ELEMENTIS

2023 full year results presentation transcript

7 March 2024

Paul Waterman, Chief Executive Officer

Introduction

Good morning, and welcome to the Elementis 2023 Full Year Results Webcast. Thank you for taking time to join us today.

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

Key Messages

We are pleased to report that Elementis delivered a resilient performance in a challenging demand environment. Profit growth was achieved through the combination of pricing actions and cost reduction that offset a weak demand environment.

In Personal Care, the business delivered a good performance supported by new business wins and growth in Asia. In Performance Specialties, our coatings business faced destocking throughout the year as well as weak demand, which negatively impacted volume performance. While Talc also suffered from weak demand, both pricing and cost reduction actions drove a significantly improved performance as compared to last year. Going forward, we will continue to focus on further improving the performance of this business.

In 2023, Elementis continued to make financial progress. Operating margin increased 100 basis points to 14.6% versus prior year. Proceeds from the sale of our Chromium business and higher earnings reduced the net debt-to-EBITDA ratio to 1.4 times compared to 2.2 times at the end of 2022.

And I am pleased to announce that the dividend will be reinstated this year. Ralph will cover this in detail later.

Finally, I want to reiterate our commitment to the 2026 financial targets we communicated at our Capital Markets Day last November.

- First, an operating margin of 19% plus;
- Second, an average three-year cash conversion that exceeds 90%; and
- Third, to generate a return on capital employed, excluding goodwill, that exceeds 20%.

We are focused on delivering against these targets and are making good progress.

Strong safety focus

As always, I will start with safety. Nothing is more important than ensuring that everyone who works for Elementis returns home exactly as they arrived. Our ambition is to become a zero-injury business.

In 2023, we further improved our performance. We achieved a 50% reduction in recordable injuries. I am pleased to say that 90% of our sites had no recordable injuries in the year, and 40% have gone five years without recordable injuries.

In addition, we continue to progress important safety initiatives that will strengthen our culture and improve future performance. We made good progress on our process safety improvement plan, as well as enhancing our health and safety and environmental standards, which have been communicated across the organisation. So more to do, but good progress in 2023.

Resilient performance

Turning to slide 7, which provides an overview of our financial performance. We are pleased with our performance given the weak demand environment, which impacted volumes in many of our markets. Ralph will cover the financial detail, but I just want to highlight the profit growth to $104 million, which we achieved via pricing, favourable product mix and cost reduction that more than offset lower volumes in the year.

As I mentioned earlier, our operating profit margin improved 1 percentage point to 14.6%, and our net debt-to-EBITDA reduced to 1.4 times, largely due to Chromium proceeds and higher earnings. We have reinstated dividend payments, and the Board has recommended a final dividend of 2.1 cents per share.

Strategic progress

Our financial progress has been driven by continued execution of our innovation, growth and efficiency strategy. Here are key highlights of our strategic progress from the year.

On innovation, we launched 12 new products. We have taken a multiyear approach to launching distinctive products, and as a result, our revenues from innovation sales have continued to grow. In 2023, they increased to 14% of total revenue. And we worked on 28 joint development projects at key customers, where we collaborated with them to solve their toughest formulation challenges.

Our continued focus on innovation is driving growth. We delivered $51 million of new business in 2023, with over half coming from the seven growth platforms that we discussed at our Capital Markets Day. Our Personal Care business in Asia grew 10% as we benefited from multiyear investment in sales and technology capabilities in this region.

Our growth is also supported by our improving sustainability profile. In 2023, we generated 68% of our revenues from products classified as natural or naturally derived.

Our third strategic pillar is efficiency. We delivered $10 million of cost efficiency in 2023, completing the $25 million cost efficiency programme that we announced in 2021. In addition, last November, we announced two new efficiency programmes that will deliver $30 million of savings by 2025. A key enabler of this delivery is our Fit for the Future global restructuring, which will simplify and streamline Elementis. We will open a new technology and service center in Porto, Portugal and outsource finance activities to India.

