ELEMENTIS

Capital Markets Day - presentation transcript

14 November 2023

Eva Hatfield, Head of Investor Relations

Good afternoon everyone. Welcome to Elementis Capital Markets Day 2023. My name is Eva Hatfield. I'm the Head of Investor Relations. Thank you all for coming here, and everybody who is dialing in through the webcast.
I will now invite Paul Waterman, CEO of Elementis, who will start the formal presentation.

Paul Waterman, Chief Executive Officer

Introduction

Good afternoon everyone and welcome. It's good to see all of you here today. I am joined by the Elementis leadership team, some of whom will be presenting later on.

We are excited to talk to you about a simplified, focused Elementis and how our Innovation/Growth and Efficiency strategy will evolve going forward. Over the next three hours you'll hear why we are excited about the future of Elementis and we will set out updated performance targets to measure our progress.

Let me briefly cover the order for the afternoon. I will start with an overview of the business and an update on our strategy. Then Luc van Ravenstein and Stijn Dejonckheere will review our Performance Specialties and Personal Care business segments, with a specific focus on our innovation and growth platforms.

We will then have two breakout sessions, one focused on Performance Specialties and the other on Personal Care, so that you can see practical examples of how our innovative new products work.

After a short break, Phil Blakeman, our head of Sustainability, will provide an overview of our sustainability strategy, the progress we've made and our go forward plans.

Then Ralph Hewins, our Chief Financial Officer, will cover the financial framework and provide detail on how continued focus on growth and efficiency will deliver our 2026 targets.

I will then conclude the main presentation and we will take your questions. Following the formal session we hope that you will join us for drinks and take the opportunity for a more informal chat with the Elementis leadership team.

But before I begin, I'd like to share a short video that provides an overview of where Elementis has come from and who we are today

(Corporate video playing.)

I hope your enjoyed that. The first thing I'd like to do is to review our key messages for today…

Key Messages

The first thing I'd like to do is to review our key messages for today.

Following the sale of Chromium earlier this year, Elementis today is a high quality, less cyclical specialty chemicals business.

At our last CMD, in November 2019, we set medium-term objectives for margin performance, cash conversion and debt reduction. While they have not been achieved, we are making good progress implementing our strategy.

We have two focused businesses that are well positioned for growth. Personal Care, which is now around 45% of Group profits, is a high margin business operating in attractive, growing markets. Performance Specialties, which comprises our Coatings and Talc businesses, is well positioned to focus on growth opportunities across multiple channels. We will cover those in more detail later.

The growth and efficiency opportunity going forward is material. We believe we can deliver $90 million of above market revenue growth by 2026. In addition, we have identified $30 million of costs that can be eliminated by the end of 2025.

This delivery is within our control. It is driven by self-help and does not rely on a more favorable demand environment. Elementis is a highly cash generative business. The combination of improved performance and ongoing leverage reduction will support sustainable shareholder returns over the long term.

This will enable Elementis to generate an operating margin of 19% plus by 2026. In addition, we expect the cash conversion above 90% and return on capital employed to exceed 20%.

Now I'd like to take a step back and provide some context about Elementis.

Our purpose and values

We are purpose led, focused on providing unique chemistry and sustainable solutions to our customers.

You will hear today about our innovation focus and expertise, which makes a real difference to our customers, while delivering positive impact to our environment. In addition, our values are critically important because they serve as the foundation for our culture.

I will highlight safety here. We have created intense focus via ongoing safety leadership training and plant investments over the years, and we are making good progress towards our goal of becoming a zero-accident business.

But it is all of our values combined, that define how we deliver on our purpose and represent the standards that we uphold every day as we work together. We assess every Elementis employee's performance through this lens.

Elementis transformed

Elementis has transformed significantly over the last decade. It is now a higher quality, less cyclical specialty chemicals business.

Over this time, we sold or discontinued low margin, commodity oriented products. An example of this was the sale of our Netherlands based surfactants business in 2017.

In addition, back in 2015, the Chromium business earned almost $50 million, benefiting from the commodity super cycle. From 2016 onward earnings declined ending at $16 million in 2022. The sale earlier this year eliminated this more cyclical, carbon intensive and commodity oriented business.

The addition of our specialty anti-perspirant additives business in 2017, which works symbiotically with our hectorite clay resource, created a Personal Care business of scale. And while our Talc business, added in late 2018, has faced some unforeseen challenges, it follows a specialty additive logic, from mine to market, that we know very well with hectorite.

Elementis now generates around 90% of earnings from specialty chemicals products and is far less cyclical than in the past. We are focused on markets with structural growth opportunities and the majority of our products are classified as natural.

What makes Elementis special?

Now let me talk about what makes Elementis special. First, we are expert at formulation solutions. This is the process of optimizing formulation ingredients to achieve the desired functionality and performance of the end product. Our additives represent a small percentage of a formulations cost but are critical to delivering end product performance.

This gives us a unique vantage point to holistically optimize the formulation. We have significant technical expertise, a global technology resource base and strong relationships with our customers, making us the trusted partner to solve their toughest formulation challenges.

Second, we have deep expertise in the science of rheology. We are often asked what rheology is. In simplest terms, rheology is the science of flow and it is essential to the performance of a formulation because it is what makes the ingredients work together.

We are a top three player in what is a quite fragmented market. We have expertise across multiple technologies and with our global asset footprint, we can cater to large global clients as well as smaller, but faster growing regional players.

Third, our hectorite clay mine in California. This is the largest high-quality hectorite mine in the world, with substantial reserves of white colored hectorite. Hectorite is a very special product. It's a natural mineral that delivers excellent rheology in both water and oil based systems, making it an attractive alternative to synthetic materials. It can be processed at lower temperatures, leading to lower costs and improved sustainability.

It also delivers important attributes, such as excellent texture and color for Personal Care and long-term stability for Performance specialties applications. Often we are able to combine all three of these special elements - something no other company can do. Going forward we see further opportunities to expand joint development projects with key customers, deepening our penetration and leading to higher margins.

The differentiators I've described are very important to our success; however, I would say that the quality of our people is our greatest advantage. We have an experienced and dedicated leadership team, most of whom have been working together for many years and collectively have 75 years of tenure.

Our organisation is structured along global commercial and functional lines. This enables quicker decisions, standardized processes and global capability. Over the past four years we have focused on building capabilities that are key to deliver our strategy.

Commercial leadership has seen significant investment with externally recruited talent leading Marketing and Product Management. In Supply Chain we are continuing to embed our safety-culture. We have strengthened Plant Leadership through internal moves and external hiring, we built Continuous Improvement as a way of working and implemented very disciplined Capital Management processes.

In R&D we innovate through a global laboratory infrastructure with the continued development of external partnerships. To make all of this happen in the most effective, efficient way, we continue to build and strengthen our core capabilities. We've built specific competence in Sustainability, transformed our Legal and Compliance function and strengthened both our financial insight and HR capability. Going forward we will continue to invest in our people and capabilities to support our long-term growth.

November 2019 CMD objectives not yet achieved

Our last Capital Markets day was in November 2019. Back then we put forward objectives that would serve as the measure of our progress over the next 3 to 4 years.

As you can see, we have not yet achieved these objectives. We set out to improve our operating margin from 14%+ to 17%. While it improved from the 12% bottom in 2020, and is continuing to improve, today we fall short of this goal.

Operating cash conversion of above 90% was delivered or near delivered in 2020 through 2022; however, we will likely fall short on the 2023 measure given the pressure on working capital over the past two years. Stop - start demand and pricing impacts worked against us, but now we are moving in the right direction De-leveraging to net debt/EBITDA of below 1.5 times will not be delivered by the end of this year, but we are close to achieving this target. A slower pace of de-leveraging than we wanted, but we have fixed our balance sheet as we intended.

