

BNTGY Earnings Call Transcript

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Quarter: 3

Operator: Welcome to the Brenntag SE 9M 2025 Results Call and Live Webcast. Please note that the call will be recorded. [Operator Instructions] I would now like to turn the call over to Thomas Altmann, Senior Vice President, Corporate Investor Relations. Please go ahead.

Thomas Altmann: Thank you, Abigail. Good afternoon, ladies and gentlemen, and welcome to our earnings call of the third quarter 2025. On the call with me today are CEO, Jens Birgersson; and our CFO, Thomas Reisten. They will walk you through today's presentation, which is followed by a Q&A session. Our relevant documents have been published this morning on our website in the Investor Relations section, where the replay of today's call will be available. Allow me also to point you to our safe harbor statement which can be found at the end of the slide deck. With that, I will now hand over to our CEO. Jens, over to you.

Jens Birgersson: Thank you, Thomas, and good morning to everyone out there. Just as a general remark out of experience is that getting the tech right can be difficult. So if you could help us by giving a feedback to Thomas and just give us a rating on how the sound quality is, it will be good because in the morning's call we did with the press, there were some corners where we were very hard to hear. So if you could get a status check on that from you after this call, and then we see if we need to change tech or do something to improve that. It's a great pleasure to speak with you today for the first time as the CEO of Brenntag. The last 2 months, I've been more or less traveling constantly around the group, spending time with between 100 and 200 customers and our teams out in the region and also the supply partners. And I started during the summer, obviously, to read up on the market and look into the business model of the company and the way we operate. In the last 2 weeks, I've been a little bit more in the headquarter, but a lot of time spent out there and kind of building the understanding of the company starting from the outside. Obviously, I have still a lot to learn, but I'm very, very happy with what I've seen in the beginning and the potential. And so I'm going to share that in mainly 2 dimensions, the short-term priorities and we will not go too much into strategy now. Maybe what -- obviously, it's very impressive to see the global scale and reach and the broad portfolio of the company. It is unknown when you step into a company like this to how much it actually touches everything around us. So that's impressive. But maybe even more impressive in this company, Brenntag, is the skill and commitment of our commercial teams around in the world and how they interact with our customers and supply partners. It is really great to see. And I think that perhaps that is the strongest -- the biggest strength of the company, actually, that we have this very unique culture in -- out in the markets in the front end. And I'm very pleased with that, and I'm very honored to join such a team. And it's great to see that we have that culture and not customer focus. All that said, my initial observations confirm the company's fundamental strength and you see a lot of potential. And if you look at the market, there isn't anything in the market helping. I think we are in the longest trough in terms of chemicals from the downturn after COVID, and yet we haven't seen an upturn. And yet, we are, in some extent, performing. It's not great, but compared to many other players in the chemical industry, the difficult times prove the ability of Brenntag what was our position in the value chain with our market position and value proposition and the way we run the business that we can actually do relatively well even in difficult times like this. And one of the winning recipes is obviously that we stay very close to the customers and understand their needs and keep delivering every day even in a difficult market. If we then look at the potential, for