Finally, we completed a multiyear project to consolidate our ERP platforms and now have a single JD Edwards ERP system, which will create opportunities for further efficiency and process effectiveness.

Sustainability progress

In 2023, we also made good progress against our three-pillar sustainability framework. On the environment, we continue to make progress on our greenhouse gas emission reduction targets. Our Scope 1 and 2 emissions declined by 7% in 2023. And for the first time, we verified our Scope 3 emissions. We met two of four 2030 targets as water usage and Scope 1 and 2 emissions reduction hit our goal, while we have more work to do on waste and energy reduction. In addition, we are on track to publish our science-based emission target by early 2025.

On people, I am pleased to report that our senior leadership gender diversity increased to 37% this year, a 10-percentage-point increase versus 2020. In the 2023 FTSE Women Leaders Review, Elementis was ranked number one for female representation in the chemical sector.

Last November, we announced the Fit for the Future global restructuring, which impacts around 25% of functional roles as we eliminate and shift roles to implement our new organisational structure. We have executed ongoing communication and engagement initiatives to support our employees through the change. In 2023, voluntary attrition actually reduced to 9% from 11% in the prior year. And in 2023, we took further actions to improve our responsible business practices. We aligned our supply chain standards to a new Business Partner Code of Conduct.

In addition, we implemented a new third-party risk screening platform for both suppliers and customers to mitigate compliance risks. And to ensure that the Elementis' culture of compliance is strengthened, we held our first Global Ethics and Compliance Week focused on empowering the engagement of our employees across the business.

Last, we were pleased to receive some external recognition for our progress as Elementis received an EcoVadis Gold rating for the third consecutive year.

Personal Care performance

Now let me cover the segmental performance, starting with Personal Care, which delivered a resilient sales and operating performance in 2023.

Revenue of $209 million was slightly lower than prior year, impacted by softer market demand and destocking in the second half of the year. Adjusted operating profit was stable at $50 million on a constant currency basis, with lower volumes offset by improved pricing, product mix and good cost management.

Adjusted operating profit margin improved to 24%, up 1 percentage point versus 2022. In addition, in 2023, we delivered $15 million of new business, and over 90% was generated from our growth platforms.

On slide 12, I would like to cover the strategic progress we made last year. On colour cosmetics, revenue increased 15% year-on-year supported by the combination of new product acceptance at independent brands like Kao in Japan or Rare Beauty in the US, and continued emerging market growth.

On skin care, we continue to make good progress as revenue increased 4% year-on-year. Our focus on providing natural solutions to replace synthetic ingredients is supporting growth. We are also seeing good growth in the adjacent sun care segment. In Asia, our business grew 10% year-on-year, and our new business opportunity pipeline increased over 80%. We generated double-digit growth in six countries, with particularly strong growth in Japan and South Korea. Over the past three years, we have continued to invest in additional local sales and technology resources, and this is working to create strong relationships with fast-growing Asian customers.

On AP actives, revenues declined 14%, driven by customer destocking, especially in the second half of the year. Despite the soft demand, there were some positive achievements. Revenue from our recently launched high efficacy actives products increased 7% year-on-year. In addition, our new India plant ramped up to full production in the fourth quarter, and this has enabled us to action the AP actives plant consolidation, which we announced internally yesterday. Overall, we were pleased with the strategic progress made in 2023.

On slide 13, we have taken a step back to show how multiyear investment in innovation is working to create momentum in our Personal Care business. Since 2020, we have launched 28 new products, and this has materially increased the percentage of revenue from innovation from 4% in 2020 to 11% in 2023. We expect this to continue to grow over the next few years. Importantly, this has also created a record new business pipeline that is focused on our growth platforms. This pipeline has more than doubled to over $70 million in the last two years, giving us confidence that we can deliver against our 2026 revenue growth target.