While I am frustrated that we haven't managed to achieve these targets fully; however, I remain confident about Elementis' future. A little later I will talk about our objectives going forward and the actions that will support their delivery.

Turbulent market environment

Over the last four years, all companies have faced an unprecedented economic environment and Elementis was no exception.

The challenge over this timeframe was to make strategic progress and optimize financial performance in spite of these challenges. This is what we focused on at Elementis and I would like to share with you the progress we made.

Resilient financial performance

Over this timeframe, revenues were quite stable and profitability steadily recovered. Operating margins also recovered and we expect to deliver 2023 performance in line with 2019. While overall demand was weaker over this period, disciplined pricing actions and tight cost management delivered a resilient performance.

Strategic progress

Our focus on innovation has resulted in a strong pipeline of new products. Over this timeframe we've launched 15-20 new products per year and revenue from new products now represents over 14% of total Elementis revenue.

As a result, we continue to generate an increasing amount of new business, now over $50 million annually as we grow our global key accounts management, grow in skincare and make progress in new geographies.

In a weaker demand environment, the incremental impact is difficult to see, but the momentum is building. In addition, our pipeline of new business opportunities has materially increased and now stands at a record $362 million.

Going forward we will continue to focus on leveraging innovative new products to drive organic growth in the growth platforms that we will discuss today. We have taken a number of actions to improve efficiency.

Firstly, we continued to improved our digital capabilities, eliminating administrative expense and enabling location flexibility in how and where works gets done. The launch of Microsoft teams, Salesforce for sales management, Workday for all HR administration and Finario system for capital management are just a few examples of global platforms that simplify work and lower costs.

Secondly, we delivered $25 million of organisation and procurement savings over the last 4 years by streamlining both commercial resources and rationalizing our global manufacturing footprint.

In 2020 we closed our Charleston, West Virginia organoclay plant, effectively consolidating this production to our larger St. Louis plant which reduced costs by $6 million annually.

Going forward there is more opportunity on efficiency and I will come to this, but the progress we've made, particularly with our digital capabilities, gives us confidence to move forward aggressively.

Strategy delivering sustainability progress

Sustainability is another important area where we have made good progress.

The sale of Chromium earlier this year contributed materially to carbon emissions reduction as it accounted for 55% of total Elementis emissions.

That said, Elementis excluding Chromium reduced emissions by 58% over the last three years. Today Elementis is significantly less carbon intensive, but also a greener and a cleaner business. But it is not just the total emissions that were reduced. We have materially reduced our emissions intensity.

In addition, in the first half of 2023 we generated 72% of revenues from natural products, compared to 50% in 2019. We also reduced our water usage and increased the % of renewable or low carbon energy that we use from zero to 84%.

As a result, our ESG ratings have improved. Earlier this year, we obtained a gold rating under the EcoVadis programme for the third year in a row and further improved our score from the prior year. While we are encouraged by our progress, there is more to do.

Over the last few years we have built strong internal capability and the commitment to sustainability at Elementis. Our head of sustainability, Phil Blakeman, will cover our sustainability strategy. You will hear how sustainability improvement is core to our strategy going forward. We continue to develop new products that are better, more efficient and greener for our customers, and ultimately end users, who are themselves becoming more sustainability conscious.

In 2022 we made a commitment to reach net zero by 2050 and Phil will cover the process we will follow to achieve this goal.

Elementis today

Following the portfolio transformation and strategic progress over the past few years, Elementis today comprises two focused businesses- Personal Care and Performance Specialties.

We have around 1,300 employees, working in 23 locations across three key regions. While we are not a large company, we have global reach that allows us to be near our customers, in their local markets, as well as to serve large clients in multiple locations.

In addition, having manufacturing and lab facilities across three continents provides attractive opportunities for further growth, without the need for significant capital investment. And despite the continued difficult conditions across the chemical sector, we currently generate a group margin of over 14%.

As I've mentioned, our ambition is to grow group margins to over 19% by 2026 and we will cover the growth and efficiency actions that will underpin this delivery.

But first I'd like to take a closer look at our Personal Care and Performance Specialties businesses.

Personal Care

Starting with Personal Care, which today generates approximately 45% of the group's earnings.
We operate across three attractive, fast-growing markets:

- antiperspirants, where we hold the leading market position in anti-perspirant actives,
- colour cosmetics, where we established a leading position and developed long-standing relationships with our clients, and
- skin care, a relatively new segment that we have successfully expanded into

We have a strong competitive advantage in personal care. As I mentioned earlier, we own the largest, highest quality hectorite mine in the world. Hectorite is a fantastic rheological modifier and our R&D team have a track record of developing products that are highly valued and desired by our customers.

The majority of our products are made out of natural ingredients, which is a real benefit given the strong market demand from our customers, and ultimately consumers, for more sustainable solutions. And finally, we have a global reach, which positions us well to grow in the future.

Our Personal Care business was badly hit by the social restrictions imposed throughout the global pandemic. However, we have seen a good recovery and we believe there is more to come. We are focused on developing innovative products and further penetrating new markets, for example in Southeast Asia where we have seen significant revenue growth this year. In addition, we are now ramping up production at our new AP Actives plant in India which will support future growth and lower manufacturing costs.

Stijn will discuss the most exciting opportunities that we see and how we will go after them.

Performance Specialties

Moving onto the Performance specialties business, which includes our Coatings and Talc businesses and represents about two thirds of total Elementis revenues.

Consolidating the two businesses under a simplified management structure that leverages our sales resources and creates one global, integrated distributor network is already working to lower costs and increase cross selling efforts. For example, we have already generated $25 million of revenue synergies since 2019 and we believe there is more opportunity here.

Let me just briefly cover Coatings and Talc recent performance and the opportunities we see for those businesses- without stealing too much of Luc's thunder.

Coatings

Coatings is currently in the most challenging demand environment since the global financial crisis. A period of aggressive de-stocking started in mid-2022 and has continued through 2023 as an environment of higher interest rates, weak housing markets across the globe and more subdued industrial production has held back demand. In addition, while China continues to grow, the trend is much weaker than in years past. However, against this difficult backdrop, the team is working to position our Coatings business for recovery.

We have a strong, global management team. We have a much improved product portfolio driven by 25 new products launched since 2020 and there is more innovation to come as 20 more new products will launch over the next three years. We have leveraged our global key account management approach to significantly increase the number of joint development projects to 21 and this lays the ground work for future growth. In fact, our new business pipeline of $240 million has never been higher.

I'll leave it to Luc to talk through the specific growth platforms and how we will make the most of these opportunities.

Talc

The talc business has come through a very difficult time over the past few years. Approximately 80% of the business is European based and that has created some unique challenges.

The pandemic materially reduced European auto production and while it is recovering, it's still materially below where it was in 2019.

In addition, the pandemic accelerated graphic paper decline as information consumption shifted to digital platforms and catalogues, menus and brochures were eliminated.

The Russia/Ukraine war eliminated around $4million of business annually in sanctioned countries and, in 2022, we experienced skyrocketing energy costs and reduced demand driven by the fear of an energy shortage in Europe.

Today, the business is recovering well. Margins are improving as we successfully actioned a series of price increases in 2022. I am pleased to say, that throughout this period our customers have remained loyal. We continue to focus on manufacturing optimization via continuous improvement productivity projects and a focus on further improving talc recovery.

In addition, the integration of Talc into performance specialties is delivering both improved sales effectiveness and efficiency. We believe the Talc business has key advantages that will support further financial recovery and future growth. Talc follows a specialty additive logic and is value priced based on end use applications. The flotation process that we use enables production of talc that is consistently over 95% pure and then customized for color, size and shape.

This joint development process takes 18 months and we maintain close, loyal customer relationships. And our logistics hub in Amsterdam facilitates global product distribution. Last, we follow vertically integrated operating model with approximately 90 years of high-quality talc reserves.

