

2024 interim results presentation transcript

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Paul Waterman, Chief Executive Officer

Introduction

Good morning, and welcome to the Elementis 2024 interim results call. Before we get into the presentation, I'd just like to share a few reflections on our first half results. The demand environment was flat, so there was no tailwind. The results were driven by execution of the Innovation, Growth and Efficiency strategy that we have been working at since 2020.

At our Capital Markets Day last November, we shared how continued execution of this strategy would deliver materially improved financial performance by 2026. I believe the first half performance needs to be looked at in this context. Our performance was strong relative to the environment, and this was a result of our multi-year focus on launching innovative new products, developing new business, while simultaneously taking action to make Elementis more efficient. We now have a very solid foundation that we will continue to build on.

So, am I confident that we will deliver our 2026 CMD targets? Yes, I'm absolutely confident. And even if demand conditions remain as they are. We have the right strategy and a very talented team to deliver it. And we will continue to actively manage our portfolio. And we will deliver both above market growth and further efficiency.

So, while this first half is a down payment on our CMD commitments, there is more to come, and it will be to the benefit of our shareholders. I'm very excited about where we are going. It's a very exciting time to be leading Elementis. So, with that, let's get into the presentation.

In terms of the agenda, I will start with highlights and business segment performance, Ralph will cover the Group financials and then I will take you through the outlook. Following this we will take your questions.

Key messages

We are pleased to report that Elementis has delivered a strong first half performance, with revenue and earnings growth driven by Coatings and Personal Care. The self-help actions we announced in November are progressing well. We delivered 5% revenue growth in a largely flat demand environment. This was underpinned by the growth platforms we set out at last year's Capital Markets Day.

Our efficiency delivery is progressing faster, with \$15 million of cost savings now expected this year. Our balance sheet continues to strengthen, with net debt to EBITDA down to 1.3 times. And today we are announcing a strategic review of Talc to determine whether its full potential can best be delivered as part of Elementis, or via a divestment. In terms of outcomes, we have made good progress on our 2026 financial targets, delivering an operating profit margin of 17%. That compares to 14.4% in the same period last year. So, a demonstration of strong progress.

Operating cash conversion was 81% and return on capital employed improved from 15% for 2023 to 18%. I will provide more detail on the targets shortly, but first let me cover our safety performance, which improved further in the first half.

Improved safety performance

We reported one recordable injury, which is a 50% improvement on the prior period but equally one short of the zero injuries goal that we are targeting. That said, we have achieved notable milestones in the first half. 85% of our plants have now worked safely with no recordable injuries for over one year, and 60% have worked with zero injuries for over three years. There is still more to do. We continue to drive further improvement, training our people and maintaining our assets. Let me just mention the global HSE

management framework, which we rolled out in the first half. This is aligned with the international standards for health and safety at work and part of our systematic approach to keeping our people safe.

Financial performance

Turning to our headline financial performance on slide 7. Revenue increased 5% to \$383 million, reflecting more normalised volumes and improved mix. Operating profit of \$65 million was up 24% on the prior period. The best first half profit result since 2019.

Our operating margin was 17%, or 260 basis points higher than the 14.4% reported last year. Adjusted earnings per share increased 9% to 6.1 cents per share. And we continue to de-lever, with net debt falling since the year end and our gearing ratio at 1.3 times versus 2 times at this time last year. In line with our dividend policy, we have declared an interim dividend of 1.1 cents per share.

Strategic progress

Moving on to strategic progress, I am pleased to say we are moving at pace towards our 2026 CMD objectives. Progress is demonstrated in our focus areas of innovation, growth and efficiency.

On Innovation, we are on track to launch 15 products this year, with nine launched in the first half. These included bio-based defoamers for industrial coatings and hectorite-based skin care products. New products accounted for 15% of sales in the first half, up from 14% in the prior year. And we generated 69% of revenues from natural, or naturally derived products.

Our growth platforms are also on track, and we expect \$20 million to \$25 million of above market revenue growth to come this year. In the first half, we delivered \$29 million of new business across Coatings and Personal Care, putting us well on track for \$50 million of new business in 2024. Revenue growth in the first half was supported by strong growth in Asia, where Elementis sales increased 26%.

On Efficiency, I am pleased to say delivery of our \$30 million efficiency programme is running ahead of plan, and we now expect to deliver \$15 million of savings this year and another \$15 million savings in 2025. The organisational restructuring, which we call Fit for the future, is ahead of plan whilst our procurement and supply chain cost savings programme is progressing well with the AP Actives Middletown, New York plant now closed. Ralph will provide more detail on both programmes later on.

2026 financial targets on track

All these actions are supporting progress against our financial targets. First, our operating profit margin continues to improve. 17% in the first half gets us materially closer to our 19% plus target in 2026. I will reiterate that we have assumed 100% of the delivery is based on self help and we continue to assume that the demand environment will be unchanged. Should demand improve, we believe our operating profit margin will exceed 19%.

Our second target is to deliver operating cash conversion of over 90%. The three-year average operating cash conversion to end June 2024 was 81% and performance over the last 12 months was 130%. So we are making good progress here.