Let me just say a few words on two new products we launched last year that have been very well received by customers. Our Bentone Hydroclay 700 for use in skin care offers superior rheology and stability benefits in a natural clay-based product.

Our Bentone Plus Glow, targeting colour cosmetics, provides quick access to skin-conditioning claims and deliver synergistic effects through the superior film formation of Bentone gel. Both products are natural, vegan and can be cold processed. We continue to see innovation opportunities for new products that address ongoing trends for more natural and sustainable solutions, and that is where we are going to focus going forward.

Performance Specialties

Turning to Performance Specialties, which is comprised of our Coatings and Talc businesses. Overall, revenue decreased by 4% to $504 million as continued destocking in Coatings throughout the year more than offset a significantly improved Talc performance and new business gains.

Adjusted operating profit was flat at $70 million, with positive price mix and favourable cost benefits offsetting lower volumes. Operating margins improved to 13.9%, driven by self-help actions and the improved Talc performance.

Coatings performance

Taking a closer look at the Coatings business, our performance reflects destocking and a weak demand environment throughout 2023. Revenue declined 5% to $368 million, and adjusted operating profit fell 20% to $56 million.

Pricing actions and tight cost management offset negative operating leverage. The operating profit margin of 15.3% demonstrates both the quality and the resilience of this business.

As you can see on the next slide, this chart demonstrates the difficult environment we have been operating in since the middle of 2022. Industrial production declined throughout 2023, compounded by significant destocking across most of our biggest customers. As a result, demand across both decorative and industrial markets declined 14% and 6%, respectively.

In the Americas and Europe, where our business is split almost evenly between decorative and industrial activity, sales declined 14% and 9%, respectively. And in Asia, where over 80% of our sales come from industrial activity, sales were up 2% on an underlying basis. This was driven by a modest growth across several countries, including China, helped by the easing of COVID restrictions in the second half of the year. Across our global key accounts, revenue declined 7%, impacted by weak demand and destocking.

In spite of this difficult environment, we continue to make strategic progress in 2023, launching innovative products that resonate well with our customers. A few examples. First, our NiSAT Rheolate PHX is supplied in a powder form that can easily be added to paint. It requires less storage space. And since it is a dry product, it does not need biocides for preservation, making it more environmentally friendly. We introduced this product during the 2023 European Coatings Show in Nuremberg and already have over 50 customers testing it in their formulations.

The second product is Benaqua 5000, launched in the first quarter, which is a hectorite-based rheology modifier designed for tile mortars, plasterboard and high-build coatings. It is proving popular in installations of large tiles, which are more difficult to hold in place when installing. Benaqua provides up to 50% better sag resistance compared to the existing rheology agents. This reduces both material waste and installation time. And finally, Dapro BIO 9910, which is a defoamer we launched in June to provide innovative antifoaming technology. This is 96% bio-based content and can be used across a range of paint and coating applications.

We launched five new products in 2023, and those are helping to drive our new business momentum. We generated $33 million of new business across Coatings, with nearly 50% coming from our key growth platforms. We now have a healthy new business pipeline of $240 million, which will underpin future growth.

Talc performance

Moving on to our Talc business, which delivered a much-improved performance in spite of a continued weak demand environment.

Revenues were $136 million, down 2% versus prior year. Adjusted operating profit rebounded to $14 million compared to a loss in 2022. The improved profitability was driven by pricing actions, improved product mix and lower costs that more than offset lower volumes due to weaker end market demand. We continue to prioritise value over volume, which helped the operating profit margin increase to 10.3% in 2023.

On slide 20, we provide some context regarding the demand environment we are operating in. Approximately 80% of our Talc revenues are Europe-based. As you can see, European GDP was extremely weak in 2023, losing the post-COVID momentum experienced in 2021 and 2022 as the region battles inflation and the negative impact of the Russia-Ukraine war.