Going forward, while some volumes will not come back, we still see very good growth potential in high value applications such as vehicle lightweighting, coatings, technical ceramics as well as emerging barrier applications.

Again, Luc will speak to the opportunity that we see going forward. So that's where we are today, now let's focus on how we will create value going forward.

Material growth and efficiency opportunities

The growth and efficiency opportunity before us is material. Elementis is now in a position to build on the strategic progress to date, supported by deeper and broader capabilities and a very talented team.

We can leverage our innovation and growth focus to access broader and more valuable growth platforms as the means to drive organic growth. Building on our momentum, we will launch over 50 products and generate $90 million of above market revenue growth by 2026.

Today we will discuss seven growth platforms, which are closely linked to emerging industry trends, and I will cover those on the next slide. We have also spent significant energy this year developing two large efficiency programs that will deliver $30 million of annual savings by 2025.

Now let me briefly talk about the industry trends that are driving change, and then I will cover the growth and efficiency programmes in more detail.

Industry trends providing tailwinds

These are key industry trends providing significant tailwinds for Elementis.

Sustainability is critically important to future success. On the product side, we see growing demand from our customers for natural ingredients, supported by regulatory requirements and the end consumers becoming more sustainability focused.

Talc and hectorite address some of these megatrends. On the operations side, our focus on continuously improving sustainability performance is key for Elementis to be the partner of choice to our customers.

From a technology standpoint, the process of developing customized solutions has become both virtual and digital as joint development teams work across geographies.

At Elementis we are testing AI and developing digital data management capability to scale new products faster across the globe and this will only accelerate as these tools further improve. In addition, automation capability continues to improve, enhancing both productivity and safety in our plants.

Demographic shifts create change and opportunity. In the West, older consumers, wealthy and increasingly interested in services and experiences. In the East, a younger, growing population, along with an expanding middle class that is increasingly urbanized and interested in higher quality products.

Elementis' global manufacturing and R&D footprint as well as our global sales and distribution resource base, is well positioned to capitalize on these demographic trends.

$90 million above market revenue growth

You can see that our seven growth platforms align with these industry trends and utilise our innovative technologies. Three are in personal care: skincare, colour cosmetics and antiperspirants. Four are in performance specialties: Architectural coatings; Adhesives, sealants and construction additives; Industrial coatings and Talc. While these are exciting opportunities, we are equally excited about our efficiency platforms.

Efficiency platforms

We will deliver $30 million of recurring savings by 2025. Ralph is going to cover the program in detail, but I want to make a few points to set this up. There are two significant areas of opportunity.

In January of this year, when it became clear that the Chromium sale would be successful, we began a project called "Fit for the Future" to create a simpler, streamlined Elementis that would support implementation of our strategy.

We wanted to leverage our digital infrastructure to sharpen our execution, strengthen our processes and lower our costs. It involves reducing headcount, moving roles to lower cost locations and outsourcing back office transactional roles. We will create a new global support and R&D base in Porto, Portugal. Implementation began in early September, the project will complete before the end of 2024 and will deliver $20 million of annual cost savings.

In addition, we have great opportunity to build on our momentum further improving Global Supply Chain and Procurement efficiency. Key actions in both areas will deliver a further $10 million of annual cost savings by 2025.

We see the combination of growth platforms together with these material efficiency programmes, delivering much improved financial performance by 2026.

2026 financial targets

For this reason, we have set 2026 targets that reflect our ambition. We expect our operating margin to improve from over 14% in 2023 to over 19% in 2026.

This target assumes the delivery is 100% self-help and that the demand environment remains unchanged. In the event that there is a moderate improvement in demand, we believe the operating margins will exceed this. The combination of both growth and material efficiency opportunity gives us confidence in our ability to deliver this material margin improvement.

We re-iterate our ambition of operating cash conversion of over 90%. And we add a new target – return on capital employed of over 20%. Which will be driven predominantly by our earnings growth on a fairly stable asset base. Ralph will go into more detail on these targets later this afternoon.

I will now invite Luc, to talk to you about why we are passionate about performance Specialties.

Luc van Ravenstein, Senior Vice President, Performance Specialties

Thank you Paul. Good afternoon, everyone, it's good to see you all.

I'm Luc van Ravenstein and I have been at Elementis since 2012; Some of you might know me from the Capital Markets Day in 2019, when I presented a session on Coatings, or perhaps the one before when I was in charge of the Personal Care business.

Today I am very excited to talk about Performance Specialties and present our agenda for future growth.

Performance Specialties at a glance

Performance Specialties represents around two thirds of the Group's revenues.

And, what makes this business special?

You've heard that Elementis is a leader in rheology – that is recognized in the markets we serve. And, as Paul mentioned we own two unique mineral assets: hectorite and high-purity talc.

We have a truly global reach. We produce in every region and we have sales and technical teams close to our customers. That has helped us to increase our share of direct accounts over distributors by more than 10 points the last three years. And this enables us to build stronger customer relationships.

These capabilities are the basis for our growth platforms – areas where we bring distinctive value to solve our customer's toughest formulation challenges. But let me first talk about the actions we have taken to create more resilient businesses.

Resilient Performance

I will start with Coatings. When I joined this business in 2018, we initiated the Coatings Transformation programme.

With this agenda we upgraded the product portfolio and exited non-core businesses.
I created one global Coatings team with a streamlined structure, implemented global key account management and put in place a new leadership team. I am so proud of my team and the impact they have every day. As a result of the transformation, Coatings is now a high-quality business with operating margins growing to 18% last year. This year, despite the unprecedented de-stocking and weak demand in the industry, the business is showing resilience with margins at around 14%.

Now, let me turn to Talc. Paul spoke about the circumstances that impacted demand, so I won't dwell on that. Instead, I want to focus on the actions we have taken since the beginning of this year when it became part of Performance Specialties.

First of all, we now have one single management structure. The team is focused and decisive. We are protecting margins and volumes and reducing costs. For growth, we focus our efforts in high-value segments; we'll cover these later on.

Now, demand from the market is still weak but we've made important steps to turn Talc around. I am confident we can deliver 12% operating profit margin that the market is expecting this year, and go beyond.

Now let me tell you how we win in Performance Specialties.

How we Win: We solve our customers' formulation challenges

First, we own mines that give us access to high-quality raw materials – like hectorite. But even more so, we have the ability to customize them via our chemistry to fit our customers' needs. That means we are well positioned to serve a continuously changing and demanding industry.

Secondly, we have a team of formulation experts in our labs. Many have joined us after careers with our customers, so they know exactly how to make a paint. And they are experts in rheology. As you've heard before this is the science of flow - it's essential for all formulations. No one understands it as well as we do.

Last, how we go to market. We bring strong supply reliability, thanks to our sites in the 3 key regions. And our teams are responsive, creative and agile. When I visit our clients, I often hear that that is what they value in our partnership. Our global key account program has delivered $100 million of sales in 2022.

How we win is all about bringing this together. It is extremely valuable to our coatings business, and it's transferable to other markets. We are putting efforts into creating new high-value spaces for growth, also outside of our traditional markets. We have opened up $1billion of new opportunities.

How we win: Doubling addressable market

So how do we create that new space for growth? Markets around us are continuously changing, because of trends, emerging technologies, or regulations – often resulting in new challenges for formulated products like paints. These changes bring new opportunities for Elementis. When we can demonstrate to bring solutions with our technologies, we will have created new space for growth.