operational improvements and efficiency gains, I like -- I kind of stage a little bit of work in the company. My -- when you step into new business, which I've done before, I've been in the sector a bit before, but stepping into a new company, you need to separate a little bit strategy, changes to the strategy -- the company has a strategy, but changes to the strategy and what we do now, what are the immediate priorities to improve. And I put that on those slides, summed it up in the 3 bullets. So -- and the first one is sales. With the market conditions we have, I haven't said growth, I said sales. We can't control the market turnaround, but we can control how much effort we make on sale. And in some of the changes that we have announced, we are anchoring the company to make us -- make it easier for us from the top to bottom to be even closer to the market and to empower our local sales teams and driving growth by being close to the customer. And there are 2 maybe changes. The first one started already in the summer was that up to now, there was a track where we would split the company in 2 or the disentanglement. And there was an awful amount of internal focus to do that being done on systems or moving assets, shifting businesses. And that has been going on. And we have stopped that work. I've stopped at work. I see synergy of having one company. I see benefit of having scale, but we need to find it. We need to develop that. We need to get better of it. But shifting that internal focus to external is a sound step among other efforts to really make clear to the organization, but the core process of this company is to buy product and to sell it and all the things we do in between. And all the overheads and the support functions, we should all be geared towards supporting that sales. So that's the first priority. The second is lumped it under the words clarity and simplification. We have 2 strong divisions that each have their own distinct role, a market strength and also slightly different business model. You have discussed that before, so it's clear to you. But having the company set up with an intermediate 2 executive committees, then you have the local business units, the regional business unit and a very big central team has also implied very long decision lines with lots of steps, and I will say a bit too much bureaucracy and loss of speed. And what we're doing, if you have read press release or the stock exchange release is that we are removing this one layer and are now putting quite a bit of focus into reducing the number of steps in decision-making. And finally, we have execution. Top line is down, it's still down and the market is not good. And it's not a disaster at all the market, but it hasn't come around. But we need to execute in several ways. And one execution topic where we haven't done so well until now is to execute on cost reductions. There was a program announced 1.5 years ago, maybe a bit more. And we need to execute on a cost out because the mismatch between the cost structure and the increases we have had with these duplications of functions, management teams and the extra layer that has been introduced has come at a high price. And I think a time to reset that and start to work cost out and improve our competitiveness. So if we then go into those kind of headline focus areas on the short term, will we turn to the next slide, so just outline some of the actions, starting from left to right. I've already covered sales, and it doesn't mean I don't want to grow. It's just that the immediate action is to get people out on the ground and get the organization to back up the sales effort on the customer proximity and the customer closeness. And the good thing with that is that we have a culture and a crew in this company that really want to do this. So this is more of unleashing them and getting them back and stop focusing on splitting and allocating businesses and internal transfer cost and what have you. We still do that, but it's not a focus, so that's the left box. Second one on the simplification. We want to simplify how we make decisions, shorter change. I want smaller, more empowered teams, faster cycles and agility is an overriding goal with very clear ownership of the business. We don't run a matrix. I don't want to run a matrix. I want very straight lines out into the business. So what we are doing here is that we are putting together an executive committee where we will have all the business leaders. We will have 3 CEO, CFO, COO, HRO in there, so some functions that have consolidated. This might change over time. We will evolve this as nothing is static. And -- but it will mean that we have an executive team that has members in it, that are really sitting in the market, interfacing with customers every day. The German Managing Board that traditionally is seen as the highest level of management in the company, we are detuning that a little bit. It will be only Thomas and I in that. Surely, there will be decisions that have to be taken on that. But as I see it, the management team, the executive team, as the Executive Committee. And that means that the distance from the front end to me is going to be very short because I have a direct report in every market, and I will oversee that myself. And I'm convinced that will improve the hands-on operational management. And I think in the

distribution business at the core is a very simple business. I mean we mustn't overcomplicate it. We need to roll up our sleeves and manage it and get things done with a minimum of overhead. And I think this structure will serve us better. I made 2 additions or announced 2 additions. The one is CHRO, a new HR Director. We haven't really had that in Brenntag and distribution business is a people business. She -- Francis joined us 1st of November, which is already here. And then on the operations, the goal we have is to build a world-class distribution company or distribution supply chain. And therefore, I've also recruited the COO, and he will report to me. He will be part of the EC, and he will join us latest 1st of April because I see a potential of the whole supply chain organization. And supply chain for us is basically from product into the system until it's delivered to the customer. With regards to the 2 divisions, we have one company, but we have 2 businesses. We have the Essential division and Specialty division. No change to that. That was good. It was healthy. It's different drivers for success. So we maintain that. And I value both of them. I want to grow in both of them. So there's no change to that. But I see the backbone and the scale of what we have, Brenntag has a lot of assets. We have a lot of good assets in the company. I want to leverage that scale in those assets for both divisions. And that's the change -- that's a big change compared to the discussion in the last couple of years. So when you look at the numbers, I admit the scale effects hasn't really come out, but Brenntag has grown. And some of you have pointed that out. I agree with that, and that's something we need to work on. But when you look at the potential of getting scale effects, they are there. We have some of it, but we can do more of that. So to sum up, I mean, we are not doing the split. And the reason is that the multiple differential between these 2, the value and the cost of doing it and the dissynergies, it doesn't make sense. I would also say on that note that, from an M&A; perspective, I see a whole lot. I mean a key driver for top line, you have organic growth that we need to work hard on. But also acting as the consolidator of the industry, a lot of the targets. And I look just in these 2 months at 12 targets, very few targets are pure, pure, pure play. They have a little bit of both. And I think there is a risk with being too streamlined and too segmented that you lose a lot of M&A; if you all the time have to divest one portion of the company you buy. And so I think that having both businesses in the company will also make it a little bit easier to find good targets, and we have a good pipeline of targets. So to sum up, we want to operate 2 market-leading divisions within one group, respecting the 2 business model, commercial focus in both. And then going after growth, doing normal strategy and implementation for those within the strategic framework we already laid out, and we will review it, of course, but we continue with that, but we do that with one backbone in terms of supply chain. It doesn't mean that all assets will sit centrally, not at all. We keep the assets out in the businesses, and they're going to also be devoted assets assigned to each one of them. And some are shared, some are devoted. And then third, on the execution. Execution is super important. And when I reviewed the historic initiatives that have been going on, I felt maybe we have done -- tried to do a little bit too much in parallel. So I want to move towards a more focused execution mode. And of course, with quicker and shorter decision-making changes, I'm going to keep our eyes on the execution, and that has already started. And I think that's incredibly important for us in order to deliver cost savings. We are looking as we brought in the stock exchange release into short-term and medium-term cost out. And the philosophy here will be that we start close to me. We start at the top. I have headquarter staff, I have functions. I want to reshape that into a small, much smaller team. And so that's the first stage, and we're already starting that, reducing headquarters and support function overheads. And then we will move out through other functions. And then as the COO arrive, we will get more and more close to the supply chain and all the action there. But basically, that's the staging that first remove overheads and duplication and slim that down. And then after that, we get on to supply chain and operations. But I need to do a little bit more work on that before we start. The other aspect of it with overhead has already started and is starting to roll out and being quite detailed as we speak. So that's the short to medium term. Then if we look at the long term, yes, we need to review the strategy. It doesn't mean we change all of it, but Brenntag has run in a certain way for more or less 150 years. And we have the 2 businesses now. We are doing a strategic review. It has started, and I will come back to that in the second half of 2026. One of the goals will obviously be to have the most competitive and scalable global distribution supply chain and to get back to growth, not only because it's a market that grows, but make us more capable of growing. But I will come back to that. Now the focus is on the immediate priorities that I outlined. If we go to the numbers

