer
Sure Peter. Yes, so I will make a few comments on pricing in Care Chemicals and maybe Bill can take the sequential pricing in Care Chemicals, because I don't have that data here

in front of me. But I can make some more general comments on pricing in Care Chemicals, certainly also your question on Additives. Yes, what you see in Care Chemicals is that a part of the business where this is actually more challenging is where we have formula-based pricing. Now, this is sitting in the more commodity type products, some of it actually also in Home Care, but much more pronounced you see this in the OMS business, in the oil and gas business for chemicals.

So if you look at the Care Chemical business, roughly one third of it is formula based. If you now bring in the oil and gas business, actually, it's roughly 40% of the business that is formula based. Here it's not easy to hold prices as you can imagine, because we simply have to come down with pricing as and if and when raw materials come down. Typically, there is a delay. Typically, you don't have to give the whole thing back but yes, here you will see pricing coming down.

In the other segments, in Care Chemicals, we are actually holding prices very well. So I think that's yes, important to mention that all segments if you do the year-on-year in Care Chemicals, all segments in Care Chemicals are up in pricing. So the number that you see that we brought down but 7% up in Care Chemicals that is all of the segments.

As far as the additives business, you know, what we're seeing here is 2... I think 2 key issues. The first is... the first quarter are usual weak sales and production of electric vehicles in China. So what you saw is that electric vehicles production in Q1 actually is down 29% sequentially from Q4 in China. Here the issue is very specific to China, there was a subsidy. It could be as much as 15,000 dollars actually per car when you would purchase an electric vehicle versus a conventional car. In Shanghai, you can see this very well. You have the green number plates for the electric cars and the blue ones for the conventional ones. And actually, for a new car number plate, it costs you 15,000 U.S. Dollars for a conventional car.

Now, what happened actually, on the subsidy and stimulus side, because on top there was stimulus even available for electrical cars. That was stopped by the end of this year.
That's the key reason for this slowdown. A lot of orders were even pulled into Q4 last year, this should recover in the quarters ahead. Then the other key element for Additives is basically consumer electronics. Here we see globally production numbers coming down,

smartphone production down globally. If you look year-on-year 18%, this will take a bit longer to recover. So on Additives, yes I think in terms of the markets, we do see a pickup not immediately, but sequentially over the year and certainly in the second half.

And finally, inventory. So these were products that literally were sold out last year, a number of them. So here we saw higher inventory builds than in the other areas. So the de-stocking now is also a bit bigger there than in other segments.

I don't know, Bill, if you can comment on the sequential pricing in Care Chemicals.

Bill Collins
Yes, glad to. So if we look at the Q1 pricing in Care Chemicals versus Q4 of last year, we actually did see about a percentage point improvement quarter-over-quarter within the Personal & Home Care. And this was relatively flat with a very nice improvement in the Oil and Mining Services pricing.

Peter Clark
Got it. Thank you.

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

Matthew Yates
Hi, okay. Thanks for taking the question. Let's go back to Catalyst, please. I guess, Conrad, you're comparing the margin to a year ago when you had I think those issues with the PGM contract seems quite a generous for you of the results. I think it's still well below the kind of 18% to 20% margins that it was traditionally doing in Q1. And I know it can be a lumpy business from quarter-to-quarter, but it feels like it's been a sustained period now of disappointing results. If we put sunliquid to one side and just look at the rest of the portfolio. Is there a persistent mix problem within the order intake or is it just a matter of randomness from quarter-to-quarter? I'm curious if something like refill rates, for example, were particularly low compared to normal. Just curious to understand whether anything structurally has changed in the mix of this portfolio.

Conrad Keijzer

Yes, sure. Thanks for the question, Matthew. No, I think structurally there is not a change here. What we had last year primarily as the key issue in the first half was a delayed pass-through of the higher metal prices at the beginning of the year. And that continued actually in Q3 and Q4. But you did see sequential improvement now. Yes, we have mix topics from quarter-to-quarter and it is not always coming in equally by segment. But I certainly wouldn't say that we have a structural mix issue.

So if you... yes your question on the margin not being satisfactory. Again, please keep in mind the first quarter is the weakest quarter this year. You will see a build in the coming quarters in terms of revenue. You will see significant operating leverage coming from that. I mean, we do have quite a large sort of fixed cost base in this business. The support levels are higher. Actually, the required support levels are higher than in some of our other business. So you will see operating leverage from that revenue build.

Finally, on margins, we also are expecting continued easing on raw materials. It was interesting at the beginning of the year you saw commodity prices pick up, because people did expect a strong rebound in China, those expectations are now much lower and we are seeing actually metals prices coming down right now, and we're certainly not going to lower our pricing on Catalyst. So we also should see some margin expansion coming from that.

Matthew Yates

And to follow up, sorry to come back to mix. What are the higher margin mix parts of the portfolio, and why would they get better over the coming quarters or coming years, given the outlook for the chemical industry?

Conrad Keijzer

For the portfolio, you refer to Catalyst, Matthew or to the overall portfolio?

Matthew Yates

No, just for Catalyst. Just for that division.

Conrad Keijzer

Just the catalyst business. Okay. Yes. No, if we look at our order book, we actually see a solid amount of petrochemical orders in that order book. I think we've commented on this before. That is actually the most profitable part of this business. We see a decent level for Syngas. And actually what we saw, certainly in the beginning of last year, that we had a disproportionate amount of emission control catalyst in there. That's not what we're seeing right now.

Matthew Yates
Okay. Thanks so much.

Conrad Keijzer
You're welcome.