I want to show you three examples of this. Take Architectural Coatings, we see consumers in China increasingly looking for more sustainable and high-quality paints. We have the right technologies for high-performance Coatings – driving our growth in the US and Europe. Also, Chinese paint manufacturers are increasingly asking for local supply, they faced severe disruptions during COVID, but also, driven by geo-political concerns and costs. We have a manufacturing site near Shanghai that we're now using to produce architectural additives - we've made our first batches over the summer. So we have the right technologies and local supply to grow into this attractive market, with an additional $250 million potential.

For Industrial coatings, options for sustainable technologies now go beyond trying to substitute solvents with water. Powder Coatings gained traction as a sustainable choice, because: they don't need solvents, and they can now be cured at lower temperature. That makes them suitable for heat sensitive materials like wood and it's a fast growth segment. Our hectorite-based rheology solution has shown to be a great fit in this area: it is now used by leading Powder coatings manufacturers to get smoother finishes. This opens up an additional $200 million space for us.

Finally, we have areas adjacent to Coatings. Over the last four years, we have made good progress in a niche, selling thixatrol into hybrid sealants. We've recently expanded our product portfolio, allowing us to sell into water-based adhesives and clear sealants, as well as construction additives. By doing so, we have tripled our addressable market in adjacent areas. Adding this all up, we are going to double our target market space by 2026.

How we win – Advantage technologies addressing market needs

Our growth platforms. These are areas where our technologies bring superior benefits to key market needs. Through these platforms we have developed a pipeline of over 35 new products that we are going to launch over the next three years; we have a large amount of new business opportunities, $290 million, which is over 4 times what it was 5 years ago. Many of these opportunities are generated through joint development projects with our customers. Now, let me move onto the individual growth platforms in detail.

Growth platform: Architectural Coatings

Starting with Architectural Coatings. This is an important market for us. In our target premium segment, we currently have around 13% share. Our ambition is to grow at twice the market.

We had a lot of success with our Rheolate one coat hide concept: it enables paint to hide anything by just applying one coat. And we will continue to grow in this segment, with three important actions:

Firstly, we will continue to expand our share in the US and Europe – this will be driven by our superior product offering, and leveraging our key account program. Secondly, we're using our Shanghai site to produce additives for local demand, including Rheolates. We'll be the only supplier producing these kinds of premium additives on three continents. Finally, consumers are demanding more and more sustainable paints. Let me show you an example of how we help them achieve that.

Example: Rheolate® Powder

Synthetic rheology modifiers like Rheolates are supplied as liquids and typically contain 80% water. We have developed a Rheolate in powder format, that can be added easily into paint, and it requires much less storage space. And, because it is a dry product, it doesn't need biocides for preservation, which makes it much more environmentally friendly. For our customers, removing water means around 80% CO_2 reduction from transportation. That's significant and is generating a lot of interest.

Growth platform: Industrial Coatings

Moving onto Industrial Coatings. Here we have an addressable market of about $800 million and a sizeable 20% share, mainly in the high-performance segments such as marine and protective coatings.

Here as well, there's a need for more sustainable products, driven by our customer's targets, and by regulations. We see this with many major brands; for example a large Swedish furniture manufacturer, which has 30% biobased target for paints on their products. We have ingredients that make customer formulation more sustainable without sacrificing performance. Our thixatrols, which reduce sagging in coatings, are more than 75% bio-based. I'd like to now give you one example of how we bring solutions to market needs.

Example: Hypomer-MT®

Trends in automotive interior design are shifting towards more premium, matte looks. For that, typically matting agents are added to clear coatings. The most common one being silica – it brings the matte effect, but it also reduces the clarity of the paint – which is a problem. And, users are sensitive to potential health concerns of handling silica.

Our Hypomer matting agents, resolve these issues: they bring the premium look through matting - but with crystal clarity. And, they are safe to handle. A leading EV brand now uses our technology for their interior coatings, so we've seen nice growth, and we have many other major car manufacturers testing it.

Growth platform: Adhesives, sealants and construction additives

Our third growth platform is adhesives, sealants and construction additives; a relatively new application for us. Our target market is worth about $700 million, growing at 5% per year, driven by trends like lightweighting. We are scaling this business and aim at double our share in 4 years.

So, how will we do this? We've been gaining share from silica fast – our thixatrols have superior rheology performance and are much easier to handle, you'll appreciate this during the break-out session. There you'll see our new, patent-pending Rheox Clear that is opening doors to a $100 million opportunity for clear sealants, for example for windows seals. Another adjacent area where we are solving an industry challenge is construction additives.

Example: Benaqua® 5000

In construction, large format tiles have become more popular in recent years; they weigh more, so it's more difficult to hold them in place when installing. And tiles sagging means a waste of material, mortar, and time, as it takes longer to install them.

To solve this problem, we have launched Benaqua 5000, based on hectorite, which brings excellent sag resistance. We estimate up to 50% improvement versus the existing rheology agents. And this will reduce both waste and installation time.

Growth platform: Talc

Moving onto our fourth platform, Talc. Here we have selected high-value applications in which we expect to deliver $15 million of growth above market. First, lightweighting: Electric Vehicles are built with lighter materials, like reinforced plastics to help lower carbon emissions. Here we launched the Finntalc K-line. It boosts the strength of plastic by up to 20%. This product helps us to gain share in this high-growth market.

Secondly – Talc is a key raw material for ceramics used in gas particulate filters. This is a very challenging technical application – we have a highly engineered talc that enhances the ceramic's thermal stability. We are in the process of scaling this attractive business.

In talc for Coatings, we have been benefiting from synergies. We have one global sales team, a sole distribution network, and a stronger position with joint accounts. With that, we have delivered over $25million of revenue synergies since the acquisition. And we have performance synergies to build on.

Example: Finntalc® M65LV

For marine and protective coatings, the Finntalc LV series acts as a physical barrier to protect ships from corrosion. This product is being used in combination with our new Nalzin 180. This is a corrosion inhibitor, that avoids rusting of metal surface during the drying of the water-based paints. We are launching it tomorrow at Chinacoat, the biggest coating event in China.

Summary

So you've seen a number of areas where we use our distinctive capabilities to solve the toughest industry challenges out there. And that's how we create our own growth opportunities, not depending on whether markets are soft or strong. This is about self-help.

The key points I would like to leave you with today: As you've seen: Performance Specialties is a resilient, high-quality business supported by our Coatings transformation and the Talc turnaround. We have innovative solutions that address key challenges in our markets. With that, we are doubling our addressable markets to $2 billion. And by being the partner of choice for our customers, we have built a pipeline of $290 million of new business opportunities. I am really confident about the bright future for Performance Specialties. We have set ourselves up to deliver significant growth in the coming years.

Thank you for your attention. I now invite Stijn to tell you about Personal Care.

Stijn Dejonckheere, Senior Vice President, Personal Care

Thank you Luc. Good afternoon everyone. My name is Stijn Dejonckheere. For many of you I will be a new face as I took over the leadership of the Personal Care business in 2020, so its the first time for me to present at our CMD. I am very excited to be here today and tell you more about the beauty of this business, in which I've been actively involved for over 15 years now. In this period, we managed to grow Personal Care from a small side business of about $20 million revenue in 2007 to a strategic segment of the Group.

But more importantly, in the last few years we managed to create a great momentum in this business. This has been driven by innovation, geographical expansion and the dedication of an excellent team. As a result, we are now better than ever positioned to drive material growth over the coming years, even in a challenging environment. I will go into the detail as to what gives me this confidence, but firstly, let me briefly explain what the Personal Care business looks like today.

Personal Care at a glance

The Elementis' Personal Care business is a high quality, high margin business. As Paul mentioned earlier, while we are active in all segments of the personal care industry, we excel in three core markets.

First one is antiperspirants – where we are the leader for the actives. Second is colour cosmetics where we have a leading position in rheology. And finally skin care. This is the newer segment for us but one where we have been particularly successful with our range of natural alternatives to synthetic thickeners.