Our third target is to improve return on capital employed to over 20%. We improved to 18% in the first half from 15% last year. Around half of this improvement came from earnings growth and the other half resulted from a write down of the Talc assets.

Overall, we are making good progress, but there is more to do. Now let's look at the performance of our businesses by segment

Personal Care Performance

Starting with Personal Care, where we delivered a record operating profit. Revenue was up 2% versus a strong first half last year. Our adjusted operating profit is up 22% to \$34 million, with the operating margin improving to 29.3% supported by self-help actions. The expanded capabilities that we have been building over the last few years continue to drive momentum and have led to a higher quality business overall. This was mainly achieved by \$10 million of new business with higher value products – with almost half of them being innovation sales.

We continue to optimise our route to market, particularly in Asia, where, we have built the capabilities to directly manage more strategic customers. That not only increases customer intimacy but also drives higher margin. And finally, we are seeing the benefits of self-help cost and pricing management. Our plant in India is now successfully producing the majority of our AP Actives products, which has enabled us to consolidate our global production footprint.

Personal Care strategic progress

On slide 12 you can see that Personal Care is a high-quality business, with attractive margins. To drive new business, we need new products and our commitment to innovation is enabling this. Overall, the share of innovation sales as a percentage of total sales has been increasing year-on-year over the last 5 years.

We have launched 29 products since 2020 which are not only creating a stronger, higher quality business but have also helped drive our new business opportunities pipeline, which has now reached a record of \$81 million. This gives me confidence about the future growth and the sustainability of our margins in the coming years. And as you can see, this innovation and new business-led growth has created a business of scale, as Personal Care now represents 45% of the Group's profits.

Personal Care growth platforms

Now let me tell you how we are going to deliver on our Personal Care growth platforms. We set out in our November CMD a \$90 million above market revenue growth target by 2026, driven by seven growth platforms, three in Personal Care, four in Performance Specialties.

Personal Care platforms will deliver about one-third of the \$90m target. Here, we laid out the key deliverables to 2026 that support this delivery. The first is colour cosmetics, which is currently the biggest application we are serving in Personal Care. Here we target above market growth of \$10 million by 2026.

We are leveraging our strong market position and application knowledge to support customers – who respond to the latest trends and need the ingredients for the finest makeup products. We are on track to deliver eight new product launches within the next 18 months. These products will focus on solving our customer's key challenges around formulation versatility, flexibility and sustainability. Additionally, we will enter the field of film formation that is complementary to our current hectorite offering.

Secondly, in skin care we see a growth potential at two to three times the market, with the biggest opportunity being the replacement of synthetic rheology control ingredients, with our natural hectorite technology. We are on track to launch seven new products by 2026.

We see significant growth potential in water-based skin and sun care products, as well as film formation, which works alongside the benefits of hectorite in sun-care applications. Additionally, we continue to invest in existing product development of our hectorite series beyond their functional properties, promoting hectorite as a hero-ingredient. These developments will build on the successes we had in oil absorption and mattifying, opening the door to more sophisticated skin condition and skin improvement claims.

Finally, in AP Actives we target mid single digit revenue growth and margin expansion driven by our high efficacy AP actives. We will do this by entering a new market for deodorant actives, while also targeting a significant regional sales expansion in Asia. This is enabled through our improved manufacturing footprint with a local presence in the region.

This is the program to 2026 but let me cover the progress we've made over the last six months.

Skin care

First, Skin Care. In April, at the in-cosmetics trade show in Paris, which is the biggest show for personal ingredients in the world, we launched Bentone Hydroluxe 360. This is our newest hectorite launch which provides outstanding sensory and texture benefits, and also makes it easier for our customers to get the right stability and viscosity in their natural formulations.

We received great feedback. It was amongst the top five most popular products at the show, and we sent out over 700 samples to customers worldwide. This is our first product in a new Hydroluxe line. We are already planning the next launch at the in-cosmetics trade show in Amsterdam, next April. Together with existing products, this will enable us to expand our share in the natural rheology modifier market for skin care, that is worth over \$200 million.

Colour cosmetics

We also made very good progress in colour cosmetics, mainly driven by Asia, where the business grew over 30%. As I mentioned earlier this was facilitated by our expanded capabilities in sales, marketing and technology in this region, where we have doubled the headcount since 2021.

We saw strong growth in China, Korea, Taiwan and Japan. Growth in China was driven by our relationships with the bigger local players but also with some fast-growing manufacturing companies that export globally. I mentioned the changes to our route to market earlier, which means that in China, we now serve more of our customers on a direct basis. For the first time, we launched two customized products for our Chinese customers. But Asia growth is not all about China. In Korea we are advancing with contract manufacturers and in Indonesia we supply big players for local but very popular colour cosmetics brands. So, our continued investment in capabilities in Asia is delivering. And we will continue to invest in this region to support further growth.

Antiperspirants

Moving onto the last growth platform in Personal Care - Antiperspirants. Here we are focusing on revenue growth and more importantly further margin improvement.

