20-Feb-2025

Orion SA (OEC)

Q4 2024 Earnings Call

CORPORATE PARTICIPANTS

Christopher John Kapsch
Vice President-Investor Relations, Orion SA

Corning F. Painter
Chief Executive Officer & Director, Orion SA

Jeffrey F. Glajch
Chief Financial Officer, Orion SA

OTHER PARTICIPANTS

Joshua Spector
Analyst, UBS Securities LLC

Laurence Alexander
Analyst, Jefferies LLC

John Roberts
Analyst, Mizuho Securities USA LLC

Jon Tanwanteng
Analyst, CJS Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to Orion SA Fourth Quarter and Full-Year 2024 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It's now my pleasure to introduce Mr. Chris Kapsch, Vice President of Investor Relations. Thank you. You may begin.

Christopher John Kapsch
Vice President-Investor Relations, Orion SA

Thank you, Julian. Good morning, everyone. This is Chris Kapsch, VP of Investor Relations at Orion. And welcome to our conference call to discuss fourth quarter and full-year 2024 earnings results, as well as our initial outlook for 2025.

Joining our call today are Corning Painter, Orion's Chief Executive Officer; and Jeff Glajch, our Chief Financial Officer.

We issued our fourth quarter earnings release after the market closed yesterday. We have posted a slide presentation to the Investor Relations portion of our website. We'll be referencing this deck during the call.

Before we begin, I am obligated to remind you of some of the comments made on today's call are forward-looking statements. These statements are subject to the risks and uncertainties as described in the company's filings with the Securities and Exchange Commission. And our actual results may differ from those described during the call. In addition, all forward-looking statements are made as of today, February 20, 2025. The company is not obligated to update any forward-looking statements based on new circumstances or revised expectations.

All non-GAAP financial measures described during this call are reconciled to the most directly comparable GAAP measures in the tables attached to our press release and the earnings deck. All non-GAAP financial measures presented in these materials should not be considered as alternatives to financial measures required by GAAP.

With that, I will now turn the call over to Corning Painter.

Corning F. Painter

Chief Executive Officer & Director, Orion SA

Good morning, and thank you for your interest in Orion and for joining our call. Since we issued a preliminary update on year-end results last month, I'll just touch upon 2024 from a high level and jump into how we see the market evolve. Then, I'll discuss how we intend to navigate these dynamic times to drive results, unlock Orion's inherently greater value, and improve shareholder returns. After that, I'll turn the call over to our CFO, Jeff Glajch, to review Q4 and year-end results and to discuss the sharp improvement in free cash flow that we see in 2025 and into 2026 and beyond.

If there was just one takeaway from today's call, it would be just that this free cash flow inflection is at hand. On slide 3, despite the late-Q4 demand weakness in our Rubber segment, we finished 2024 with EBITDA just north of $300 million. We expected to achieve higher levels at last year's onset. But the $302 million that we did achieve in 2024 is still 14% above pre-COVID earnings levels, despite a demonstrably softer global industrial backdrop, underscored by nearly two and a half years of PMI contraction in both North America and Europe, and despite our Rubber demand being further undermined by distorted global higher trade flows, which we've discussed in prior calls. With consumers still trading down, elevated levels of low value tire imports persisted through the end of the year. This, in turn, weighed on local tire production in the geographies most important to us.

On this slide, we mentioned mid-cycle volume. The metric simply represents some rough normalization math that could be expected from a stronger demand backdrop, including a return to historic levels of tire imports, implying about $100 million of EBITDA upside based on current incrementals, and without additional contribution from our newer plants in China or Texas and other margin improvements in our specialty business, which we'll discuss a bit later in the call.

Considering the demand headwinds, we are proud of surpassing the $300 million EBITDA mark for the third consecutive year and believe this achievement and Orion's resilience more generally showcases the durable nature of our business. Our products are essential. The razor-blade characteristic of the replacement tire market helps balance cyclicality, and the structural pricing gains that we have achieved and frankly that we deserved have remained intact.

The economic backdrop is uncertain as and has several headwinds, to be sure, but the central one for us in 2024 was soft rubber segment demand. This has been partly attributable to mixed consumer confidence at best, as well as lingering inflationary pressures. We believe these dynamics led to customer demand or consumers trading down in the tires which, in turn, impacted our markets, especially passenger car tire markets in our key market places. There is also pressure on truck and bus tire production, including the underlying freight market, which has remained subdued. Another headwind for our rubber segment.