As I will demonstrate later we have built a global setup and we now serve customers all over the world. The biggest markets remain Americas and EMEA, driven by the larger demand of Antiperspirant Actives in those regions. Asia, while currently the smallest region, is where we have seen the fastest growth over the last few years. This has been driven by a growing demand for our rheology modifiers for colour cosmetics and skin care, and more recently, our antiperspirant actives.

Thanks to our global reach, we service 70% of our sales on a direct basis. This is about 100 customers and is significantly higher than 3 years ago. We find that these direct relationships are helping us drive new projects and opportunities and also support the high-quality returns for the business. The rest is done via distributors that have been carefully selected and for whom we are typically one of their top 3 suppliers.

Track record of profitable growth

Personal Care is not only a high-quality business but also one with a track record of profitable growth. Not surprisingly, the social restriction caused by the Covid 19 pandemic had a significant impact on the overall beauty and personal care industry, including our business. For the following two years, we have seen a strong recovery, with our revenue growth outpacing the market recovery, and profits increasing more than 15% per year on average in that same period.

Let me give you a bit more detail on what was driving this above market growth: Firstly, we launched 25 new products since 2020, and increased the sales of innovation products to over $15 million per year. Those products offer sustainability benefits to our customers, either because of a higher efficacy or because they are replacing a product of synthetic origin.

Secondly, we enjoyed a tailwind driven by the market trends. Our natural and sustainable solutions gained a lot of traction in this period and sales of natural products now represent more than 80% of our total personal care sales.

And, finally. we invested in our capabilities, which I will cover in more detail later. Yet, what I mainly want to highlight today, is that we have created a momentum in this business that has much more runway for incremental growth. Since 2019, we tripled the opportunity pipeline to $70 million and this will be driving a material amount of new business in the next few years.

How we win – Increasing capability in key locations to underpin growth

So, as mentioned earlier, geographical expansion has been an important contributor to our recent growth, and we will continue to focus on growing our reach further. What has changed since the last capital markets day? We added a new laboratory in Shanghai and expanded the one in Brazil, allowing us to make more local formulations and to do the additional claim substantiation that was requested by the local customers. It also allowed us to develop new products, or make changes to existing products to comply with local regulations. We expanded our marketing capabilities, which allows us to create and run dedicated social media campaigns on platforms like Wechat in China, and where we have a good traction and activity level from our customers.

We also significantly expanded our sales capabilities in Asia. This provided a better access and penetration into new and existing Asian regions, either direct or via a specialized distributor. We have seen an immediate impact of this in Indonesia for example, where we now have a very good direct relationship with local giants, and where the business grew by $3 million since 2019. Finally, our manufacturing capabilities. We have a new antiperspirant actives plant in India, which allowed us to gain new business thanks to an improved supply, resilience and cost position.

These expansions have been leading to a very good momentum in Asia. As mentioned in our interim results the sales were growing double digit compared to last year, and this despite the post-covid challenges in China. And as the total sales are still much smaller than in the other regions, we have a lot of runway for growth in the next years.

Going forward we will continue to invest in our capabilities, as required. Next steps will be the new R&D facility with expanded capabilities in Porto and an expansion of the sales team in Japan and India. This will further increase our addressable market and drive future sales growth.

How we win – Advantaged technologies addressing market needs

As I mentioned earlier, we service the full personal care area, but our key growth platforms are skin care, colour cosmetics and antiperspirant/deodorant products. For each of those we have unique technologies that offer sustainable solutions to our customers.

Hectorite is key for all of them - and is therefore one of the big winning differentiators for our personal care business. What makes it especially valuable for personal care is that it is offering a combination of benefits, and that all of them are critical: it is 100% natural, it gives a luxurious touch and feel, and it enables formulation stability and flexibility.

Besides hectorite, the other important product ranges are of course the AP actives, and the natural oils that we offer. Innovation will remain a key engine of our growth in the next years. We have a robust product pipeline in place that will enable us to launch more than 20 new products over the next three years, facilitated by the new R&D facility that we will have in Porto.

We currently have 9 joint customer developments ongoing, and we get new requests coming in very regularly. You will get a good understanding of the exciting products that we are working on as I move onto the growth platforms shortly. But before that, I want to talk to you about what is behind our innovation ambition and what it does to the addressable market for our Personal Care business.

How we win – Doubling addressable market

Our continued focus on innovation and geographical expansion will allow us to double our serviceable market from approximately $500 million in 2022 to $1 billion in 2026. Natural rheology modifiers are growing twice as fast as synthetic ones. This is therefore one of the fastest growing segments in personal care ingredients. In this field, we will continue to leverage our leading rheology position and high-quality hectorite resource to launch new natural rheology modifiers.

Our initial products were positioned to replace other natural rheology modifiers. The newest generation however is more sophisticated and can now also be used as a replacement for synthetic products. This means that the target market for our natural rheology modifiers is increasing significantly. For antiperspirant actives we see growth that is mainly driven by the trend for longer lasting efficiency, and therefore higher valued products. But in our case, it is also fueled by the improved manufacturing capability, geographical coverage and supply resilience that we can offer to our customers.

In addition to the functionalities where we play already, we will also expand into new areas with products that are based on biodegradable technologies. In 2025 we plan to launch alternative actives for deodorants. Those will complement our antiperspirant actives range and will offer sweat reduction benefits for deodorants.

Another very interesting development is that in 2024 we plan to launch our first natural film formers for sun care and colour cosmetics. We received highly positive initial feedback from key customers who participated in an early evaluation of our products, and who are looking for natural film formers to replace the synthetic ones that they're currently using. We will talk more about that when we discuss the growth platforms. By bringing in our innovation capabilities we further enhance our serviceable market allowing us to continue our growth. I will now move onto the three main personal care growth platforms that Paul introduced earlier, and talk about the specific innovation for each platform in more detail.

Growth platform: Skin care

The first one is skin care. The trend that we see in skin care is mostly all about natural. Customers need natural solutions to replace synthetic ingredients. An important driver for this trend is the need to eliminate microplastics. We only started to focus on skin care in 2018 and today I am proud to say that we delivered on the commitment that we made during the capital markets day in 2019, to grow this segment with $10 million incremental revenue.

We did this by promoting our natural hectorite products as rheology modifiers for water-based systems. Going forward we will continue the penetration and innovation for natural rheology with more sophisticated products. In addition, we will add new natural functionalities: I already mentioned the water-resistant film formers for sun care. We will also offer products for skin conditioning and moisturization. And we will launch products that will allow ultra-light and very liquid skin care products, which is a big market trend in Asia.

And finally, we will leverage the unique chemical properties of hectorite as a natural active for skin care as well. Our strategy in this area is working. We not only grew the business by $10 million since 2019, but also grew the opportunity pipeline from $9 million to $23 million in that same period. This will enable us to deliver substantial growth at 2 to 3 times the market pace in the next three years.

Example market solution

Let me share with you an example of a product that uses our hectorite. Firstly, due to its rheology modification properties, but in addition to that it highlights Hectorite as an active ingredient for oil absorption in a face care product. This is a very nice example of one of the main players in personal care, L'Oreal, who acknowledges the multiple benefits of hectorite beyond the well-known rheology.

It is a good illustration of the work that was done by our team to promote hectorite as a natural active. This is one of the first products showing this, but we are convinced that there is a significant runway for growth in this space in the next years, as it will create resonance with consumers and other players in this application. We have samples of this product here with us that we will hand out to you. I would be very happy if you go and share it with your friends and family.

Growth platform: Colour cosmetics

Moving on to colour cosmetics. We have a well-established position in this market segment, with our hectorite rheology modifiers. The reason for that is that most of these formulations are oil-based systems and the hectorite derivatives like the Bentone Gels are broadly recognized as the best technology for the dispersion of pigments in these type of systems.