Looking at the performance of key end markets, the automotive sector is the largest end market for Talc. The European light vehicle production has reduced 25% since 2019. Paper decline accelerated through the pandemic, with volumes down 63% between 2019 and 2022. And finally, industrial coatings volumes declined 9% since 2019. That said, while end market demand is weaker, we see opportunities to further improve our performance going forward.

We have been focusing on high-value segments, which we believe will support future growth. Key segments include vehicle lightweighting, where our Finntalc K-line boosts plastic strength by up to 20%, and technical ceramics, where our highly engineered talc enhances ceramic's thermal stability.

The Coatings segment is another opportunity where we seek to build on the $25 million of revenue synergies achieved so far or barrier coatings for recyclable food packaging, where we are progressing opportunities.

The Talc business will also benefit from the Elementis efficiency programme as well as ongoing price optimisation actions and a continued focus on new business, where we currently have a $50 million pipeline. These actions will support further performance improvement in 2024 and beyond.

Now let me hand over to Ralph to cover the financials.

Ralph Hewins, Chief Financial Officer

Thanks, Paul, and good morning, everyone.

Group revenue

Let me start with Group revenue, which reduced 3% on a reported basis to $713 million. On a constant currency basis, the decline was 4%. We faced quite strong headwinds on volumes, which declined around 9%, accounting for some $63 million of sales, with over half the volume related to decline due to weak demand and destocking in our Coatings business both in Americas and in Europe. The remaining volume decline was equally split between Talc and Personal Care.

The impact of this volume decline was substantially mitigated by pricing actions worth $24 million, and product mix improvements worth $13 million. We improved pricing mix across each of the Coatings, Talc and Personal Care businesses.

Group operating profit

Moving on to Group adjusted operating profit, which rose by 3% on a reported basis or 2% on an underlying basis, to $104 million. With a combination of pricing actions, improved mix and cost discipline, our operating margins expanded from 13.6% to 14.6%.

The volume impact that I have mentioned reduced operating profit by $29 million. The net impact of price mix and slightly higher variable costs on operating profit was $29 million. We were able to reduce fixed costs by $3 million despite inflation of around $7 million. This cost performance was due to the $10 million of cost savings we executed in 2023.

So let me detail how we achieved this $10 million. You will recall that we said there were $7 million of stranded costs associated with the Chromium sale, which would have come out in 2023 and 2024. $4 million of these were eliminated in 2023 through strict cost discipline, including rigorous headcount management.

By combining Talc and Coatings into one segment, we were able to achieve $1 million of synergies in 2023. And then a further $5 million was delivered through procurement efficiencies and our dedicated continuous improvement programme. This $10 million is the final element of the $25 million of efficiency programmes we have been executing over the past three years that included consolidation of our Charleston and St Louis plants and 100-role headcount reduction.

Continued focus on efficiency

In terms of efficiency ahead of us, we are now fully focused on the $30 million efficiency programme that we announced in November. This comprises two key areas. First, the Fit for the Future organisational restructuring, delivering $20 million of cost savings over the next two years, $7 million in 2024 and the balance in 2025. We are making good progress on this. Let me highlight some of the key points.

190 roles to be eliminated, mainly in the USA and Western Europe, including closure of our Cologne office. We are on track for 50 of these roles to be eliminated by end Q1. A new outsourcing arrangement for finance transactional processes to India. We have selected the provider, EXL, and the team will be based out of Kochi. And a new global R&D and support centre in Porto, where we are on track for 23 roles to have started by end of Q1.

The second key area is procurement and supply chain efficiencies that will deliver an additional $10 million of savings by 2025. This will be partly underpinned by the announcement we are making today of the consolidation of our AP actives plants.

Cash flow

Turning to cash flow. We finished the year with net cash flow of $165 million, driven by an operating cash flow of $110 million and $139 million of proceeds from the Chromium disposal. This resulted in net debt falling from $367 million to $202 million, and a strong improvement in our leverage ratio to 1.4 times net debt-to-EBITDA.