on Slide 9, it is -- you have seen those numbers. You have read them. And I think that there is nothing in the macro environment that has really changed. The tariffs are there. We have the Chinese overcapacity coming in, in Europe, Latin America, South Asia, almost -- in 2024, it was 33 billion Chinese imports into Europe of chemicals and probably increasing this year. I haven't seen the numbers. So that competitive complication is here for the principals, maybe less of a problem for us. And then you still have the instability in the Middle East. We have the Ukrainian war, we have the trade tariffs. And we only have some countries that have put in tariffs to protect themselves in Mexico and the U.S. And so we see really an overflow in Europe. But again, we are relatively fortunate in the way we can handle that. It speaks to the business model of a distributor in this space. And if I were to look at the numbers, what numbers are -- yes, obviously, we are not overly happy with the numbers as such. We would like to get back to growth and have a better market. But I think some of the numbers worth emphasizing is that if we take the EBITDA margin that in -- with near 5% decline in the top line, that it only goes from 9.1% to 8.9% this year and that we have managed to get a bit more cost reductions into that to protect the gross profit decline and gross profit margin and most of all the EBITDA margin and EBITA margin. And when I compare that to the market, we have done maybe better than some other players that have maybe difficulties. So that's -- those are the positives, I would say, of those numbers. If you move to the slide of sales development, basically the same decline in both businesses. And regionally, we have now maybe we can see a slightly better volume in Material Science, but still strong competitive pressures. But otherwise, I would pretty much say that more or less, the markets are subdued on both sides of the business, both businesses. Going on to the regional development, Material Science here, volume-wise a little bit better maybe than some of the other businesses, but quite strong price pressure. And in Latin America, the growth is primarily due to the acquisition in Mexico. And apart from that, I would say anything is new on this. But if you take an example of Latin America to just give you a flavor, Brazil, Chile, Peru, Central America, Guatemala, heavily, heavily impacted by Chinese imports, Mexico not because they put tariffs and then you have other countries like Colombia, for example, that protect themselves a little bit more, the market more safe from Chinese import, and we see a better business. Argentina also doing a little bit better, but it varies a lot. But generally, you see all over in these regions, the impact of that. That said, we are navigating it, and we are handling it. And it's not a huge problem for us compared to some of the other players in our industry. Over to you, Thomas.

Thomas Reisten: Thank you, Jens. And as well from my side, I wish you a good afternoon. So I would like to now look at the development of our income statement and this was a particular focus on our operating expenses and bottom line results. Our results are overall characterized by a persistently challenging market environment with muted customer sentiment and lower demand. We've generated an operating gross profit of EUR 947 million in the third quarter of 2025. Our operating expenses stood at EUR 617 million in total, which is a net cost decline of 1% compared to last year on a constant currency basis. This includes additional costs from newly acquired entities of EUR 10 million. Our cost containment program delivered EUR 45 million of savings this quarter, which is visibly reducing our underlying OpEx base. And this is EUR 30 million more than we delivered in the same period of last year. The positive savings effect demonstrates our strong commitment to cost control, Brenntag's ability to maintain cost discipline. It's even in a challenging business environment. We generated an operating EBITDA of EUR 330 million. It's down 6.7% year-over-year. And then the depreciation amounted to EUR 87 million. That's leading to an operating EBITA of EUR 243 million, which is 9.2% below last year's figure. Compared to the third quarter 2024, our operating EBITA was impacted by the following developments. First, FX effects reduced operating EBITA by EUR 14 million; second, acquisitions added EUR 5 million; and third, organically, the operating EBITA declined by EUR 29 million compared to the third quarter last year. The group EBITA conversion ratio stood at 25.7%. Looking at the EBITDA conversion ratio, that reached 34.9%. I'll now briefly comment on the development of special items below operating EBITA. In the third quarter, special items had a negative impact of EUR 17 million. This includes costs for our strategic projects in the amount of EUR 8 million, which are mainly related to severance and advisory expenses that also helped to achieve the desired cost reduction target. Furthermore, we incurred expenses for legal risks, which mainly are arising from the sale of talc and similar products in North America in the amount of EUR 16 million. And then lastly, other special items