Today we see this industry changing and it is increasingly about the so called skinification, individualization and speed to market. The term skinification reflects on skin care benefits that are added to colour cosmetics. Individualisation is related to the wide range of colours and shades that brands are offering nowadays. This was triggered by the indie brands that started this trend some time ago. They also typically outsource the development and the production of new launches, which enables faster speed-to-market. Today the big brands are following this trend in order to remain competitive.

So, how can we win in this environment? Our innovation and set up are fully focused on offering solutions for these challenges. Let me talk about the innovation first. The latest product launches are a combination of hectorite with either emulsifiers or actives. You will see a demonstration of this during the breakout sessions, where my colleagues Kim and Kate will introduce our Bentone Luxe XO and the Bentone Plus Glow products.

The Bentone Plus Glow is including skin care actives so it is allowing our customers to make skin care claims for make-up products, meeting the skinification trend. By simply changing the pigments they can also create a full range of products, catering to individualisation, and they will be able to bring it to the market faster. I am very proud to say that last week we won the bronze award in the category of Functional Ingredients at In-Cosmetics Asia for this Bentone Plus Glow. It is another demonstration of the fact that our products are offering the right solution to the changing needs of our customers. Staying with the innovation theme, we have new exciting products that we will launch in 2024. This includes a range of patent-pending Bentone Ultimate products, with a higher load of hectorite clay and a new activation mechanism.

And finally, similar to the earlier mentioned innovation for sun care, we plan to launch a natural film former that will enhance the wear resistance of colour cosmetics, for example in lipsticks. This demonstrates the point I made earlier: while we already have a well-established position in natural rheology, our new products will help us strengthen this leading position and significantly increase our addressable market. It makes us feel confident that we can grow this business in the short term to at least $10 million revenue above market growth.

Example: Supporting global customers

We talked about how we can win in this new environment for color cosmetics and we covered the innovation part. Let's now move to the second part of our answer which is our set-up. Given our expertise in rheology and formulation solutions, and our global reach, we can now offer the right support to customers in emerging markets, to indie brands and to global key accounts.

In the emerging markets we see a shift to higher valued and more sophisticated products, and this can be facilitated by our Bentone Gel products. This has been driving a lot of the growth in Brazil and Indonesia for example. We've talked about the indie brands before. Bloggers and digital trend setters influence consumer's behavior, so we've seen a large increase in these sales. Our expanded reach and capabilities enable us to work with the local consultants or contract manufacturers who develop these products. And our multifunctional and natural ingredients are well appreciated as the working horse in their formulations.

Finally, the global key accounts. With most of them we have partnerships where we either develop customized solutions or where they get involved in early testing of our new innovations. This setup and the fact that can we reach out to basically all customers worldwide is enabling us to maximize the sales potential in this industry.

Growth platform: Antiperspirants

The third and last growth platform in personal care is in the field of Antiperspirants and Deodorants. As mentioned before, our new manufacturing plant in India is enabling us to grow the business. On one hand with global customers because of our supply resilience, and on the other hand with customers and plants in Asia. In this market, we see two main trends. The first one is for high efficacy actives, allowing longer lasting claims. Today, up to 96 hours of sweat protection is not unusual anymore. The second one is to work with natural actives. We are well recognized for being the leaders in innovation in this field. With our customers we continuously work on solutions for high efficacy products. Since our last CMD in 2019, we launched five new products in this field. For the naturality, we are focusing on different solutions. One includes a range of high-quality products based on recycled aluminum, allowing a reduction in CO2 emission for both our customers and ourselves.

The other includes work on an alternative natural active that will allow sweat reduction. Officially, this may not be classified as an antiperspirant active but it will enable us to offer sweat-reduction benefits for deodorants, which is something that the market has been looking for for a long time.

As we discussed before, hectorite is a key ingredient for all our core markets – and this is including the antiperspirant market. According to Mintel, around 70% of the launches of antiperspirant aerosols that happened in 2023 contain a hectorite derived product.

Example: Hectorite in antiperspirant aerosols

In these aerosol applications Hectorite is used to disperse the antiperspirant actives. This is important as our customers need to be sure that the right amount of actives gets filled in every aerosol packaging. And consumers need to get an even protection when they are using the product. It is a nice example of a big market where our two main technologies are used together. It strengthens our reputation as a leading supplier in this area. And in addition, it enables us to grow with those same customers in other applications, like skin or sun care.

Summary

This brings me to the end of my presentation. I hope that you now understand why I mentioned at the beginning of this session that it is beautiful business. We have a great product portfolio, that is strengthening our reputation as a leading supplier in rheology and antiperspirant actives. More than 80% of our sales are generated from natural products, so we are well positioned to meet the market trend.

We have the right capabilities which is allowing us to partner up with our customers. We have admired and award-winning new products, and an innovation pipeline that will deliver exciting new products and technologies in the near future. In short, we have created a great momentum to capture the material growth opportunities and to further enhance our returns. And all of this is fueled by a team that is passionate about growing this amazing business. Thank you for your attention. We now want to invite you to join the break-out sessions where you will see exciting demonstrations with some of our newest, and award-winning, products.

Let me briefly hand over to Eva, who will guide you to the breakout areas.

Eva Hatfield, Head of Investor Relations

Thank you Stijn. We will now pause the webcast until after the breakout sessions, and will resume after 4:00pm.

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Welcome back everyone, to the second part of the presentation. I would like to invite Dr Phil Blakeman, to cover Elementis' sustainability strategy.

Dr Phil Blakeman, Global Director, Sustainability

Welcome back everyone, I hope you enjoyed the breakouts. Good afternoon, and thanks for your time today. I'm Phil Blakeman, and for a little over two years I've been the Sustainability Director at Elementis. I've had a varied career in the chemicals industry, leading a pan-Asia regional business and driving commercial and technical organisations. I also have a PhD in chemistry and a Masters in Sustainability. I believe that my business experience combined with technical knowledge is especially helpful to deliver an impactful sustainability program. Today, I'm excited to share with you our successes and our strategy.

Our purpose

First, I want to start off with a reminder of our purpose, that Paul introduced earlier – unique chemistry, sustainable solutions. We are of course committed to a future that has a healthy planet, thriving people and sustainable development - driving towards our purpose is how we, Elementis, can best contribute to that future. But how exactly can we play our part? How do we create value for both the company and wider stakeholders while pushing towards our purpose? I am going to tell you why we believe we have the right focus areas for sustainable growth, what we have done so far, and how that shapes Elementis' future.

An industry in transition

Specialty chemicals is an industry in transition. When we assess the global markets that we operate in, we see our customers responding to the demands of increasingly aware consumers. There is also an expanding regulatory landscape. These lead to a set of market drivers that shape our own sustainability focus. I'd like to take a moment to walk you through these drivers and our responses. Climate change is impacting us all. Here, our focus is on lowering emissions throughout the value chain as we drive to Net Zero. We also work to ensure we have a business that is resilient to the various risks climate change brings.

We are in a materials-oriented sector, and so the circular economy is important. For us, this particularly means using renewable materials, such as bio-based chemicals, and generally helping resources be used efficiently along the value chain. As we've seen, much of our revenue is reliant on natural ecosystem services. Therefore, we focus on minimising the stress we put on nature by reducing pollution, from our operations and our products, and sourcing responsibly.

And as you heard from Joe in the break, we help our customers develop safer chemical products, lowering risks to human health. I'll focus more on these environmental aspects of sustainability today. But of course, to do any of this well, we are reliant on our greatest asset, our people. We have a dynamic social dimension to our sustainability strategy, with a particularly strong focus on safety, employee engagement and ensuring a diverse, inclusive culture.