On working capital, we finished the year with an inflow of $2 million. This reflects an outflow of $46 million in the first half and an inflow of $49 million in the second half. This was a more accentuated H1-H2 difference than normal. We usually see an outflow towards the end of the first half of the year due to higher seasonal sales versus the end of the year. But in addition to this, ongoing weak customer demand meant we had larger than normal inventory levels midyear. We worked hard at these in H2 and managed to reduce them by around $10 million over the period.

We continue to focus on inventory management, which is the main source for us to further improve our working capital. Cash interest was $4 million higher in 2023 as a result of timing effects and higher interest rates versus 2022. The full year effect of the shift to higher rates will be seen in 2024. And here, I would like to flag the 2024 guidance provided in the appendix to these materials as the cost of servicing our euro and dollar-denominated term loans ceased to benefit from the previous lower interest.

You will note that tax-related payments increased to $27 million from $13 million in 2022. These reflect tax on disposal of our Chromium business and reduced tax attributes.

Material improvement in financial leverage

Slide 27 shows the progress we made on debt reduction since 2021, taking it from $401 million to the $202 million at the end of 2023, and great progress on our net debt to EBITDA ratio, which reduced from 2.6 times to 1.4 times over this period.

Based on the strong cash generative business we have and our capital allocation priorities, we expect further deleveraging in the coming years, driven by earnings growth.

Disciplined capital allocation

Moving on to slide 28, which covers our capital allocation priorities. We will continue to be disciplined 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 high payback growth and productivity projects. Today, we set out our new dividend policy focused on a sustainable and progressive dividend. We are reinstating the ordinary dividend, recommending a final 2023 dividend of 2.1 cents per share, representing an implied annual ratio of around 30%.

Going forward, our intention is to pay a progressive ordinary dividend, with a payout ratio of around 30% of adjusted earnings. The ordinary dividend will be paid twice a year. The interim dividend payable in September will normally be around one-third of the prior full year dividend, with a final dividend payable in May. We also see scope for future additional returns of surplus capital via appropriate mechanisms.

Return on capital employed

Finally, let me cover progress on return on capital employed. As a reminder, in November's CMD, we set out a target of 20% by 2026 on a pre-goodwill basis. In 2023, our operating capital employed was around $1.2 billion, with fixed assets net of operating provisions of around $530 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 around $150 million at the end of 2023. 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 we bought 25 years ago and the SummitReheis business acquired in 2017. As we do not plan to deploy cash on material M&A, we do not expect goodwill to increase in the near term.

Taken together, therefore, we are intending to be very disciplined on our capital employed. Our ROCE at the end of 2023 was 15% excluding goodwill, up from 14% in 2022, a product of both increased earnings and lower capital employed, primarily linked to the new operating provisions related to Fit for the Future.

Over the course of 2024, 2025 and 2026, we expect the main driver of ROCE improvement to be earnings growth.

I will now hand back to Paul to cover strategic priorities and outlook.

ELEMENTIS

Paul Waterman, Chief Executive Officer

2026 financial targets

Thank you, Ralph. At our November Capital Markets Day, we committed to three financial targets that we will deliver by 2026.

First, we expect our operating profit margin to improve from approximately 15% in 2023 to 19% plus in 2026. As we said then, we have assumed 100% of the delivery is based on self help and the demand environment will be unchanged. Should demand improve, we believe our operating profit margin will exceed 19%.

Second, to deliver average three-year cash conversion of over 90%. The latest three-year average was 77%. However, in 2023, we delivered an operating cash conversion of 106%. So we are making progress here.

Third, our return on capital employed will exceed 20%, up from 15% in 2023. While earnings growth will support this improvement, we also intend to rigorously evaluate our portfolio. What we did in November was explain how we would deliver on these targets via a combination of growth and efficiency that essentially builds on our momentum. I would like to cover both areas briefly.