We made great progress on high-efficacy products launched over the last few years. I am talking about products that allow for 72 or sometimes even a 96-hour sweat protection claim. Revenue from these products increased 16% in the first half. We also launched our first active based on waste aluminium. Using waste aluminium reduces scope 3 carbon emissions, with no impact on the efficacy of the product. Hence, this is providing sustainability benefits for us and our customers. Last, we have filed a patent for a new deodorant active that will offer both odour and sweat reduction benefits.

This will allow us to enter a new \$80 million deodorant actives market and will nicely complement our leading position in antiperspirant actives. We plan to launch it in the first half of 2025.

Performance Specialties

I will now move onto Performance Specialties. Overall revenue increased 6% to \$268 million, driven by Coatings. Adjusted operating profit increased by 22% to \$42 million. Adjusted operating margin rose to 15.5%, driven by both improved volumes and mix in Coatings and \$19 million of new business.

Coatings performance

Turning to Coatings, which delivered a much-improved financial performance. Revenue increased 10% to \$200 million, supported by growth platforms and some benefits from selective restocking. Adjusted operating profit increased 52% to \$38 million reflecting improved volume and cost management.

Adjusted operating margin improved to 19.3%, supported by self-help actions and better product mix. Our first half improvement reflects the quality of our Coatings business.

Slide 19 demonstrates the change we have made over the years, improving the portfolio and reducing costs. Looking back, you can see we had an average margin of around 14% between 2015 and 2020, even in a healthy demand environment. Since 2021, Coatings margins have been driven significantly higher.

The 19% margin we delivered in the first half, in continued weak market conditions is a testament to the improved quality of this business. This hasn't been driven by a favourable market. The chart on the right-hand side shows average volumes of select chemical companies, and industrial production growth and demonstrates the weak demand conditions we are still facing. That puts our 19% margin into perspective.

We are obviously looking forward to demand improving, but even without it, we have confidence we can continue to grow earnings in the coming years. Slide 20 shows the improvement in sales across the decorative and industrial sectors, driven by more normalised volumes post destocking.

All our regions saw revenue growth in the first half. In the Americas and Europe, where our business is split relatively evenly between decorative and industrial activity, revenue increased 8% and 7% respectively. And in Asia, where we are more focused on industrial coatings in China, sales improved 25%.

Let me just remind you, that China was still in lockdown in H1 2023, and we have also seen modest restocking in this region, so we do not expect the rate of growth to continue at this pace in the second half. And finally, revenue across our global key accounts was broadly flat, with many of our large customers facing quite challenging demand conditions.

Performance Specialties growth platforms

Let me now move onto our Performance Specialties growth platforms. Of our seven growth platforms four are in Performance Specialties. These are expected to deliver around two thirds of the \$90 million revenue target by 2026.

Now let me tell you our program to deliver. First, Architectural Coatings, where we expect to grow at twice the market through 2026. We have a big opportunity to tap into the growing demand for high-end paints in Asia, which is an attractive \$300 million ingredients market. To capture this opportunity, we are expanding our manufacturing footprint in Asia to increase our NiSAT production capability- I'll talk about this more in a moment. In addition, we will soon launch NiSATs that are over 80% biobased, without compromising on performance. And by next year we will launch a full range of powdered NiSATs, which help our customers reduce their carbon footprint.

Our second growth platform is industrial coatings – where Elementis already has a strong position with our high-end rheology additives. There are some distinct opportunities here to build on that strong base, allowing us to add \$30 million of incremental revenue by 2026. Over the next 12 months, we are launching a new hectorite and organic thixotrope-based line for powder-coatings. Our leadership position in rheology additives supports our ability to provide full formulation to our customers. We already have a full range of dispersants and defoamers that we produce globally. We are building capabilities in both Portugal and in China, to support future growth.

The third growth platform is Adhesives, sealants and construction additives. This is a market that we are only starting to penetrate but where our technologies bring both sustainability and performance benefits. We are looking to double our market share by 2026. One key area where we see rapid growth is in hectorite for tile mortars. This is a \$100 million market, where we are replacing bentonite-based products and significantly improving end product efficiency. Another new area that we are looking to expand into is the clear sealant market, worth around \$150 million. We will be launching an additive that will allow us to replace fumed silica. Innovation is crucial here, and we have six new products in the pipeline. We are also making sure that we have the right distribution network across the globe, with dedicated experts that can help us penetrate these exciting market segments.

Lastly, Talc where we aim to grow \$15 million above the market by 2026. We will continue to focus on areas with the highest demand for differentiation, so highly technical applications – where our premium talc is most valued. Those include long-life plastics, technical ceramics and barrier coatings for example. I will cover those later on. Let me now update you on the progress we have made in the last six months.

Architectural Coatings

In the second quarter we opened a new state-of-the-art NiSAT facility in China. NiSATs, or non-ionic synthetic associated thickeners are critical ingredients in formulating premium architectural coatings. Hence the new facility is bringing enhanced performance and environmentally friendly benefits to the Chinese architectural sector.