And we are a responsible business, conducting ourselves with integrity, giving transparency to stakeholders and engaging our supply chains to help us have a bigger impact on the issues that matter to us and our customers. To bring these drivers to life, I thought I would return to an example that Luc mentioned - bio-based paints. We see examples from Europe, Asia, North America, big brands and smaller brands, all marketing paint with high bio-based content, emphasizing the natural-ness and the ecological credentials that such a product brings. Our own bio-based paint additives help our customers create these products. Taken across all our business, our future is certainly to deliver customer solutions that are more natural, Net Zero, and safer.

Elementis post Chromium divestment

So, let me tell you about the progress we have made. Firstly, I want to take you back to the beginning of the year, to when Elementis owned a Chromium business. This was quite a different business to the specialty chemicals areas we are focused on for future growth, and after a strategic review we sold it.

The Chromium business had a substantial environmental footprint when compared to the rest of the group. For example, the divestment removed 75% of greenhouse gas emissions from our operational footprint and substantially lowered our water withdrawal. The divestment meant that our business strategy and sustainability focus became fully aligned. This means we can set challenging and purposeful sustainability targets for the business, such as for greenhouse emissions. And we can better address the expectations of our most important customers, employees and indeed our investors. With this newly focused business portfolio, are we making progress towards our purpose?

Focused efforts are delivering results

Well, I am pleased to say that our continuing operations have some pretty exciting results. Here, numbers are re-baselined from 2019 to exclude chromium. We have lowered our absolute greenhouse gas emissions by 58%. That's well ahead of a Net Zero pathway. We've done this by making improvements in energy efficiency and, as Paul mentioned, substantially increasing the proportion of low carbon electricity we use.

In addition, our factories are using resources more efficiently. In 2022, we already met three of our four 2030 targets through smart, targeted capital investments and operational improvements. We will review these targets next year to ensure we keep moving forward with purpose and impact.

We have seen a steady increase in our ESG ratings. Ecovadis and CDP shown here are particularly important as indicators of the ESG risk level we bring to our customers. Good scores are increasingly important to be a favoured supplier.

And, reflecting the market drivers we talked about, our customers do want more sustainable products. Our revenues from natural & naturally derived products have increased by $59 million. In part this is due to our Personal Care business and is perhaps what we might expect from that segment. But there is also strong growth for naturally derived products within Performance Specialties, which is more exposed to industrial and consumer DIY markets – bio-based paints, for example.

Sustainability at the core of our strategy

Our business strategy responds to these drivers in various ways. In our Innovation pillar, we focus our capabilities on finding unique solutions to sustainability trends and emerging applications, such as our natural ingredients for skin-care and cosmetics that Stijn introduced.

Our Growth pillar is where our ingredients are well-established in products that support improved sustainability outcomes, such as additives for paints with low volatile organic compounds. And our Efficiency pillar is where we help customers to do more with less, such as additives that help paints cover in one layer, saving end users materials, time, and money. Efficiency also reflects our own efforts to have better sustainability outcomes in our operations and our supply chain. Let's look at some examples that I think are particularly impactful.

Sustainability in action

You heard Stijn mention recycled aluminium for use in our anti-perspirant actives, and that is a great example of our sustainable innovation. Here, we take factory aluminium waste straight into our chemical process. This cuts out the aluminium recycling loop and lowers our use of virgin metal. Ultimately, we have less resource use, less CO_2 emissions, and we support our customers with their product ecolabelling.

Luc talked about the many uses of talc, and one area we see continued growth is as a filler ingredient to enhance strength and durability of automotive plastics. Strong plastic components can replace metal ones in both conventional and electric vehicles. Since they are lighter than metal, their use increases the energy efficiency of the vehicle. Coming from our own mines in Finland, our talc also has a relatively low environmental footprint.

And on efficiency, I want to reiterate another example Luc talked about - our powder rheology additives for coatings. As these are dry products, we avoid shipping water – saving money and packaging – and have up to 80% less CO2 emission from transportation. Also, we do not need to use toxic biocides as preservatives, helping the environment. And finally, these products also have higher performance in customer applications. What I find powerful in these examples is that making one sustainability improvement unlocks many other co-benefits. Understanding all our impacts is how we will maximise our opportunities.

Achieving Net Zero by 2050

That is why we've worked hard to understand our full carbon footprint. We've confirmed that the bulk of our emissions are associated with purchased raw materials and logistics. With this knowledge, last year, we committed to set a science-based target for greenhouse gas emission reduction. We believe this will help us reach our ambition of Net Zero by 2050. We are currently working on the exact form of our target, following the process set by the Science Based Target Initiative. We aim to publish our validated target in 2025. While the details still need to be finalised, we expect this means roughly 40% reduction in our footprint versus the baseline year, reached sometime in the early 2030's.

As you can see here, we have several levers across our operations, product portfolio and supply chains that will help us deliver a science-based target and Net Zero. I've already mentioned some of the product changes which will lower our emission footprint. As an example from our operations, a particularly impactful process improvement was taken by the team at our California site. We adjusted our operating parameters for clay processing, achieving a 25% drop in natural gas use per tonne of clay produced - all for zero capital investment. Our skilled teams have identified many other opportunities. I'm looking forward to helping these ideas become reality.

Fulfilling our purpose

And so, we continue to push towards our purpose. Our future is to be Net Zero, more natural, with safer chemistry and products delivering a stronger business. We have the track record and strategic focus to deliver against market growth drivers, with a variety of product innovations and efficiency improvements. I mentioned earlier that our opportunities are maximised when we understand all our impacts. To get that understanding, we utilise a 5-point framework in our sustainability program. It helps us look at and challenge the business from different perspectives, while supporting credible communications with stakeholders.

Within this framework, we are building our capabilities and tools further. For example, life cycle analysis of our products shows their environmental impacts and the improvements we make. This is something customers increasingly request as they seek to understand the impacts of what they buy. We are also working to systematically understand sustainability risks and opportunities across our product portfolio and supply chains. In this way, we will unlock greater value, better outcomes, and make progress on fulfilling our purpose.

Summary

In summary, I hope I've demonstrated how sustainability trends are creating exciting opportunities for Elementis. Today, Elementis is a much lower footprint business with a competitive sustainability profile. We have an attractive naturally-derived product portfolio that is generating an increasing share of our revenue.

We are already well positioned to address the sustainability drivers in our markets, and are working hard to embed our responses ever further into our strategic delivery, supported by our 5-point framework and improving capabilities. Finally, early in 2025, we will publish our science-based emission reduction target, alongside other refreshed sustainability targets. I am confident these will help us unlock the exciting opportunities for further value generation.

Thank you for listening. I will be available for any questions after the formal presentation. Now I will hand you over to Ralph who will cover the financial framework.

Ralph Hewins, Chief Financial Officer

Good afternoon everyone. It's good to see so many of you here today. What I'd like to do now is to focus on our targets and how we see delivery of them combining to improve our financial outlook.

2026 financial targets

To recap, Paul set out three 2026 targets for Elementis:.

- operating margin to improve from our current level of 14% to 19% plus, depending on market conditions;
- our operating cash conversion to exceed 90%; and
- for our return on capital employed to exceed 20%, that's equivalent to over 12% including goodwill.

Let me now address how we are plan to accomplish each of those components in turn

Growth and efficiency platforms

First the operating margin target. Just to reinforce the context on this target. We see the path to getting to 19% entirely through self-help, without any improvement from the current soft market demand conditions.

Should there be a modest recovery in market demand that should, other things being equal, enable us to improve our margin performance beyond the 19%. Whilst the future is unknowable our confidence in this target is underpinned by the quality of our existing business and the growth and efficiency platforms that we are setting out today.

You have heard Luc and Stijn set out the details of our seven growth platforms, balanced across Personal Care and Performance Specialties. These are supported by industry trends and deploy our innovative technologies. There is no one platform that we are overly dependent on – and we are targeting the overall progress to be around $90 million in above market revenue growth by 2026. As I indicated revenues and operating margins would be further enhanced by the extent of any market recovery.