$90m above market revenue growth

Delivery of $90 million of above-market revenue growth will be enabled by seven growth platforms, where we have the opportunity to drive further new product innovation and secure material new business.

At the end of 2023, we were working on 28 joint customer development projects. We generated $51 million of new business, over half of which came from these growth platforms. So we are making good progress already.

Going forward, we will build on this momentum by launching over 50 products and generating $145 million of new business by 2026. Please note that this is the gross potential, and it will underpin delivery of $90 million of above-market revenue growth we are targeting by 2026.

Efficiency: $30m cost savings by 2025

In addition to this, we will also make more progress on efficiency. Now Ralph covered efficiency thoroughly, so I am not going to be duplicative, but I will make a few additional points.

First, the Fit for the Future organisational restructuring is on track and will create a simpler, streamlined Elementis with the right capabilities to successfully implement our strategy. Importantly, we will achieve $7 million of cost savings this year, and the rest, over $13 million, in 2025. And we are moving quickly to secure these benefits.

Second, we are leveraging improved capabilities across our global supply chain and procurement teams to target an additional $10 million of savings, $5 million this year and another $5 million in 2025.

The AP actives plant consolidation is an important enabler of this. However, we will also continue to expand our portfolio of continuous improvement projects. In addition, digitising and standardising RFI and RFQ procurement processes will underpin further progress.

Driving efficiency is an Elementis strength, and we will continue to leverage it over the next few years. So, it is the combination of revenue growth and efficiency delivery that will ensure we achieve our 2026 financial targets.

Outlook

Turning to the 2024 outlook. We are off to a good start in the first quarter. But it feels too soon to say that this represents any fundamental improvement in the demand environment. Ultimately, our performance will be dependent upon execution of our strategy and ongoing self-help actions. We are focused on our growth platforms. We have a robust pipeline of new business opportunities, and we plan to launch 15 new products this year.

Near term, we expect inflation will continue to be a challenge, and we will take action as necessary to defend our margins. Our efficiency programme is on track, and we will deliver $12 million of cost savings in 2024. Most importantly, we are very fortunate to have a talented, dedicated team that is focused on delivering against our Capital Markets Day targets.

Thank you for your time. Ralph and I are happy now to take your questions.

Q&A

Operator (instructions for raising questions)
First question today comes from Kevin Fogarty from Numis. Please go ahead, Kevin.

Kevin Fogarty, Numis
Good morning, everyone. Thanks for taking my questions. If I could start with two, please. Could you touch a little bit on the destocking and restocking cycles you have seen, particularly in the second half of the year? Obviously, second half performance in Coatings there, and I guess, being the standout in terms of what you have seen? And perhaps what you are hearing now from customers vis-à-vis restocking in early 2024 and perhaps the intentions going forward? So that would be question number one.

And I guess within that, on Coatings, if you could touch on Asia, which I know you have called out as a sort of bright spot, so that would be interesting to see what is happening there.

And then secondly, a question on capital allocation. Having had a medium-term leverage target of 1.5 times, you are now coming in below that. If we point to slide 28, the statement points to potential for additional shareholder returns. I just wondered at what level you think you get leverage to now before you consider doing something in addition to obviously the dividend reinstatement, which we saw today. So I will leave it there for now, but those two questions would be great.

Paul Waterman, Chief Executive Officer
Thanks, Kevin. So, I think I will take the first one. I will let Ralph work on the second. I think in terms of the destocking in 2023, the complexion, Coatings versus Personal Care is different. I mean for Coatings, the destocking cycle started in the middle of 2022. And it just literally went right through the end of 2023. I would say that as we are in the first quarter, we are seeing better order patterns actually in Coatings, certainly better than first quarter 2022. But as I said on the presentation, far too early to take a view that there is some kind of underlying consumer demand that is fundamentally stronger. I think that we have to wait and see how that develops.