We are now the only supplier to have these technologies with manufacturing capabilities in the USA, Europe, and Asia. With our unique position, we can efficiently serve large global clients from each continent, as well as be close to the local champions. We can now deliver to 17 Asian countries locally from China, supported by in-region labs and [improved] distribution. Our continued focus on the Asian Architectural market is already paying off: H1 delivered 35% growth in Asia and a sizeable \$29 million new business opportunity pipeline.

Industrial Coatings

In Industrial Coatings we are focusing on powder coatings, entering the \$200 million market, which is expected to grow at a compound annual growth rate of 5% over the next 5 years. This is an area of focus for many leading coatings producers, due to the notable sustainability and durability benefits of these products. Akzo and PPG continue to invest and expand their capability, with over \$100 million of investments announced in the last 12 months. For Elementis, although we have a small base today, we already have the right offering and existing customer relationships to tap into this growth.

Our hectorite based products deliver durability as well as improved sustainability benefits. Some of the largest coatings manufacturers recognize this and are keen to adopt hectorite into more and more powder formulations. We believe, that going forward, hectorite will be able to replace PFAS, or so called forever

chemicals, while providing the same texture and other desired benefits. We are already working with over 30 customers, globally, rapidly growing our client base.

Adhesives, sealants and construction additives

Adhesives, sealants and construction additives are large markets, estimated at approximately \$700 million, but are relatively new market for Elementis. Our recent growth has been supported by the success of our Thixatrol range, natural, castor-based rheology additives. We believe these products are also an excellent alternative to fumed silica, which is currently used in sealants and adhesives for its rheology. Silica is not an easy material to handle, nor is it easy to handle safely, hence many customers are looking for alternatives. Our Thixatrols are natural, safer to handle, and provide the rheology profiles end products need and importantly, our products can reduce in-process energy usage by up to 80%. So, you can imagine there's a lot of excitement about these products. We are seeing increasing interest from direct buying customers, and we are hiring sales and technical experts to accelerate market penetration.

Talc Performance

Moving on to Talc performance - which experienced challenging conditions in the first half. This was driven by continued weak, but improving demand, and further worsened by a nationwide strike in Finland, which closed all ports and railways in the country for a month, and also forced a sharp reduction in activity at one of our key Finnish paper customers. As a result, we lost paper segment revenues and incurred additional logistics costs continuing to fulfill customer orders. These are one-off factors that are not expected to repeat in the second half.

Adjusted operating profit reduced 65% to \$3 million, with margin declining to 5%. Over the past year we have done quite a lot of work developing our 2025-30 strategy. As a result, we have decided to announce a strategic review of the Talc business, to establish whether the full potential of Talc can best be delivered as part of Elementis, or via divestment. I will update you in due course as work progresses on this.

We continue to believe that Talc is a business with strong fundamentals, and attractive growth opportunities. We focus on higher-margin applications, that requires talc of high and consistent quality. Those include, for example, long-life plastics, technical ceramics and barrier coatings applications. In long life plastics, our Finntalc_K line boosts plastic strength by up to 20%. In the first half, we launched another product in this series, popular for its highly lamellar ore. Secondly technical ceramics. These are internal combustion engine particulate filters where a highly engineered grade of talc is needed to get the right efficiency. We've demonstrated the quality, purity and consistency needed to grow in this market, and built a solid base, but we have the opportunity to grow further. We have technical approval from one of the largest manufacturers of these filters and expect to ramp up sales from early 2025. I will now hand over to Ralph to cover the financials.

Ralph Hewins, Chief Financial Officer

Thanks, Paul, and good morning, everyone.

Group Revenues

Let me start with Group revenue, which increased 5% on both a reported and constant currency basis, to \$383 million. Both our segments grew revenues. Overall volumes increased 1%, with the improvement driven by the Coatings business which benefited from selective restocking, particularly in Asia.

Price and mix contributed 4%, or \$14 million, largely driven by improved mix across each of the Coatings, Talc and Personal Care businesses. This was due to growth in the highest quality parts of our product portfolio and enhanced routes to market.

Group operating Profit

Moving on to Group adjusted operating profit. This rose by 24% on both a reported and constant currency basis, to \$65 million. With a balanced contribution from revenue growth and cost savings our operating margins expanded from 14.4% to 17.0%. The volume impact was around \$2 million. We don't expect the restocking benefit we saw, worth about \$4 million, to repeat in the second half.

The net impact of price and mix was \$7 million. The overall impact of the Finnish strike on Talc operating profit was around \$3 million, due to lost sales and higher costs. We delivered \$7 million of cost savings; this

is the first part of the \$30 million cost programme we announced in November. I will cover this in more detail later.

Cash flow

Turning to cashflow there are a few points to highlight. On working capital, we saw an outflow, reflecting normal seasonality patterns, of \$21 million. This was materially lower than the \$46 million in H1 2023. Our inventory levels improved from year end 2023 and were around \$15 million better than the first half last year.