had a positive effect of around EUR 7 million. That's mainly related to insurance reimbursements in connection with the major fire at a warehouse site in Canada in 2023. Earnings per share were EUR 0.78 in the quarter, which is slightly lower than previous year's figure. Let us now have a look at the free cash flow development. Third quarter of 2025, we've generated a free cash flow of EUR 316 million as compared to EUR 247 million in the same period of last year. The decline in earnings was offset by slightly lower CapEx and the cash inflow from working capital compared to the prior year period. In the prior year period, we saw a slight cash outflow for working capital. Lease payments were also slightly lower compared to the prior period. And then our free cash flow demonstrates the resilience of our business and our countercyclical cash flow profile. The working capital turnover stood at 7.3x as compared to 7.7 in the third quarter of 2024. Leverage ratio, net debt to operating EBITDA stood at 1.9x. I would like to close now with the outlook for the remainder of the year. For the full year 2025, we specify our operating EBITA guidance towards the lower end of the range provided in July of this year. We expect the unfavorable euro-U.S. dollar FX trend continue, and we assume an average rate of EUR 1.16 for the fourth quarter of 2025. As mentioned earlier, the overall market environment continued to be characterized by a high degree of economic uncertainty. That's driven by ongoing geopolitical tensions and global tariff discussions. The noticeable slowdown in demand continued throughout the third quarter, and we expect a similar environment in the fourth quarter of 2025. At the same time, our results in the third quarter showcase our ability to seize business opportunities and to realize cost savings, despite the persisting macroeconomic challenges and the continued economic volatility. To further address the challenges ahead and to improve our performance, we have taken action to enhance agility and execution discipline, driving sales and efficiencies. This includes an acceleration of our existing cost containment program, as Jens has pointed out. A key element here is organizational complexity as well as simplifying and streamlining administrative processes. Our decision not to consider a full separation of Brenntag any longer further enables us to eliminate buildup duplications and overlaps within the organization. So with this, I would like to close the presentation, and I'm now very much looking forward to your questions.

Operator: [Operator Instructions] Our first question will come from Annelies Vermeulen with Morgan Stanley.

Annelies Vermeulen: I have 2 questions, please. So firstly, on the cost program. You've announced today that you're accelerating the cost containment program, including, I think, some additional headcount reduction. But overall, your cost containment target is unchanged for 2027. So could you quantify those headcount reductions? And will there be any additional restructuring costs as a result? And should we expect an acceleration in Q4 from the EUR 45 million of cost out that you did in Q3? And then second question, just on the divisional split. The messaging has been a bit mixed here over the years. You've announced today that this is no longer under consideration. But in the past, Brenntag has said that there was limited overlap between the 2 divisions and a split would make sense over time following a targeted disentanglement. So in your first few months with the business, what have you seen so far that gives you the confidence that this is the right decision permanently for the group and that the synergies between the 2 divisions are material enough to take a split completely off the table?

Jens Birgersson: Thank you. So I take the second question. I'll comment the first before I hand over to Thomas. So on the headcount numbers, we have nothing to announce now. I don't feel -- our top priority is selling, simplification and then execute the cost-out program. But -- and that program has been there for a while. But we don't put a number on it, and we will probably try to avoid having a number. You will see how the cost is being reduced, and we have initiated discussions with Works Council and all the rest. And along the way, we will update. But I want to avoid to say this is the big headcount number and talk about that now. It's about getting cost out, but there's going to be reductions in many places. So maybe Thomas can comment the other aspects of that question, and then I'll come back to the split.

Thomas Reisten: Yes. So as you will remember that we have actually been announcing in the past was the EUR 300 million cost reduction program. If you look at the first quarter, second quarter, third quarter delivery on that, we're actually now fairly well on track in order to deliver actually the savings that we've announced for this year. So the EUR 30 million achievement in the first quarter, EUR 30 million in the second, EUR 45 million now as a run rate in the third quarter. Remember, that was started already in

the year before. So there was EUR 15 million in the same quarter of last year actually already. So firmly on track from that perspective, we had said as well that we will continue to incur restructuring costs. I mean overall, as one component of the costs that are actually one-off costs in order to realize that. We had said about EUR 300 million for the whole program to achieve the EUR 300 million run rate savings by fiscal year '27. So that's what we will continue to use in that context as well with headcount restructuring. Now obviously, and Jens has already commented on that, and I've commented here in this quarter again on the fact that we are accelerating and broadening the overall program. So that's what we are really driving and we will start to reduce complexity. We'll start to deduct layers and the context of the split, not continuing in terms of further splitting this, that will actually avoid that we have further duplication of resources, and we'll roll back on that as well on some of those resources that are duplicated. So -- and that is then in the end, leading to us being able to accelerate this program. Jens?