To your question on Asia. Asia was slightly better, but I really think it was more a function of the fact that they were completely closed up in 2022. And this reopening happened, so you are cycling against such incredible weakness that you end up with a slightly positive number, which is not to say, I mean, we do not feel negative about Asia. It is also having a good first quarter. I think it is just a little bit of a wait and see to see how the business develops as the year progresses, particularly in China, which has all of its obvious issues with housing and such. So, I think that is that part of it.

I think Personal care was different. Personal Care, we had a pretty good first half. And then when we got into the second half, things really slowed down. And I would say within Personal Care, on Cosmetics, we saw the destocking situation more related to Europe and Americas, definitely saw a slowdown there. AP actives was actually more significant in the second half. I think a couple of the really big customers, they just found themselves with way too much inventory. And so they really, really took their order patterns way down, and we felt it more. Again, the first quarter, we are looking at what is going on. The Personal Care business is performing very well. Very good order pattern on Cosmetics as well as on antiperspirant actives. So, we kind of feel good about where we are at and how well we are positioned for 2024. So I think that is what I would say. Good first quarter. Let us see how things progress overall as the year progresses.

Ralph, do you want to say a few words on capital allocation?

Ralph Hewins, Chief Financial Officer
Sure. Hi, Kevin. Thanks for the question. So look, we are pleased to restore the dividend. And just to reemphasize, we are committed to that being sustainable, progressive and a payout of around 30%. We do expect also further deleveraging over the medium term, so a cash-generative business.

Just one note of caution is in 2024, we have got the costs of implementing Fit for the Future, our restructuring with 190 redundancies. That programme is going really well, but there are some implementation costs for that, which we have got provisions of $25 million or adjusted items of $25 million in the balance sheet for that. So that will consume some cash. But nonetheless, I still expect improvements in the leverage ratio and cash generation to lead us to delever over the medium term.

I think in terms of additional returns, there is no fixed point. We always keep that under consideration. Our first priority right now has been to get the dividend back, which we have done. I do not think you need to get well below one before you can consider that very seriously, but it is something that the Board will take into consideration each step of the way.

Chetan Udeshi, JP Morgan
Yeah, hi. Thanks, I just wanted to follow up on your comments on the start of the year. Is it healthy? Or would you say you have had a good start of the year across all the divisions? Or is it more pronounced in one versus the other?

And the related question is, given the start of the year and looking at the consensus for 2024, are you expecting the delivery of earnings to be more back-end loaded or more second half loaded than first half? Because we all know there is a bit of seasonality in your business where first half tends to be somewhat higher than second half. So, anything on that would be useful.

And Ralph or maybe, I think maybe this is a good question for Paul. Going back to your point of delivering 19%-plus margin without any major macro inflection, I mean, that would mean that you need to show a decent step-up already this year, right, because otherwise, you are leaving too much to be done in 2025 and 2026. Is that how you are thinking about as well? Or is there a reason to expect a much bigger step-up in 2025 and 2026 in terms of margin inflection?

Paul Waterman, Chief Executive Officer
Thanks, Chetan. I will let Ralph take the margin question in the back half of that. In terms of your first question, though, on start of the year by division, I mean, we are actually seeing good progress across all the businesses. We do not have any outliers at this point. We have got obviously visibility kind of through March at this point. It is good.

The seasonality, you know, generally, it has historically been just slightly more in the first half than second, like 52%, 48% kind of thing. But clearly with the pandemic and all of the responses, it was a little distorted, but that is traditionally how it has been. I think the only thing I would add, I mean, obviously, the environment, we cannot really control the demand environment. We have our heads around that. And so we are really focusing on what we can. And getting to that 19% is the self-help driven agenda. You know, the efficiency, the above-market revenue growth, which is supported by consistent distinctive new products, we will launch 15 this year, as well as $50 million plus of new business. And so, if we can continue to execute on that, it will take us a long way pretty quickly even if the environment does not change. Ralph, do you want to talk a little bit about how this plays out over the three years?