In the second half we anticipate a working capital inflow. Capital expenditure was \$17 million, and our guidance for the full year remains at \$40 million. Adjusting items of \$12 million relate primarily to our Fit for the future implementation costs, and the settlement of a tax case in Brazil.

After the impact of the dividend restart, and the seasonal working capital outflow, our net cash flow was positive. Continued cash generation has reduced our net debt to \$196 million – some \$59 million below H1 2023.

Strong balance sheet

The debt reduction progress is part of a multi year track record. Our net debt to EBITDA ratio has reduced from 2.6 times in 2021 to 1.3 times now. We see the scope for further deleveraging in the future. We also completed the refinancing of our revolving credit facility in the first half, reducing it by \$125 million to \$250 million. Our total debt facility is now around \$500 million.

Disciplined capital allocation

Now let me remind you of our capital allocation priorities. First, we will invest organically to grow our business. Capital expenditure will be approximately 5% of sales, focused on growth and productivity opportunities. Second, with a strong balance sheet and the reinstatement of dividends, we are committed to a progressive dividend policy, with a payout ratio of around 30% of adjusted earnings.

In line with our policy the Board has declared an interim dividend of 1.1 cents per share. And we continue to see scope for additional returns of surplus capital via appropriate mechanisms as we de-lever further.

Efficiency: faster delivery of \$30m cost savings

I will now cover our efficiency programmes. Delivery of our targeted \$30 million annual cost savings is progressing faster than expected. In November last year, we announced a phasing of \$12 million savings in 2024, with the remaining \$18 million in 2025. We now expect to deliver \$15 million costs savings this year, and another \$15 million in 2025. Let me now provide a bit more detail on the progress of the two efficiency programmes.

Fit for the future restructuring

First, the Fit for the future organisational restructuring. This programme, which is expected to deliver \$20 million of the \$30 million cost savings by 2025 is ahead of plan with faster implementation pace. We expect to deliver \$8 million of savings this year. Savings come from three components: First, we are creating a simpler, more efficient corporate structure. We have seen 40% of the announced 190 roles exit the organisation by the end of June.

Second, we are setting up our new R&D and support centre in Porto, with around 100 new roles. The recruitment is progressing very well, with 90% of roles hired so far.

Third, we are outsourcing around 20 transactional roles to India. This process is also on track, with the contract in place with EXL and the first round of staff exits completed.

Throughout these major changes, we continue to focus on “implementation health metrics” which include voluntary attrition, employee engagement, knowledge transfer and gender diversity. We are pleased to report that all remain positive.

Global Supply Chain and Procurement

Moving on to the second part of the efficiency steps, which will deliver \$10 million of cost savings by 2025. These are coming from supply chain optimisation and procurement savings.

In March, we announced a planned closure of one of our AP Actives plants in the US, consolidating our manufacturing footprint. The Middletown plant closed in June, as expected. The closure underpins a large part of the targeted cost savings and will help to enhance our Personal Care margins. We have a dedicated continuous improvement team, which identified over 90 projects, generating over \$1 million of cost savings in the first half.

And across procurement, we implemented global category management strategies, focusing on direct and indirect spend. Over the last 12 months, we renegotiated 75% of direct spend contracts. We have also consolidated over \$200 million of indirect spend so far, to better leverage scale and discipline.

And we are currently implementing a new digital vendor management system, which is expected to go live in the third quarter this year, leading to better transparency and lower admin costs. Taken together these two efficiency programmes are a critical driver of our 19% operating margins target.

I will now hand back to Paul to cover the outlook for the year.

Outlook

Thanks Ralph. So, to conclude, we have delivered a strong first half, driven by self-help actions, and modes restocking. We do not expect those one-off benefits to recur in the second half and assume a stable macroeconomic environment for the remainder of the 2024 financial year, with no material improvement in demand.

Our growth and efficiency programmes are progressing well, with the growth supported by a \$348 million of new business pipeline and 15 new products in 2024. We expect to deliver \$15 million of annual cost savings this year, with an additional \$15 million next year.

These ongoing self-help initiatives, together with the strong first half delivery underpins an upgrade today to our full-year guidance and underpins our confidence in our ability to deliver our 2026 financial targets.

With that said, Ralph and I would be happy to take your questions.

Q&A

Operator (instructions for raising questions)

First and the first question goes to Kevin Fogarty of Deutsche Numis. Kevin, please go ahead.

Kevin Fogarty, Deutsche Numis

Morning all. Hi there, how are you doing. Thanks for taking my call. Just if we think about, first of all on personal care, that sort of mix benefits that you've seen in H1, just to be clear that that's kind of outside of the impact of growth initiatives coming through. So, I just sort of wondered, I think you might have alluded to as you're wrapping up in terms of the visibility around kind of that dynamic repeating in the second half of the year. I just wondered if you could sort of say something on that. Just to clarify kind of our thinking there, would be quite useful.

And just secondly, clearly you've outlined some good progress in terms of those growth initiatives. So back in November, we saw seven of those growth platforms outlined. The update today obviously shows some good progress there and lots of ambition. I guess, when you think about those now, do you think about the need to invest further behind those. I know you're sort of guiding in terms of CapEx this year in and around kind of \$40 million, but if we sort of roll that forward, is there any thinking in terms of the investment need that those initiatives now might require.