Jens Birgersson: Yes. I'll come back to the other one. I don't know if it has been said that there weren't any synergies between the businesses because that also been a misstatement in that case or because there are clearly synergies between the businesses. It goes from the operation, it goes from the infrastructure, warehouses and even market access. Even if you have global sales forces, we are selling to the same. And then you have the whole multiple differential of the 2 businesses and the nature of the businesses with a relatively small Specialty business and the difficulty and the cost of splitting them and the extreme effort that went into that. And then finally, -- so if you're on top of that, would also get scale effects out of being an EUR 15 billion company with the overheads, the infrastructure, the assets and maybe having all these assets and utilizing them for both businesses, I at least couldn't see that it was a benefit to split. And it has been awfully difficult to try to make progress on it. And then finally, I would also -- when I look at it, see that there is an M&A; runway where you have a lot of targets, there are a lot of companies that do a bit of both businesses. And I think also it's more difficult to find to pursue your role as the role we have as a consolidator of the industry if you are split because if you make acquisitions of these companies, you can either pretend that it's a pure play or you have to split it all the times to become a permanent company to split. So if we were only Essential company and we were acquired company, we keep finding Specialty businesses in there because most companies in the segment where we buy, they have naturally evolved into both businesses in the same as we did. So those would be my main arguments why it doesn't makes sense to split. Then the other aspect is to shift the focus from internal to out. We need to be out selling. And on top of that in the strategic review, if we can do a better job of getting scale effects out of this business, and I don't want to go too deep in that today, then I think there's a very strong case to have 2 businesses along backbone.

Annelies Vermeulen: That's clear. And just for clarity, my comment was referring to -- in the past, the company has said that there is limited overlap between the 2 divisions. I wasn't referring to synergies. I think you've said in the past that actually, not many of your customers buy from both divisions, and therefore, the split would make sense. So that's what that was referring to. But thank you for the detail. That was clear.

Jens Birgersson: If you take -- you have -- we have this peculiar situation that we buy and sell, of course, to our customers. So almost every customer we both buy and sell to. So that's one dimension. But then we also have that, yes, there are pure-play Specialty customers and pure-play Essential customers, but we have a lot of customers that buy from both also.

Thomas Reisten: And then just to build on this point, as Jens has said as well, from a commercial focus point of view, obviously, we like the 2 different divisions in that context. It is about, on the one hand, avoiding some more of the duplication and avoiding actually some of the dissynergies that even actually some time ago had been announced that further split there actually will be some dissynergies of about EUR 90 million to EUR 120 million. And that's the point where we actually believe that we can leverage a joint backbone much better in order to serve both of the different business models from a commercial point of view.

Jens Birgersson: Yes. Then there is another aspect, the definition of a Specialty business. There has been discussions about that. But within the Essentials, we also have vertical businesses focused on a business segment. If you take, for example, oil and gas, that's a big vertical for us. It's somewhere in between -- it's regional in this case, but you have a lot of domain competence to serve that segment. So you have it like a slide in the grid that we have in Essentials. So you have pure Essential, then you have

verticals, data centers, for example, it's a vertical. You have electronics manufacturing, where we have both businesses servicing an end market in a vertical. And then you have the pure Specialty business, pharma or something like that. So it varies. But if you go into pharma, we are selling all the way out to commodity products into pharma too, but with different purities. So you have a lot of sliding definitions of Specialty and vertical. And I think to be really successful, you need to learn to master several of those models, if you want to keep wrong. Of course, there are some excellent pure plays out there, but I would expect if you open up the hood that you will see a lot of extras from the wrong business coming in through the acquisitions because that's what we found at least when we acquired companies.

Operator: Our next question will come from Tristan Lamotte with Deutsche Bank.

Tristan Lamotte: Two questions, please. First is, Jens, I'm curious, given you've just come in. EBITA is likely to be down about EUR 150 million this year or 14%. And that's despite a positive contribution from M&A.; The negative FX impact there is large, but it's not the main driver. So in the organic decline portion, how would you kind of split that out? And how would you rank drivers like lower volumes versus lower pricing or the indirect effect of lower pricing? And maybe kind of linked to that, what do you think is the risk that this is kind of the new run rate, the new structural norm? Is this a cyclical low? Or is it something that will improve?

Jens Birgersson: Yes. So on the specific numbers, I'm going to hand over to Thomas in a bit. I think we are on a -- I don't dare to say structurally low. It's kind of staying low. But I think if you start to get some growth in the end markets and a bit more volatility into it, we will do better. And as soon as we have the volume growth -- we actually haven't suffered so much on pricing yet. If you look at the average sales price, relatively small changes in price, but it's still a high pressure due to the Chinese aspects. And we, of course, do business with that too. We distribute those products, too. But then you have an average lower sales price when -- if the mix goes over there and that impact us. But I think if the market comes back to a bit of growth, then I think you're going to see a lot of good things. I don't think it's a permanent structure. Then, of course, you have some structural issues on top that we saw it overnight, Mexico put in tariffs. We have none of these issues. We have the massive difference of energy prices between Europe, maybe Germany, EUR 0.40, EUR 0.43 per kilowatt hour. China runs at maybe EUR 0.07 if you're a big principal and U.S. on EUR 0.12, EUR 0.13. You have these big competitive differences. But again, those differences, technically, it doesn't impact us so much because we are not a producer. So we are not suffering with this massive structural problem in the industry where we sit in the value chain. Maybe I hand over to Thomas on some of those more margin-related questions.