Our forecasts are developed bottoms up from what our key customers are telling us. And clearly, they did not envision 2024 playing out the way it did, with consumers trading down from their premium offerings often to lower value imported brands. If there is a silver lining here, it would be that the inferior quality, imported tires simply do not last as long as the premium brands. And so, this shift should represent latent demand for the tire industry replacement cycle.

Still on slide 3, another important business characteristic to showcase is our substantial progress regarding sustainability. We are a leading innovator in the global carbon black space and driving circularity is a part of our long-term strategy. We see a business opportunity here because our customers are asking for solutions to help them meet their OEM customers' circular expectations.

In 2024, we achieved EcoVadis's platinum rating, positioning Orion in the 99th percentile for companies assessed by this preeminent sustainability rating agency. We are a leader in the carbon black industry for the production sites with ISCC Plus certifications. We achieved the second highest level in CDP's Climate Change and Water Security Evaluation, a recognition of our sustainability efforts.

And not only was Orion in the first company to manufacture a circular carbon black from 100% higher pyrolysis oil or TPO. But we are scaling our TPO processing capabilities currently. We have other innovations in our sustainability pipeline focused on cost effective solutions and continue to believe these efforts will translate to competitive advantage over time.

Slide 4 touches upon the backdrop, thus far, into 2025. We wish we could point to green shoots, but I would characterize our markets more as sideways at this juncture. Global auto builds are generally expected to be flattish and passenger car tire replacement demand has remained relatively stable. But elevated tire imports continue to pressure local production. Just one data point, as an example, according to US Trade Statistics, domestic tire production was 15% lower than year-ago levels in December alone, despite higher shipments being slightly higher year-over-year in the same month.

The freight industry's indicators also remain subdued, with [ph] tender (00:08:42) volumes remaining slightly lower year-over-year, despite some modest prior-year comparisons – the modest prior-year comparisons. However, the most recent leading indicators for the trucking industry reflect a stronger sentiment, implying potential improvement in the shipping industry fundamentals.

On the geopolitical front, we believe tariffs would be beneficial to Orion in particular, but we have no unique insights into how the new administration's trade policies may play out. So, the timing and magnitude of tangible benefits remains an uncertainty, at least for now. We've been asked about the conflict in Europe and what a conclusion to that war represents for Orion's fundamentals in the region. Let me be clear here, we believe peace would be a good thing, bigger than any company's quarterly results.

That said, ending the war would likely lead to a sharp improvement in European consumer confidence and a reduction in inflation. This would be good for us. Meanwhile, it's not clear when or if sanctioned Russian carbon black products would return to Europe. Even if EU countries unanimously agreed on lifting the sanctions in a post-war scenario, as unlikely as it seems, it's also difficult to imagine many customers viewing this potential source of supply as dependable or getting anywhere near the prior usage levels, even if they somehow get comfortable with the social aspect. In any case, we believe imports from Russia would largely displace imports from India and China.

Shifting gears, our specialty segment exhibited a strong volume recovery in 2024, with full-year volumes advancing 11%. This improvement was skewed towards lower value products, but we are expecting higher margin grades to do disproportionately better in 2025, thanks largely to the completion of targeted debottlenecking projects.

Moving to slide 5, let's talk about our execution strategy looking into 2025 and beyond. Considering the flattish markets and FX headwinds, Orion is operating against, we are not standing still, merely hoping for the industrial economy to improve. Hope is not a strategy. We have leaned into the factors we can control, which should contribute to higher earnings this year. As previously conveyed and as an outcome of our commercial strategy enacted last year, we earned additional mandates in our rubber segment for 2025, which will help diminish our over-indexing to top-tier brands most hurt by the elevated tire imports.

We executed a non-labor workforce reduction which is nearly complete, and savings will help mitigate inflation. We fully expect to have the operational challenges in China behind us in 2025 and have been successfully running the [indiscernible] (00:11:53) production line at our Huaibei plant in recent months, even as the premium grade qualifications continue.