Paul Waterman, Chief Executive Officer

Yeah. Okay. Good questions Kevin as ever. I think on the personal care performance, I would say that the mix benefit that we saw in the first half, quite honestly, we see no reason why that actually shouldn't continue. The activities that we're seeing in cosmetics and skincare behind new products, not just ones recently launched, but ones that have been cycling through the last few years and the growth that we're seeing in Asia, I think it's good momentum, frankly, that we will continue to see.

Clearly there's seasonal, a little seasonality in the business, for sure. I think a few of the customers have restocked a bit because of the whole Red Sea Houthi kind of the logistics, some of the logistics challenges, but I think the overall momentum that we're seeing should continue actually. And quite honestly, it's our

hope to build on it with more new products as well as with the consolidation of the AP Actives manufacturing footprint, which the benefits of that haven't really come through yet.

In terms of the growth platforms, the kind of capital investment that we've laid out will suffice, frankly, to support our ambitions in these areas. So, there isn't a, another shoe to drop on CapEx to pursue our ambitions on the growth platforms, frankly you saw in the presentation, we've done some expansion of NiSATs in China, that will serve Asia. That was long been planning, frankly, and it wasn't a massive investment. So, optimization, frankly, of where products are made that allow us to tap into growing geographies is something that we will continue on an ongoing basis. But really, with the footprint we have and the capital spending that we've anticipating, you know, there isn't anything big to happen in that area.

Kevin Fogarty, Deutsche Numis

Great. Okay. Thanks very much for those. Thank you.

Chetan Udeshi, JP Morgan

Yeah, hi, thanks for taking my questions. And firstly, congrats on good performance. I was just wondering if I look at your volume growth in H1, it's not really that high. It's just like it seems around 1%, give or take. So, it seems almost all of the profit improvements have come from not volumes, but probably price, mix, costs. Are you able to break down that more in a bit of a detail, just to get a sense of what could be driving the profitability. And I'm more curious around the pricing part because we've seen many in chemical industry over the last year or so, given the weaker volumes and demand, have seen pricing pressure. It doesn't seem that's been a factor with Elementis in numbers, but just wanted to get some clarity on that. And the strategic review on Talc. We, of course, will wait and see where it goes. But I remember when you sold the Chromium business, you had from memory \$7 million, \$8 million of stranded costs at that point in time initially. Assuming Talc is sold, do you think we have a similar number to deal with initially before you take actions to mitigate those stranded costs or would that number be very different. And maybe the related question for Ralph would be, is there a way you can offset the dilution on earnings, either through repayment of debt, et cetera, or that may not be an option given the maturity of your debt might be a bit longer duration. Thank you.

Paul Waterman, Chief Executive Officer

Okay, I think I'll take the second question first because it's more straightforward. We don't anticipate any material stranded costs related to a potential Talc divestment, Chetan. It's not in the same position as Chromium was. In terms of performance drivers, I'll let Ralph give you the specific numbers. I would just say that you're right. Volume has not been a fair wind for sure. And when we were kind of putting together the planning for what we want to accomplish over the next few years, we didn't want to depend on that. Demand is say it's like the 900 pound gorilla in the room. I mean, what's it going to be, you don't know. So, we assume that it would be pretty mediocre. And therefore, you know the other things like the value of innovation, the new products, the new business that we've been working at. I mean, you know, these are higher margin products, so they help our mix pretty considerably.

The efficiency programs that Ralph kind of took you through, I mean, at which we're kind of halfway, frankly, halfway through there's quite a bit more to come there. I think on pricing, the only thing I'll say is we've definitely been completely on top of how do changes in costs impact our margins. And I think the challenge as a spec chems player is you want to be doing the stuff that's special enough that you can charge for it when you need to and offset inflation, protect your margins. We've been pretty disciplined about that. We'll continue to be. I do think that we're kind of coming down the curve pretty fast on inflation. So, to be over reliant on pricing, it wouldn't be very smart, and I don't think we are. Ralph, do you want to give any more detail.

Ralph Hewins, Chief Financial Officer

Yeah. Just a bit of, I mean, you're right. In terms of the growth, very little of the growth came through in terms of volumes, just about \$4 million dollars worth, a couple of million dollars worth in terms of operating profit. Most of the price mix benefit, we got about \$7 million of that in the first half was really down to mix. And there were three things there in particular. One is, in our Coatings business, a relative tilt towards industrial sales, which are slightly higher margin than decorative. In the U.S. In particular, decorative volumes were quite subdued, as reflected in other company's results. And when we sell relatively more industrial, we tend to earn slightly higher margins.

Second, we went more direct, particularly in Personal Care versus distributors, and that's generated a better mix effect in terms of our profitability. And the third thing is in cosmetics. We had a particularly good half in cosmetics, which we think will sustain, but the margins there are, again, some of the best in the Group. Those three things together really contributed to the mix effect. In terms of your comment about dilution, in the event we go down the road that you're talking about, we clearly would have a number of options. We certainly could repay the debt but the main debt facility we've got now is a couple of term loans which mature in June '26. We could repay those or partly repay those. And in addition, we've got scope for doing additional returns to handle any dilutive effects. So, I think we're confident we could manage the dilution on the business. That's a long way down the road yet.