Ralph Hewins, Chief Financial Officer
Yes. So Chetan, you are absolutely right. We do need a decent step-up in 2024. I think consensus on EBIT at the moment is around 115. Clearly, to get to the 19%-plus by 2026, we do need to both deliver that and more, considerably more than that.

I think a couple of things to point out. One is that, on costs, the $30 million of costs, we expect to deliver $12 million of that this year, but Chetan, another $18 million of that next year. So that is a really big important step-up in 2025 on the P&L, a further $18 million of cost savings on top of the $12 million from this year.

And the second thing, I think, on revenue growth is the way we see this is we see the revenue growth building momentum over the course of 2024, 2025, 2026 as the innovation-led program and new business development comes through. So I think it is slightly more phased towards 2025 and 2026.

That said, we are also going to do everything we can do as well as we can this year and fully accept there is quite a way to go to get to the 19%-plus. But our operating margins, just to remind you, were up by 1 percentage point in 2023. And with a good start to the year this year, we certainly feel every bit as confident as we were in November that we can do the 19%-plus.

Sebastian Bray, Berenberg
Hello, everybody, and good morning and thank you for taking my questions. Hello. Could I ask two, please? The first is just on the cash out that is expected on a non-continuing basis for 2024. If I add up the potential fee for achieving cost savings and any other one-offs, including what Elementis is paying to the party to take the Eaglescliffe site in Northern England off its hands, and any other factors that I have not listed. What is the total one-off cash out that the Group is expecting for 2024?

My second question is on portfolio and, in particular, Talc. I was intrigued by the comments earlier that Elementis will continue to review its portfolio. And volumes in Talc are down very heavily. The markets Paul mentioned earlier are all maybe structurally challenged in one way or the other. Is the divestment of Talc potentially on the cards in order to achieve the margin target? Or are we talking about minor cutting out businesses that would not necessarily get there? Thank you.

Paul Waterman, Chief Executive Officer
Okay. Do you want to take that?

Ralph Hewins, Chief Financial Officer
Yes. I mean on the cash out, Sebastian, I mean, the big item there is the restructuring costs that I mentioned earlier, where there is a provision of $31 million. I think the cash flow components of that very broadly are $5 million in 2023, about $20 million in 2024 and the balance in 2025. So $20 million in 2024 on that.

On the Eaglescliffe one, it is less certain. I would say two things. First of all, it is around $14.5 million of negative consideration for that. That will be, one, only payable on completion, and completion is only possible when we have got the regulatory approvals. That may take us into 2025. Second, the $14.5 million is payable in two tranches. So just over 50% in the initial tranche, and the second tranche would be one year later. So, it is quite possible that none of that Eaglescliffe cash out will occur this year, and it may occur next year.

The third thing, perhaps just to flag is we don't know the outcome, but it should be available in April, is the EU state aid, where we have got a $20 million receivable on the balance sheet. We cleared that in the outcome of that if that went our way, that would be a positive cash inflow in the first half of this year, but we will see where that comes. We do not know the outcome of that. But those are the, if you like, the one-off moving parts on cash.

Paul Waterman, Chief Executive Officer
Yes. Sebastian, to the second question. I mean, first, no, we do not need to sell anything to deliver on the 20% return on capital employed target as we lay out the progress that we are going to make with what is a big efficiency programme as well as the revenue growth that we have been talking about.

Having said that, there are not any sacred cows, and we have historically looked closely at the portfolio, and we will continue to do that. I think in the case of Talc, there is some further recovery to go on this one. And we would like to make the most of that recovery. But as I say, we see how the 20% can get delivered, and we will always be looking closer at the portfolio there are things possible to help us get there faster. Thanks, Sebastian.

Operator
We have no further questions on the call, so I will hand the floor back to Paul for concluding remarks.

Paul Waterman, Chief Executive Officer
I would just say thanks very much for listening in today. We are excited about the agenda that we have ahead of us and to get after it. And we will be speaking to you all soon. Thanks very much.