Another theme you should expect to hear more about in 2025 is the multiyear recovery happening within our specialty segment. There are many elements contributing here, but in addition to the expected mix improvement that I previously mentioned, there are other levers, including promising yield products, as well as more optimal capacity allocation strategy. This is intended to support both new specialty end-market growth vectors and higher margin products more generally.

Speaking of higher growth vectors, our conductives portfolio is a prime example. Even with the slower electric vehicle adoption globally, the battery market still represents one of the fastest growing markets our business touches. But considering the slower EV growth rates, we've expanded our commercial scope and resource efforts to reach a much broader mix of end customers for our unique conductive carbons. We are actively onboarding new customers and are particularly encouraged about the ongoing qualifications in the broader energy storage space, as well as the high voltage wire and cable market. These efforts should help derisk our acetylene-based conductives project in Texas, which remains on track to be complete later this year and to ramp commercially in 2026 and 2027. You should also hear more about our operational excellence programs in 2025 as they build momentum internally at Orion. The ultimate goal here is enhancing our plant reliability which will, in turn, show up in our P&L.

On slide 6, at an even higher level, we see certain megatrends as beneficial to our business fundamentals. Perhaps most notable is the global trend towards reshoring of manufacturing activity both in the tire industry, but in general industrial production more broadly. Within the tire industry alone, based on public disclosures, there are 4 times as many public announcements highlighting recent or ongoing investments in greenfield capacity or brownfield tire expansions in North America, as there are rationalizations. While some small tire plants have closed, these tend to be consolidation efforts where production is expected to be moved to more modernized tire manufacturing plants. There's a similar trend in Europe, although not as pronounced. This reshoring activity parallels the ongoing trend favoring more localized supply chains and our experience is that customers are willing to pay a premium for localized security of supply.

In terms of value-enhancing levers, 2025 should be a pivotal year, given our expectations for sharply improving cash flow this year, next year, and beyond. We simply do not need as much additional growth capital over the next several years. So, our cash flow conversion is poised to improve sharply, with CapEx being reduced significantly. As EBITDA growth resumes and as cash flow conversion improves, we foresee ample share repurchase capacity. Indeed and as mentioned in our earnings release, we bought back nearly $20 million worth of stock in 2024 since resuming our share repurchase activity last August, and we have continued to buy back stock in 2025. Jeff will elaborate more on this activity in a few moments.

Slide 7 depicts our updated CapEx intentions for 2025 and 2026, which underpins the improving free cash flow expectations I just emphasized. Jeff will provide more color here. But before turning the call over to Jeff to review our results, let me discuss our newly established guidance for 2025 on slide 8.

Considering the dollar strength, which represents an approximately $15 million headwind compared to 2024 results, the $310 million adjusted EBITDA midpoint represents about 7% to 8% constant currency growth. Assuming flat markets this year and no benefits from potential tariffs, at least yet, we expect EBITDA growth will come from higher rubber volumes, better specialty demand and mix, a positive swing in China, with the operational issues being resolved, a higher cogen contribution, and a benefit from cost actions more than offsetting adverse effects and inflationary costs.

Assuming a tax rate of around 30%, we expect our 2025 adjusted EBITDA – EPS, excuse me, to be in the $1.45 to $1.90 range. This guidance range reflects uncertainty given the current macro. With anticipated improvements in cash flow conversion, our free cash flow is currently expected in the $40 million to $70 million range. But later in the presentation, you will see the case for this free cash flow generation to more than double in 2026.

And with that, I'll turn the call over to Jeff.

Jeffrey F. Glajch

Chief Financial Officer, Orion SA

Thank you, Corning. Slide 9 depicts highlights for our Q4 and 2024 financial results. Notably, while EBITDA was down about 7% year-over-year in the fourth quarter, there were several tax items which benefited adjusted EPS, which was more than double the prior year's EPS. The tax items were mainly one-time in nature but not adjusted out, based on our longstanding internal policy and for consistency purposes.

Weaker rubber demand in the quarter contributed to the fourth quarter's EBITDA decline. We believe this was primarily tied to pressures our customers were feeling from elevated tire import levels in both North America and Europe, along with their extended holiday shutdowns and inventory adjustments. The dollar strengthening midway through the quarter versus the Euro, South Korean won and Brazilian real also impacted our results modestly. Finally, we had about $1.4 million of cost in Q4 related to our workforce reduction. These costs were not added back to adjusted metrics.