I will cover the efficiency platforms in more detail shortly, but in summary, these amount to $30 million annually to be delivered in 2024 and 2025, with the phasing approximately $12 million next year and the balance in 2025. As indicated here, the efficiency platforms contribute to a large part of our margin improvement and are very much in our control. Let me now take you through the efficiency platforms in more detail

Fit for the Future

First Fit for the Future which is targeted to deliver $20 million annual savings. The large majority of these come from staff cost savings in three areas:

First, an optimised structure. Post Chromium we are a smaller company and we need to right size our staffing. This step will see us eliminate around 80 roles. We are restructuring into a simpler and more efficient organisation, focused on our existing three regions in a more standardised way. These steps will also see us close our Cologne office.

The second step is the creation of a new R&D and support centre in Porto, Portugal. This location is a proven Global Business Services location, with centres for companies such as GKN, Adidas and Kantar already established there. It has the twin advantages of being a source of great R&D talent as well as being a lower cost location. We are consolidating over 90 roles from higher cost sites into Porto including setting up a new showcase lab.

The third element is outsourcing of over 20 transactional finance roles – AP/AR and general accounting, to India. Not only will this see a significant cost reduction, it will also give us access to stronger processes, digital tools and automation opportunities that we would not be able to deploy quickly ourselves.

Now in addition to the staff cost savings, we are also taking steps to reduce our non-staff overhead costs in areas such as: audit fees (to reflect the smaller company size), travel and other discretionary spend areas. To be clear we are not reducing any of our R&D spend. I should emphasise that this programme was in preparation since we announced the Chromium sale and therefore we are now quite advanced in its execution.

This slide shows the moving parts of Fit for the Future. Our manufacturing plants are unaffected. Beyond the plants, these changes impact 25% of our roles, mainly in the higher cost USA and European locations. We expect some 190 redundancies and, alongside associated costs, we expect one off p and l charges of around $30 million. The benefits anticipated are $20 million per annum from 2025, with about a third coming through in 2024. We expect this will contribute to a reduction of about one third of our reported central costs of whilst the balance of the cost benefits will show up in the segments.

Operational and procurement efficiencies

So that is our $20 million efficiency platform. Beyond that we are targeting an additional $10 million to come from supply chain optimisation and procurement savings. The delivery will be phased about half in 2024 and half in 2025. In our supply chain we have built capability in continuous improvement. An example of a recent success is increasing the % of solids we can process at our Newberry Springs spray drier, in effect meaning more output for the same energy cost.

We will drive better Overall Equipment Effectiveness through more automated processes, debottlenecked production lines and more efficient energy use. In addition to running the plants better, we see scope to optimise our manufacturing footprint, both where products are made and the footprint itself. We will have more to say on this in 2024.

Turning now to the procurement savings. Under the leadership of Eric Waldmann, who is here today, we will get these benefits from better use of vendor management, digital tools including e-sourcing, cutting back the number of raw materials that are single sourced, and standardising our procurement processes. So the growth and efficiency platforms we are pursuing underpin the margin expansion we have set out. Moving on now to cash conversion, which we are targeting at over 90%.

Working capital

A key source of cash delivery is working capital. Our working capital level stood at $142 million at the end of 2022. This was a high point in recent years, primarily driven by inventory increases with stock values reaching $182 million at year end. This was driven by the price effect alongside a fall off in demand in the latter half of 2022. The main drivers for working capital improvement overall will be:

- first, working with our outsourced service partner to standardise AR processes;
- second, on inventories, better integrated forecasting and demand planning to manage stock levels, alongside minimising inventories of slow moving goods. We are on track to reduce our inventories this year by some $30 million (principally in the second half) and we see that in 2024/25 we have scope for further reduction; and
- third, stronger procurement execution to reduce payables.

Disciplined capital allocation

Turning now to capital allocation. Supporting our working capital improvement will be discipline on capex, where we expect spend to be around $40 million annually, broadly in line with depreciation. Our capex priorities are on safe reliable operations and then on growth and productivity projects where we typically look for a 2-3 year payback. Our progression in profitability, working capital and our discipline in capex will drive our cash generation.

For the avoidance of doubt we do not expect to deploy cash in any material M&A. So our capital allocation priorities remain: First, to support organic growth. Second, to restart the dividend which we are very keen to do. When we restart the dividend we will look for it to be both sustainable and progressive. Third, and with that context, we see scope for future additional returns of surplus capital via appropriate mechanisms.

Debt reduction on track

Dividends and additional returns clearly require us to continue the path of leverage reduction. This chart shows the improvement in our net debt to ebitda ratio. It's worth mentioning at the end of 2020 our net debt stood at over $400 million and a ratio of 3.2 times; consensus has our year end net debt at around $230 million and a 1.6 times ratio at the end of this year with further deleveraging to come.

Improving return on capital employed

Turning to our third target – which is return on capital employed. Let me first take you through what is in our operating capital employed which is around $1.2 billion in total. Our fixed assets net of some modest operating provisions amount to just over $550 million.

As our future capex requirements are broadly in line with depreciation we do not expect this to move materially. Our net working capital balance was just over $140 million at end 2022. As I have discussed we see good potential to optimise our working capital intensity, particularly with inventories.

Turning to goodwill, the two largest components of goodwill on the balance sheet, accounting for some 95% of the total are the Rheox business bought 25 years ago (which includes our hectorite asset) followed by the Summit Reheis business acquired in 2017. As we do not plan to deploy cash on material M&A, we do not expect goodwill to increase. Taken together therefore, we are intending to be very disciplined on our capital employed. Our ROCE at the end of 2022 was 14% excluding goodwill, or around 9% including goodwill.

With the income and cash targets and parameters we have set out today, our aim is to take the ROCE above 20% by 2026. I have talked about the discipline we intend to exercise on capital employed, so the critical driver of the ROCE improvement will be operating profit growth.

Summary

So that takes us through the contributors to the 3 targets we have set out today. First, the growth and efficiency platforms driving margin expansion without reliance on better market conditions to achieve the 19%. And I would emphasise this margin improvement is not only a returns progression, it is also about growth delivery, expanding the overall profitability of the company. Second, capital discipline and cash conversion create scope for material shareholder distributions, starting with the dividend. And third a return on capital improving materially to exceed 20 per cent. We're excited to be getting after these targets.

With that I will now pass back to Paul to conclude.

Paul Waterman, Chief Executive Officer

Thank you Ralph.
I hope we have demonstrated why we are excited about Elementis going forward. Let me conclude with the key messages from today. Following the sale of Chromium earlier this year, Elementis today is a high quality, less cyclical specialty chemicals business.

While we have not yet achieved the targets we set at the last CMD, in November 2019, we are making good progress implementing our strategy. We have two focused businesses that are well positioned for growth. Personal Care, which is now around 45% of Group profits, is a high margin business operating in attractive, growth markets. Performance Specialties, which comprises our Coatings and Talc businesses, is well positioned to focus on growth opportunities across multiple channels.

The growth and efficiency opportunity going forward is material. We believe we can deliver $90 million of above market revenue growth by 2026. In addition, we have identified $30 million of costs that can be eliminated by the end of 2025. This delivery is within our control. It is driven by self-help and does not rely on a more favourable demand environment.

Elementis is a highly cash generative business. The combination of improved performance and ongoing leverage reduction will support sustainable shareholder returns over the long term. This will enable Elementis to generate an operating margin of 19%+ by 2026. In addition, we expect the cash conversion to exceed 90% and return on capital employed to exceed 20%.

Thank you for your attention. I will now invite the other speakers to join me on the stage and then we are ready to take your questions.