Vanessa Jeffriess, Jefferies

Morning. Thanks for taking my question, and sorry I've dialed in late, so I'm sorry if this is repeating a question before. You're doing very well in new business, obviously. Just wondering about the pipeline. It looks like the total pipeline is down 15, but Personal Care is up 11. Is that reduction coming from Coatings or from Talc. And then just second of all, it looks like you're getting a very healthy margin contribution from those new products. How do we think about the margin differential between those and then your standard classic product.

Paul Waterman, Chief Executive Officer

Yeah, thanks for the question. Look, I think on the pipeline, you know, it does bounce around every month a bit. And, yeah, certainly the momentum on Personal Care has been quite good. We're pretty pleased about it, particularly in Asia. The slight downshift that we saw was a bit of a mix, actually, between Coatings and Talc. But again, as I said, it's a very big number and it does move around a bit. Sorry, what was the second question.

Vanessa Jeffriess, Jefferies

It's on the margin difference.

Ralph Hewins, Chief Financial Officer

Yeah, there it is certainly accretive. And the vast majority are in the 55% plus kind of place. Some are higher, higher than that, and obviously depends on the specific segment. You know, Colour Cosmetics being a bit different than Coatings products. But, yeah, we managed that actually pretty proactively, frankly. And really what drives it is the level of innovation, I mean, what you're bringing to the customer that they don't have that they want, that's of value. Which is why we're really, really focusing on superior performance, better sustainability, or being able to take cost out of their operations, their processes.

Eva Hatfield, Head of Investor Relations

We have received a question via email as well from Sebastian Bray at Berenberg. So, he asked, how have prices and volumes developed in Talc. Does pricing pressure explain any of the headwinds year on year, leaving aside the strike, any signs of increased competition. And there is a second question as well.

Paul Waterman, Chief Executive Officer

Okay. Hey, thanks, Sebastian. I would say that in the first half, our top volumes were down about mid single digits, and they were pretty well driven by paper. The problems that we had in the country strike, that sort of complete shutdown for four or five weeks, that we were dealing with, I think on a longer wavelength basis if you take your mind back to Russia Ukraine war, and energy costs just exploding in 2022, and you can probably all remember, we were chasing those costs with pricing as quickly as we could, which is why we broke even that year. So, we obviously had to react, being a European dominant player, in a way that would be different than a few other competitors. And so pricing certainly had an impact there. But I would tell you that over ---- that is materially different than what we've seen in the last few years, competitive wise.

Eva Hatfield, Head of Investor Relations

The second question was, what will determine whether Talc remains part of the portfolio, and how long will the strategic review take. Is the decision to divest independent of the price offered by any potential buyer.

Paul Waterman, Chief Executive Officer

Yeah, look, I think on that one, I'll just back up a bit. We always said that there aren't any sacred cows in the Elementis portfolio. And we've taken some big decisions in the past, are getting rid of our surfactants business in 2018, selling the Chromium business in 2022. And I think as we've been doing work on the Elementis 2025 to 2030 strategy over the last nine months. It's become pretty clear that Coatings and

Personal Care businesses have both developed into much higher margin businesses, and they both have good organic growth potential. You look at Coatings is margins approaching 20%, Personal Care approaching 30%. So, as we look at Talc, it's a fundamentally strong business. But since the pandemic, a number of the European end markets have structurally declined, especially automotive. And so while there's good potential to grow the business, it's not clear it can deliver the operating margins and the return on capital that meet our expectations, particularly those that we laid out at the Capital Markets Day last November. So, it raises the question of whether or not we're the best owner going forward. And we've got to determine if our capital and our management attention should really be focused there. So, we're going to be reviewing it. You know, we're going to move, obviously, as quickly as we can. Not an easy decision, but I think it's, it's certainly the right decision. It was a long Sebastian question. I feel like I missed something.

Eva Hatfield, Head of Investor Relations

It's whether the decision to divest is independent of the price offered by any potential buyer.

Paul Waterman, Chief Executive Officer

Look, I think we've got to go through the process and see where it takes us. You know, we're always going to, we're always going to choose the option that we think is going to create the highest value for shareholders. At least that's always the intent. That's what I would say. Any other questions?

Kevin Fogarty, Deutsche Numis

Oh, hi, guys. Just a couple of follow-ups, if I could do. If we look at Personal Care during the period, we've seen some tweaking or change in terms of your kind of distribution channels or route to market. And I just wondered, is that a kind of structural shift for you guys or is it a sort of market specific rationale kind of driving that.

And then just secondly, obviously on the Coatings side, you know, your comments on what some of the coatings majors have kind of pointed to recently. Your performance, I guess, has kind of decoupled quite a bit from theirs, I would have said. But could you sort of share with us kind of what they say to you in terms of their outlook. I guess the role that you provide for them, is there anything that you get from those customers that you can kind of share with us.