On a full-year basis, in addition to soft rubber demand, adverse cogen comparisons and inflationary cost were contributors to our 9% lower EBITDA. The impetus for our commercial strategy to partly diversify away from our premium Tier 1 tire customers was the imported tire impact and consumer trade-down issues which Corning mentioned. In addition, these challenges and continued cost pressures were factors in our head count reduction action, which should result in approximately $5 million to $6 million in annualized savings to help offset higher fixed cost and SG&A inflation. As a side note, along with the Q4 impact of $1.4 million, we expect to have another $2 million of separation costs related to this initiative, which will occur in Q1 of this year. This charge, again, will not be added back to our adjusted EBITDA results.

Importantly, we are beyond our peak CapEx spending and generating free cash flow will be a key focus in the foreseeable future. Anticipating this free cash flow inflection and in considering our stock's valuation, we reinitiated our share repurchase activity last summer. In the fourth quarter, we bought back about a 0.5 million shares and more than 1.1 million shares since resuming repurchases last August. Notably, since instituting our share buyback program a little more than two years ago, we have repurchased around 7% of net shares outstanding. So, we are not talking about buybacks that merely funded share-based compensation programs as many companies do, we have reduced our absolute share count as of mid-February by 7% in just over two years. These buybacks are accretive to EPS and we expect beneficial to our shareholders over time.

As of December 31, 2024, we had about 4.9 million shares remaining on our current buyback authorization. While we normally do not comment on share repurchases within a quarter, I will note we have continued to opportunistically buy back shares in the current quarter.

Slide 10 exhibits Orion's full-year performance in 2024, which included flat overall volumes. The modest decline in gross profit and EBITDA metrics was attributable to a lower cogen contribution, timing of cost pass-throughs and higher inflationary driven SG&A costs. Our adjusted net income was down 11% for the year, but adjusted EPS was down just 8%, thanks to fewer shares outstanding, which is attributable to the net buyback activity I just mentioned.

Slide 11 shows the company's fourth quarter KPIs. Overall volume and gross profit increased about 1% and 2% year-over-year, respectively, as the benefit from the contractual base price improvement in our rubber segment was partly offset by lower cogen contribution and adverse mix in specialty. The adjusted EBITDA metric, down 7% year-over-year, was affected by inflationary cost impacting our SG&A. Adjusted net income and EPS were up sharply, thanks to the several one-time tax items.

Slide 12 shows the fourth quarter EBITDA bridge on a year-over-year basis with positive pricing more than offset by lower volume and geographic mix, a reduced cogen contribution and adverse effects. Notably, while aggregate cost looked benign in this bridge, there was a divergence in cost variances between rubber and specialty, which I will discuss shortly. The specialty contributing favorably and our rubber segment sustained higher costs.

Slide 13 portrays the rubber segment's results in the fourth quarter. Late in the quarter, demand weakness resulted in 2% lower volumes year-over-year. The gross profit benefit from contractual-based pricing was more than offset by regional mix, adverse timing of pass-throughs and lower contribution in cogen. An important takeaway from this slide is the resilience and stability in our rubber business, as evidenced by the graph illustrating the segment's trailing 12-month gross profit per tonne trend, which remains remarkably steady over the past two years at around $400, up from the mid-$200 just three years ago.

Slide 14 depicts the EBITDA bridge for our rubber segment in the fourth quarter with favorable contractual pricing only partially offsetting the impact of lower volumes. The biggest year-over-year variance in Q4 was the impact of costs namely one-time cost variances, including timing associated pass-throughs, a pronounced prior -year incentive comp reversal, and SG&A inflation. As mentioned, FX late in the quarter headwind as well.

Slide 15 shows our specialty segment's KPIs in the fourth quarter. After flat year-over-year volumes in the third quarter, the business's multiyear recovery regained momentum with 9% year-over-year volume growth in the fourth quarter. The recovery was relatively broad-based by market within our specialty business, but mix was skewed toward its largest market, the polymer space, which tends to consume lower value grades.