Thomas Reisten: Yes. So I mean, you were alluding to, obviously, the specification of our guidance in that context. And I mean that we are now saying that we go -- that we take the guidance towards the lower end of the EUR 950 million to EUR 1.050 billion range. And I mean, what's behind that is that we continue to have volume pressure in the market. So the 3.6% actually volume reduction that we have seen in the quarter. And overall, actually, when you look at that as well, there's some pricing pressure still affecting sales then as well. Having said that, our margin management, so focusing on to the topic of GP per tonne leads to us still being able to hold the margins. So overall, we have seen that pressure continuing, and that was actually leading to the lower end -- towards lower end of the EUR 950 million to EUR 1.050 billion. If you think about the FX topic, so far, in the further quarter -- now in the third quarter, we have seen stabilizing towards what we have guided as well. So the EUR 1.16 is, as you will remember, the exact same number that we actually have seen as the basis for our guidance in the past. So the main differences are here on the commercial side of the business.

Tristan Lamotte: And maybe second question. I'm just wondering, I know it's early days, but I'm wondering how you think about the company's strategy in China, given I think around 80% of the growth in chemicals according to some forecast is set to come from that region in the next 10 years. Is China likely to be a focus of the new strategy? And is it somewhere that you could focus on to drive growth? Or are there limitations to that?

Jens Birgersson: I mean if we look at what we have done in China, we have done quite some investments in Essentials. And it's a topic of profitability and see what space we can have in the market. On the Specialty side, China is a very interesting market and the whole of Asia fundamentally is a majority Specialty market for us now. And then the strategy that one needs to figure out is what should be done on the Essentials in, for example, India and China going forward? In China, you have an

underlying challenge when you get into that game with profitability in Essentials and you need to decide whether you're going to play that or not, challenging market. And then India is another one where you will, of course, have massive growth over the coming years, and you need to figure out what is the stake you're going to have in India. In almost any business, you would have liked to start quite far into India. We are not so far yet. So definitely, we need to look at that and decide what we do about it. But that said, we are in India. We are doing business in India. But we haven't done maybe a thrust into India yet, but that needs to be decided. And then I'm talking Essential. On the Specialty, we keep growing the business that we have done for several years.

Operator: Our next question comes from Gaurav Jain with Barclays.

Anil Shenoy: This is actually Anil Shenoy on behalf of Gaurav Jain from Barclays. Just one question from me, please. I was just wondering how are you thinking about the outsourcing trend of principals to distributors. I think previously, the previous management, of course, and even your competitors have mentioned that during a macro slowdown, principals tend to increase their outsourcing to a distributor. And are you seeing anything like that right now? Have you benefited from it by any chance? And sort of like a follow-up question to that. I saw that one of the companies Tate & Lyle, which is ingredients company, they acquired CP Kelco. And they mentioned that they are migrating some distributor -- distribution relationships to a direct service customer model as a part of its integration strategy. And apparently, they are increasing their revenue by 10% because of changing that. So how do we look at this? I mean is this a trend that can continue? And if so, would that be negative for the distributor companies?

Thomas Reisten: Yes. So I'll start, and obviously, then I'll invite Jens to add up on that. But I mean, the overall trend that you're describing of outsourcing distribution by a chemical producer or a principal towards actually distribution, we see continuing actually to happen. So we have a number of sales agreements or distribution agreements where this continues as well and where we are actually winning those distribution deals overall. And as a consequence, that's actually where we do see the business continuing to grow as well. Now obviously, this is overshadowed, if you like, at this point in time by the weakness of the demand overall. But nonetheless, this trend continues to happen, and we are successful in winning such agreements actually on a continuous basis. So the reverse trend of that, you sometimes see, but the general strategy that actually we will win these games will continue.