Paul Waterman, Chief Executive Officer

Thanks, Kevin. So, to the question on route to market on Personal Care, I would say that it's market specific in that, about two thirds of the Personal Care business is direct. And when we're kind of coming into a country or growing a part of the world where we don't have very much presence at all, distributors obviously can play a really, really helpful role. But then kind of what happens ultimately is that you have customers that actually, they start to grow up pretty quick. And you can see the runway is really substantial. And the judgment is that we want to own that relationship. We don't want someone in between it, because that allows us to accelerate innovation and frankly, more deeply penetrate what their needs are and gain their share of wallet. And so we've taken that decision. Not to say we don't value distributors, we do, and it works really, really well. But there comes a point, frankly, very often in certain countries where you really want to be direct with those customers that are kind of coming of age, is what I would say.

In terms of question on Coatings, I don't know that I could tell you anything you don't already know in the sense that if you look around by region, clearly in the United States, the housing situation is pretty negative, right? You're just not seeing the level of transactions that you did when there was 3% mortgage rates. And so that's clearly hurting deco. But on the other hand, in industrial, we do see some, it does look a little bit more positive with the Inflation Reduction Act and a bunch of government money is being spent. So that's a bit helpful. Europe is pretty anaemic all around, frankly. And the progress that we're making is much more new business driven, and I think that's helping us quite a lot.

And then China, well, there's kind of what's going on in China. A bunch of exporting, certainly some industrial activity, military shipbuilding, things like that. So, I feel like we're benefiting a bit from that. But their housing you know is a disaster right now, and so that's certainly not helpful. And then I think in Southeast Asia, India, we're certainly making some headway. We've got a relatively new customer, Aditya Birla, who they've come into the coatings market in India very aggressively, and we did almost \$2 million of business with them in the first half. So, we see bright spots in Southeast Asia as architectural coatings kind of start to off a very, very small base, I think, start to grow, which is why we made the investment we did in

China. So, I think that's kind of the, you know, I think as rates start to get cut in the back half of this year, you know, I think it's very possible we'll start to see a little bit of a better environment in '25, but I mean, you know, it's a bit, we'll just have to see.

Kevin Fogarty, Deutsche Numis

Understood. No, that's helpful colour. Thanks for that.

Chetan Udeshi, JP Morgan

Yeah, hi. Just a quick question. Maybe a difficult one, but just looking into 2025, can you remind us what could be the key moving parts. You talked about \$15 million of savings accelerating in '25. What would be the net contribution of that on earnings? And anything else that you think outside of macro, which will help you continue to show the momentum that we see at the moment in H1?

Paul Waterman, Chief Executive Officer

I will start. Ralph can help me a bit. Look, I think that 2025, many of the things that we're doing right now, we're going to continue to be driving. Yes, we have 15 out there as our number. Obviously, we're going to work hard to see if there's more that we can do. We've got to obviously manage the margins, so we pull the value through to the P&L. We're going to work pretty hard on that. There are a number of new product launches that we have planned, and I think our ambition for new business will be just as strong. And I do think as we've continued to develop the business throughout Asia, I think we'll be looking for more penetration and growth in both Personal Care and Coatings. And then obviously, as I said, pricing is always a factor, but we're going to be thoughtful, frankly, given that it's not the '22 inflationary environment anymore, it's kind of a different time.

So, Chetan, I think it's and really getting the cumulative effects of that focus, that's, I think, what's going to underpin the kind of step change and improved performance that we can make in 2025. And again, you know, I don't know what demand is going to be, and I'm absolutely adamant that I don't want to assume that we're going to get any help on that because that makes the game as hard as it can be for us and therefore, we take all the tough decisions we need to take in order to drive performance.

Ralph Hewins, Chief Financial Officer

Yeah. So just to add to that, Chetan, I mean, with the \$30 million set cost savings, we're saving \$15 million this year. So, there'll be \$15 million, which really we've got well underpinned now because there'll be a lot of that will come through from run rate effects from this year's actions. So, \$15 million additional cost savings targeted for next year. You saw the first fruits of that, in the first half of this year it was \$7 million. So, there's \$15 million on the cost savings to come through.

And then in terms of the \$90 million of growth that we set out for '24, '25, '26, we're saying that in '24, we expect \$20 to \$25 million to come through and therefore you've got sort of \$65 to \$70 million to come through evenly over the course of '25 and '26. Probably a little bit more as we get momentum into '26. But those two components are going to be the biggest drivers of performance improvement into 2025.

Chetan Udeshi, JP Morgan

So, very clear. Thank you.

Operator

Thank you. We have no further questions. I'll hand back to Paul for any closing comments.

Paul Waterman, Chief Executive Officer

Thank you. Look, thanks very much to all of you for your time. You know, it's a good first half, but as I said, I think earlier, you know, our heads are down and we want to make it a good, very good 2024 and just as importantly, set the table for '25 and '26. So, look forward to speaking with you all soon again.