The trailing 12-month gross profit per tonne graph illustrates a burgeoning inflection in our specialty business, especially now that we are lapping comparisons no longer distorted by elevated cogen earnings from the 2022 spike in energy prices in Europe and the related 2023 forward sales, which made comps difficult in the first half of 2024.

On slide 16, you will see specialty's fourth quarter EBITDA bridge, including the volume contribution that was partially offset by lower portfolio mix, as mentioned. The favorable year-over-year cost variance was driven by timing differences associated with feedstock pass-throughs and fixed cost absorption. You may recall from prior disclosure our intent to build inventories of certain desirable grades that were below targeted safety stock levels. That strategic inventory build also helped the specialty segments cost variance in the fourth quarter.

Slide 17 displays adjusted non-GAAP cash flow metrics for the year. We had a sharp improvement, partially seasonable in our net working capital in the fourth quarter, and this helped improve our cash flow and leverage ratios sequentially. We finished 2024 with a net debt ratio of 2.86, which was down from 3.0 at the end of the third quarter.

I will conclude my final comments on slide 18, which showcases the free cash flow inflection from 2024 to 2025, and then 2026. We are estimating a $100 million improvement in 2025 at the midpoint of our guidance. This was primarily due to lower CapEx, nearly $50 million, lower cash taxes and improved EBITDA.

Looking forward to 2026 with an additional $50 million reduction in growth CapEx, once we can dump this plant in La Porte, Texas, is completed later this year, we see free cash flow exceeding $100 million. This does not include any incremental EBITDA growth which could drive this number even higher, especially if we see a move in the direction of market conditions closer to mid-cycle.

Corning?

Corning F. Painter

Chief Executive Officer & Director, Orion SA

Thank you, Jeff. So, this is a great slide to just sum things up and finish the call on. I want to stress the Orion team is dedicated to these very dynamic times to be opportunistic, to be nimble, to be fast, to execute well. And by doing that, we are convinced that we can realize Orion's inherently higher value. And personally, I think this slide and the free cash flow inflection point that is upon us here, this is going to be a powerful catalyst for us, and we're looking forward to that.

With that, Julian, let's open it up for some questions.

QUESTION AND ANSWER SECTION

Operator: All right. Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] And our first question comes from Josh Spector with UBS. Please proceed.

Joshua Spector
Analyst, UBS Securities LLC

Q

Yeah, hi. Good morning, guys. I first wanted to ask just on the guidance for 2025. You went through a number of moving pieces earlier in the call, but I wanted to be clear on the macro assumptions, specifically around volumes and the import pressures that the industry has faced. Are you assuming any change in 2025 versus 2024? And within that, are you using your customer forecasts for volumes. Are you saying that things stay the way they are? So, kind of just wondering how much of this you view as in your control at the midpoint versus needing markets to cooperate? And then, I guess as a follow-up, what drives the $20 million higher or lower? What's the biggest variable you see?

Jeffrey F. Glajch
Chief Financial Officer, Orion SA

A

Hey, Josh, this is Jeff. Yes. Hopefully, I'll answer all your questions. If I miss something, let me know. With regard to volumes, on the rubber side, as we've mentioned I think in the November call, we've had – we've won some additional [indiscernible] (00:29:28) with certain customers, and we are expecting rubber volume increases probably around the mid single-digit range, something in that area from those lanes.

On the specialty side, we also expect some additional volume growth as we've seen over the past couple of years that those markets have recovered. I think about the – kind of hitting the midpoint to your point, we probably see about $10 million improvement in our operations in China, which we talked about also in the call in November, probably another $10 million to $15 million between specialty as well as some improvements in the cogen area.

We have some additional variable comp cost, which is a negative of about $5 million. So, if you add all that up, you get about a $20 million increase. And that is starting off of the base of about $290 million. And I'm using the $290 million to take our actual results and then, adjusting them for FX, as Corning noted in his prepared remarks. So, some of this is obviously due to our customers – we have to use our customer forecast to some extent, certainly on the rubber side. But the additional mandates is where we're seeing some additional volume.

Corning F. Painter
Chief Executive Officer & Director, Orion SA

A

Yeah, maybe if I just elaborate. Our customers, when they made their forecast for this year, they really did not put out, in the rubber side, significantly increased forecast for this year. Now, the whole thing is going to turn potentially in imports and or will there be help from that? That's not in our planning, that's not in our prior customers planning. So, that's why we did the cost reduction to offset the inflation. So, it's really not relying upon that. Of course, imports could go up or down, and we'll have to see how that plays out. But we're going to be active and dynamic in that environment.