Jens Birgersson: And here, I can say, I've been -- on your question on outsourcing or in-sourcing going direct or not, with our biggest accounts, I'm talking like the 3 or 4 biggest ones, and it's a downturn. And we're talking here accounts that are multi-hundreds of millions. And I've been in those meetings. The team is growing together both ways. So that means we're selling more and they're putting more through us. And I think the philosophy we often see is taking the tail end, big accounts I want to have, and then they move up the tail end limit. I want to put more complete packages out to us. And we have a lot of work discussing these issues. So I will say you have both trends and then, of course, if they have big accounts where they can go direct, they like to do that and then leave the tail end to us. So we see both. But on average, the discussions I've been in has been putting more over to us. And there, my position has been -- let's do it in structured good steps so that we do it well because the biggest danger we have here is that when you take over a number of customers from one of these suppliers, if you make a bad job out of it, you don't manage to grow them. And so what we are sitting with now, where we have done some of these deals -- in spite of a declining market, we have almost made a point of trying to grow the volume so that they are happy with our performance. But it's super important that you take it with good structure, good team on it and make it a success. And I think as long as you do those shifts with success, you would get more. And if you miss it up, it stops. So that's what I see. And then you have really, really big principals that are looking into very big moves, and then you never know will it happen. And you also see quite a few principals that might not had it before, but now they have a global responsible person, a regional responsible person, but I meet mostly global responsible people for distribution, where you have much more strategic discussions. So that's certainly ongoing now, and it's due to the downturn, a lot more is on the table to deal with.

Operator: Our next question comes from Chetan Udeshi at JPMorgan.

Chetan Udeshi: My first question was just going back to the guidance. So you're saying lower end. Are you then happy with the consensus EUR 971 million? Or would you rather have people at lower end

meaning EUR 950 million? Just curious on that. The second question was just on these cost savings. You've shown us this EUR 45 million of cost out. Is there some temporary nature within that? So I'm just curious if you've actually taken out bonus provisions that were taken in H1 and that's sort of amplifying, if you will, the cost takeout number in Q3 by any chance? Because I saw your personnel expenses, we were sort of run rating at something like EUR 365 million to EUR 370 million per quarter in H1, and now they are more like EUR 350 million. So I'm just curious if there is a bonus provision takeout, which is one-off in nature in Q3? And the last question was, can you remind us, you talked about no longer doing the split. How much duplication of cost do you have in the system today that can go away in the next 12 months as you no longer continue on that path of splitting the businesses into 2? Thomas Reisten: Okay. So 3 questions. First question on that was actually towards the guidance. Where would we then see this? Overall, if you look at it, what we have been guiding now, what we've been clarifying or specifying is that we see the range between EUR 950 million to EUR 1.050 billion coming in towards the lower end. That word is quite important. So it is not at the lower end. It is towards the lower end. Having said that, we do expect it probably more in the lower side of it. So towards the lower end, I think, captures it quite well in terms of number. There's a couple of things that obviously still are variable. So how is the demand going to develop? We will continue to take costs out, and that will actually take us to exactly that expectation that I've just been mentioning. So that's on the first question. On the second question, do we incur temporary reductions in costs because of adjusting the bonus provision? That is correct. So we do have bonus provision releases actually in our overall accounts. However, we do not count them towards the program of cost reduction. So when I am quoting EUR 30 million in the first quarter, EUR 30 million in the second quarter, EUR 45 million in the third quarter, this does not include one-off effects. That's in the element where we actually -- where I am talking about inflationary trends already in there as a counterbalance. So the inflation would be higher if we actually would not have actually such elements. So to summarize on that question, when we are looking at cost takeout, we are counting only topics that give us persistent and continuous cost reductions and not one-offs. So that's on the second question. On the split costs, overall, so as you will see that we have already across the business, actually, we continue to take out costs there. What has been announced in 2024 was actually that there are dissynergies to be expected between EUR 90 million and EUR 120 million. So that's a guideline for you to think about what costs would occur if you would have done the entire split. Not all of that has been now created in terms of duplication of costs because we have obviously not done the complete separation. So I think that gives you some good numbers actually to think about what -- in which direction this will evolve.

Operator: Our next question comes from David Symonds with BNP Paribas.

David Symonds: So the first question that I have, so Life Sciences gross profit per unit was described as meaningfully up for the first half, but only moderately up for the 9 months. Material Science moved from slightly up to slightly down. So could you talk about what changed quarter-on-quarter? Was it an intensification of Chinese competition? And are you seeing pricing pressure also in North America and EMEA? Or is it limited more to Lat Am and APAC? Second question, could you comment on the split of cost savings across the divisions? Because it looks like Essentials did a pretty good job on cost. I'm just wondering if it took a more than proportional split, i.e., more than 2/3 of the total. And then finally, one for Jens. Could you comment on the split of the sales force that you have at the moment in the Specialty division? Do you think it makes sense to -- I think the sales force was reorganized to be vertically aligned rather than regionally aligned. Do you think that split still makes sense? Or with the sort of reversal of the split of the company, could you look to merge things a little bit back towards salespeople covering both Essentials and Specialties by region?

Jens Birgersson: So David, maybe I'll take the last one and then I'll hand over the first 2 ones. And I have maybe something to add on Material Science. But anyhow, no, so on the sales force, I mean, I must submit I never almost been in a company where you don't have verticals and regionals and where you have different sales forces. So how we want to run it? I think we have a pretty good setup. We have domain competence vertical sales forces in the Specialty businesses. But we also have that in some of the verticals where we specialize Essential people on the vertical. So that will remain. No reason to do that. And most of all, we don't want to do cost savings on that piece. We want to really make sure we invest in the sales. It's not increases. But when we reduce these costs, as I said, we take overheads.