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

Markus Mayer
Good afternoon, gentlemen. Hopefully my questions have been understood, there is a technical issue. So my first question is around the Heubach joint venture write-down. Can you give us more reasons on... for the impairment besides this change in reporting structure? So the... was also the underlying business worse than the original business plan was or... and also, what is the remaining book value of this joint venture? And also an update on your plan for this asset? That’s my first question.

And the second question is on the CAPEX cut. Can you give us some more flavor on why this was the case, was it just the delay of projects or have you become more cautious on potential growth prospects? Thank you.

Conrad Keijzer
Yes, thank you for the question. I must say the quality of the sound was not perfect, but I think we got most of it here. Yes, on Heubach, I will ask Bill to fill you in with some details. But just as a reminder, we have a 20% stake in this business which is owned by SK Capital the Heubach family. And the fact that we kept this stake, it was more... it was basically structured as an earn-out over time.

Yes, on CAPEX, we are definitely looking with much more scrutiny at our CAPEX. I think the key difference with the past year here is that we differentiate very much on what are businesses, where we want to outgrow our markets, where we want to disproportionately invest, those actually get more CAPEX. But likewise, some of the businesses where we don't have the strong top line growth aspiration they get substantially less CAPEX, and the balance of it is actually a lower overall CAPEX envelope.

Maybe, Bill, you can fill in on the Heubach... the SK Heubach technical details.

Bill Collins

Yes, certainly. So, as Conrad mentioned, as part of the divestment of the pigments business to SK Capital Heubach Group, we retained a 20% equity interest in that company. As Conrad said, it's predominantly designed to be an earn out. As we were looking at this participation and the accounting for the participation over the course of last year, it was really always intended to be a financial investment for us. We don't exert any control over that business.

We don't exert any control or influence over how they run the business. We're really looking at it as a long-term investment as part of the, earn out framework. So, given that is the case, given that we only have 20%, it makes much more sense, and certainly from an accounting perspective, it should be classified as a financial asset as opposed to basically investment and equity method. So what you see here in the first quarter is simply the reclassification of that to a financial asset, which then also triggers a revaluation.

Markus Mayer

Okay, understood. Thank you.

Operator

The last question for today's call comes from Chetan Udeshi from JP Morgan. Please go ahead.

Chetan Udeshi

Yes, hi, thanks. 2 quick ones. So one is, just on second quarter. I think usually the seasonality for Clariant, is second quarter earnings tend to be lower than Q1. But did I hear you in response to a couple of previous questions that you actually think Q2 earnings would be higher than Q1, which is counter seasonal?

And the second question was, just given the news today around German electricity subsidy et cetera. Can you remind us how much electricity does Clariant generate and consume and also purchase in Germany, if you have it to hand or let's say I mean, if you have that? I think there is a number on the annual report in terms of total energy generation for total energy consumption, how much of that would be in Germany, for Clariant?

Conrad Keijzer

Sure. Chetan, well first, on seasonality and Q2 versus Q1. Yes, Q2 typically comes in lower than Q1, and that is because some of the businesses typically are stronger in Q1. We have businesses like de-icing, crop, and overall, if you look at the portfolio, typically Q2 comes in lower. I was more talking of... about our Catalyst business, when I was actually talking about the sequential build in the quarters. So Q2, we very much see, actually and recognize this seasonality, it's not going to be strong on top line. It indeed typically comes in below Q1.

On top of it, we have divestments, we guided for those as a total top line impact of 130 million Swiss Francs lower revenue this year that is the balance of the divesting... the divestment of the Oil Land business, as well as, the Quats business and then the incoming Attapulgite business. Please be aware that the Attapulgite business came in but in the first quarter you don't see any of these divestments reflected yet. So we actually will see that coming in, in the second quarter we closed the North America Oil Land business, the end of the first quarter. So the effect is not visible yet. That will become visible in Q2 and also then in Q3 and Q4 when the end of Q2, we are actually targeting to close the Quats business.

To your question on the breakdown of electricity by sites and by Germany. Yes, that's a level of granularity that we typically would not disclose. But I can tell you that we have applied for this new arrangement.

I personally think it's a very good thing that the German government starts to differentiate between the cost for electricity for business and for consumers, because arguably the electricity prices in Germany are amongst the highest in the world right now for industry. So, this certainly is a positive action. I will say the cap to me looked rather high with roughly 130 Euro per megawatt hour, we are certainly buying below that right now. So, it wouldn't bring in a lot of money right now to answer that question. And secondly, yes, be aware that the majority of our energy is obviously gas, and it's only a minor part that is actually electricity. So for us, not a meaningful impact and certainly not a material impact for the company.

Chetan Udeshi

Yes, I think the question was made because you know, today the Energy Minister in Germany is proposing 60 Euro per megawatt hour price until 2030 for electricity, that's right. But, anyway, just on first question, so if I understood you there is no reason to believe the seasonality will not hold in Q2, so in another words Q2 should still be expected to be somewhat below Q1 on EBITDA is that a fair assumption for the Group?

Conrad Keijzer

No, we are not guiding by quarter, but it is a fair assumption that Q2 due to seasonality but also due to ongoing weak trading conditions, I have to add that, will come in yes weaker than Q1.

Chetan Udeshi

That's clear.

Conrad Keijzer

But corrected for seasonality we see similar trading conditions, so it is the seasonality that brings it down, correct.

Chetan Udeshi

Yes, got you. Thank you.

Conrad Keijzer

Thank you, Chetan.

Andreas Schwarzwälder

So, this is Andreas speaking. Ladies and gentlemen, this concludes today's conference call. The investor relations team obviously is available for any further questions you might have. Once again, thank you for joining the call and goodbye.