Joshua Spector
Analyst, UBS Securities LLC

Q

Thanks. And maybe just one follow-up on the China piece. Just when you talk about getting Huaibei running and then, ramping, I guess, kind of a similar dynamic of how much of that $10 million is just cost avoidance versus you're assuming – I mean, I think you'd have to gain share in the market to fill that up. So, what are the two pieces there?

Corning F. Painter
Chief Executive Officer & Director, Orion SA

A

Yeah, I'd say it's kind of getting back to where we were in certain specialty grades in China? I think there's room for that right now, especially in these more premium areas. Keep in mind, before, not too long ago, we were exporting from Europe, from US, from Korea for these same markets into China. So, I think that's doable for us. There's going to be a mix in that of, okay, we have fixed cost and we don't have enough sales, so that you're getting better absorption and cost performance in that regard, Jeff. But some of this is going to be just incremental volume and of attractive material.

Joshua Spector
Analyst, UBS Securities LLC

Q

Okay. Thank you.

Christopher John Kapsch
Vice President-Investor Relations, Orion SA

A

You're welcome, Josh.

Operator: Thank you. And our next question comes from Laurence Alexander with Jefferies. Please proceed.

Laurence Alexander
Analyst, Jefferies LLC

Q

So, good morning. Two questions. First, can you speak to kind of your perspective on supply additions, particularly curious about competitive behavior or supply demand balances in Specialty Blacks? And secondly, are there any end markets where the carbon black intensity is also changing? I guess what I'm trying to fish for is are there some submarkets again, more interested in specialty than rubber, where if demand improves, there's an outsized benefit for Orion because of the impact on mix or technology shifts at the customers or formulations, shifts or requirements?

Corning F. Painter
Chief Executive Officer & Director, Orion SA

A

Okay, Laurence, let me take a shot and then, come back to me as a follow-up as you need. So, I'd say, like, the biggest change in specialty from a market perspective is conductivity. And we all know EVs is not exploding and we're past maximal highs there. But it's still a growing market, I think still an attractive one for us. So, you've gotten that EV batteries, you've gotten that now energy storage systems. And I'd also say for those same, let's say, conductive grades, the high voltage wire and cable markets, especially if you think about remote energy production relative to where the city centers are.

Within any given segment, there are opportunities where they're going for more intensity or in our case, exciting, [indiscernible] (00::34)05 looking for a higher specification of the carbon black or a higher performance carbon black.

But a lot of times in that you're looking at a more niche, sort of like a weighted effect of more – many of those things versus like a particular one I'd point to. So, we have de-bottlenecks some of our really advanced materials for coatings. And so, we think about automotive popco, that's an attractive market for us. Market isn't that great, right, for OEMs right now, I'd say. But we see people like wanting to adapt and qualify those materials, that's a plus for us, but it's not a tidal wave in the way that conductivity, I think, is still a pretty big wave. Does that help?

Laurence Alexander
Analyst, Jefferies LLC

Q

Yes. Thank you.

Operator: Thank you. And our next question comes from John Roberts with Mizuho Securities. Please proceed.

John Roberts
Analyst, Mizuho Securities USA LLC

Q

Thank you and nice guidance. What do you think operating rates are in Russia, China and India? And do you think collectively they change in 2025?

Jeffrey F. Glajch
Chief Financial Officer, Orion SA

A

Well, I'm going to answer the big question there is going to be what happens in peace and trade flows and all of that. So, if there was peace, I think you'd see some. And if they're leading the Europe, right, which I think is a big question. But I think that's what's on investors mind. What's the risk scenario in that case if they did come in, I mean, I don't think they'll get nearly what they had before. They were over a third of the market. We had customers who bought literally 50% of their carbon black from that. I don't think they're going back. And if they do, I don't want to ever hear about sustainability again.

What I think we will see is, of course, some of that coming into the marketplace, but I think we'll see that displacing Indian carbon black and Chinese carbon black. I think in terms of Russia, less Russian carbon black going into China. So, maybe you'll see a slightly normalization in that. But I would stress to investors, we were raising prices in Europe before the war and I think there's still a premium for local supply and there are people building tire to factories in Europe. So, I think that's still a positive there.