We want to keep that intact. And it's a good setup. But of course, we want to make sure that they stay focused on their job, but never forget that they have a sister and a brother that very often actually sell to the same logo so that we don't close that. On top of that, what we are running is that we have a global team that we can regionalize depending on the customer what they want for key account selling and then also buying the principals. So when we have our vertical business, the Specialty businesses, they take care of that. But there are some accounts where we have so big engagements that we need to set up global teams. And I would say those -- the 2 specialized -- the Essential regional sales force and the Specialty sales force, then we have the key account for the really big customers that we both buy and sell. And then the really big ones we buy from, they demand that we have global organizations. And whenever we step into that global organization, we end up having around the table both businesses with almost all of those logos. So you need to play all of those for, I would say, to sell. And we're going to keep that and refine it more. At the same time, as we get more team play between them without losing focus on the individual business. And I think that domain competence in the Specialty business is really one of the core things. You need to really nurture and build that. Otherwise, you won't sell anything. And of course, you need the mandate, which requires a massive amount of competence to secure the mandate. So we just keep building on what has been built in the last year. Over to Thomas on the other one.

Thomas Reisten: So in general, if you look at the North America situation, and this is actually impacting as well Material Science and to a large extent, I mean -- but in the BES side, first, what we've seen is quite a bit of weakness in overall volumes. We have seen actually sales benefiting from slightly more stable prices in that context in the third quarter in North America. But overall, really the volume decrease has been affecting the gross profit overall. What we've seen as well is, and I've been commenting earlier actually on that, that the margin management has continued to help us. So on the gross profit per tonne, we actually see this slightly up across the North America region in BES. If you think about Material Science as a whole, then as well there, so gross profit per tonne in the second quarter has been slightly up. And whereas in the third quarter, it actually is slightly down. So that's the directional changes actually that we are seeing in that context. Overall, volumes remain actually; down in both the second and the third quarter. Talking about cost savings, overall, the cost saving initiatives are benefiting both divisions. So we see in both divisions that actually cost savings are being realized. We do need to continue to accelerate this, and that's what we have obviously committed to where we do see the potential to it. And then worthwhile mentioning too that on the BBS cost, so the central costs of the headquarter, we actually have seen quite a bit of progress and reductions on that already. And we will, as Jens has very much pointed out, continue to intensify that and actually create more savings in that space. So that's a rough direction of how the cost savings are actually affecting the different divisions.

David Symonds: That's very clear. If I could just ask a quick follow-up to the last one on cost saves in specialties or sort of margin progression in specialties. What's the reason for the sort of worse margin progression in Specialty? Is there more pricing pressure on that side? Is it with the contract structures in that business? Is it harder to pass through some of this margin management action? Or what's -- what can you say on that, please?

Thomas Reisten: So when you look at the overall development in the third quarter for BSP, then the volumes in BSP have actually reduced harsher than they have actually reduced in the U.S. That for sure is one of the drivers in that context. If you look at the overall margin management, they're actually doing quite well on this. So from a gross profit per tonne, we actually see a further improvement in that. But where we do see the main pressure in BSP is really on the volume side.

Operator: Our last question comes from Nicole Manion with UBS.

Nicole Manion: Just one on the change to the CapEx guide, please, July versus now, EUR 100 million difference. Can you walk us through the moving parts there? Apologies if I've missed something, but just given your existing CapEx up to this point in the year and the magnitude of that change, just any extra detail there would be great.

Thomas Reisten: Yes, so what's important to understand there is that our general capital allocation guideline that we gave out, we obviously say that this is about EUR 300 million a year in terms of CapEx. Now what we have done as well is we wanted to specify towards the end of the year where we

will likely end up. And this is just a general trend for the end of the year that at this point in time, we are seeing reductions in the overall CapEx spend, and we are expecting, as a consequence to come in around the EUR 200 million. Now important is the around. So it can go slightly above still at this point in time, but it's not a specific initiative that we are not executing. This is the overall just -- trend of just not having spent as much. Now we do, obviously, across the board, ensure that we are spending the money on the right projects. And that might have actually here and there as well slowed down some of the CapEx spend so that we are ensuring that we spend it on the right returning projects.

Operator: This concludes the Q&A; session. I will now hand back to Thomas Altmann for closing remarks.

Thomas Altmann: Thank you very much, Abigail. So if there have been any issues from the sound quality, please let us know. Also after the call, you can just send me an e-mail or just send me a text message, then we'll make sure that we take consideration for the next call. And with that, we are coming to the end of the conference call. If you have further questions, please do not hesitate to reach out to the IR team. Our next interaction with the market will be with the full year '25 results, which will be published on March 12 next year. And with that, ladies and gentlemen, thank you very much for joining us today. Have a good day and good one. Thank you.

Operator: This concludes today's call. Thank you, everyone, for joining. You may now disconnect.