In terms of current operating rates, obviously, I would suggest they're down a bit in Russia. It's very hard to get the data, but I suspect some of the raw materials being used for fuel today. China always report very large capacity and relative to what they actually make, kind of hard to read there. India went through some expansions, they probably got reasonably good loading on the new plants lower on the old. And in a scenario, let's say like normalization in Europe, I think some of the older plants in India would be ripe for just being retire.

John Roberts
Analyst, Mizuho Securities USA LLC

Q

Okay. And then, secondly, your rubber volume was down 2% in the fourth quarter. What do you think unit tire volumes were at retail, in your geographies in the fourth quarter?

Corning F. Painter
Chief Executive Officer & Director, Orion SA

A

Well, let's say, if we just look at North America, they were up. So, if you look at trade data, you can see tire sales in North America. It's easier to get a good data. It is really quite good. But if you look at like US PMI tire production, it's down quite significantly and tire imports are up quite significantly. I mean, that is the big story in the Rubber Carbon Black demand.

And so, again, we're not counting on like that reversing tomorrow. We'll see what happens. What we did in this scenario was to go out and get a few more mandates in terms of supply. Those are often in other regions. It's going to show up in mix and so forth. And we also moved for some different customers because in our experience, the customers most linked to premium brands and so forth are the ones that been hurt the most in the current environment.

John Roberts
Analyst, Mizuho Securities USA LLC

Q

Thank you.

Operator: Thank you. And our final question comes from Jon Tanwanteng with CJS Securities.

Jon Tanwanteng
Analyst, CJS Securities, Inc.

Q

Good morning. Thank you for taking my questions. My first one is just Corning, obviously, we get the free cash flow message. How much can we reasonably expect you to devote, as a portion of your of discretionary cash flow to share buybacks? Is there a percentage you have in mind, the number of shares or amount? I know you have an authorization out there, but I'm just wondering if there's a portion or percentage that you're willing to think about versus growth investments for [indiscernible] (00:38:49).

Corning F. Painter
Chief Executive Officer & Director, Orion SA

A

Yeah, I really think about this as an opportunistic approach. So, I think it depends a little bit on how we see business cash requirements, but quite frankly, pretty significantly where we see the share price. So, I think that can vary for us. I mean, a bunch of professional investors on this call, right? The goal is to buy low and we have to be opportunistic about this, I think, to do it well.

Jon Tanwanteng
Analyst, CJS Securities, Inc.

Q

Fair enough. And then, can you give us an update on La Porte and when we might expect to see some things like offtake agreements or qualifications on that?

Corning F. Painter
Chief Executive Officer & Director, Orion SA

A

Sure. So, the plant is advancing well, the supermodules, which might have seemed like the biggest risk coming from China. We're in on schedule, it's more of the US equipment that's been a challenge. But nonetheless, we expect to be finishing that up late this year and doing qualifications next year. We are actively signing customers and sampling them with the product that we make – supplying them with the product that we make today in France. Our whole strategy around the French plant not to maximize EBITDA, to maximize the number of customers who we have in the supply from the site. And customers are willing to accept that because then they could see this pathway as go ahead and qualify La Porte.

That said, they are going to have to qualify La Porte. And in many cases, the more valuable, the more profitable, the more differentiated that guy's application is. It will have to go through more of a qualification process, oftentimes also involving their customers. So, I would expect us will be operating in 2026 and we will be probably early days of getting some, maybe lower quality sales in there as we work through the qualifications. And I would expect to be clear, 2026, 2027 really to be heavy in the qualification phase, while slowly ramping that up as we go through it.

Jon Tanwanteng
Analyst, CJS Securities, Inc.
Q

Okay, great.

Corning F. Painter
Chief Executive Officer & Director, Orion SA
A

Does that give you some color there?

Jon Tanwanteng
Analyst, CJS Securities, Inc.
Q

It helped, yes, thank you. And if you could just – could you just give us a sense of relative to Q4 and Q3, how much pressure are you seeing from import markets today? Has it improved or are you seeing more or less? And kind of is that being impacted by whatever people think might be happening with tariffs?

Corning F. Painter
Chief Executive Officer & Director, Orion SA
A

Right. So, let me just stress, when we talk about imports, I'm not really talking about tire imports. I'm talking about the imports that impact my customers and in that sense, we really do not see a letup. And if you listen to some of the large tire companies and their earnings releases, they're all saying the same thing. They were heavily impacted by imports.

Keep in mind, in the United States, it's a matter of imports from rest of Asia, not really from China, that's heavily tariff. In Europe, it's heavily impacted by exports from China. South America, also more China. So, different regions have different elements of what the import regime would look like. It's not like there's no carbon black created, but like the big thing for us I'd say is really tire demand.

Jon Tanwanteng
Analyst, CJS Securities, Inc.
Q

Okay. So, you haven't seen a let up in Q4...

Corning F. Painter
Chief Executive Officer & Director, Orion SA
A

No, I haven't. And I would not be banking on, I mean, opportunistically is good for us because I try to make it clear in the call we don't know how exactly this is going to play out. And it's our job to be nimble, to be opportunistic and make the most of this wherever or however it plays out, but not to be sitting here with a strategy that we're hoping for it, right. I'm prepared for that not to happen and for imports to stay right where they are. That's the world we got to be ready to navigate. And if we see tariffs, it's all upside.

Jon Tanwanteng
Analyst, CJS Securities, Inc.

Q

Fair and understood. Thank you.

Corning F. Painter
Chief Executive Officer & Director, Orion SA

A

I think we have one follow-up from Josh. Is that right?

Operator: Yes, we do. Josh Spector with UBS.

Joshua Spector
Analyst, UBS Securities LLC

Q

Yeah. Thanks. If you guys don't mind a few kind of following up on a few items. So, first just on La Porte, I think your last answer was helpful, but I just wanted to understand if we should assume any earnings contribution in 2026 or whether that's actually a drag because all the costs are there and it's not fully ramped. So, is that a positive or negative item for 2026 EBITDA?

Jeffrey F. Glajch
Chief Financial Officer, Orion SA

A

I put it net, it's going to be negative certainly in the early quarters. We're going to have the operating costs and the labor costs, and it's going to take a while to do it. So, I would not look for that to be a contributor in 2026. And that element we put out as the free cash flow projection, right, that's really heavily driven by just reduce capital because we've completed that and we don't need to build another one right now.

Joshua Spector
Analyst, UBS Securities LLC

Q

Okay. Thanks for that. And then, I wanted to just ask as well, kind of a follow-up to John's question around Russia. I mean, I'll walk through some simple math, and I'd just be curious on your thoughts here. I mean, I guess investors are looking at your rubber earnings about $100 per tonne at an EBITDA level above what they were pre-pandemic, call it around 700 KT of rubber supply, about 40-ish percent of that into Europe. You run through that math.

If things reset, you're in a $25 million to maybe $30 million negative. From your answer to John, it sounds like that's not the math that should be done. I'd argue the market's pricing in more than that as a headwind. What are your thoughts about how we should think about what that normalization could look like?

Corning F. Painter
Chief Executive Officer & Director, Orion SA

A

Yeah, so I would say I would be thinking, if you think about it, put yourself in the shoes of a buyer trying to keep a factor running that makes tires in Europe. I think the local supply is still going to be what you want. So, a supply chain stretching from India or China I think is going to lose some of that share through the supply chain coming in from Russia. Even with all the concerns and all of that. I think it's really going to be a shift in where they import from.

I mean, keep in mind, we and our competitors can serve, I'm not quite two-thirds of the European market, well, it depends about how many tires are being made. Let's say two-thirds of the market, a third is going to be imported.

And I think it's really going to shift around that part of it. And again, we are raising prices before the war. And keep in mind also, Russian carbon black was always banned last summer. So, I think that concern is a little bit overstated, that's my opinion.

Joshua Spector
Analyst, UBS Securities LLC

Q

Okay, thanks. I'll leave it there and chat more offline. Thanks, guys.

Corning F. Painter
Chief Executive Officer & Director, Orion SA

A

Okay. Thank you.

Okay, I think that then wraps it up for questions. Just really appreciate everybody's time and interest and the questions. Once again, I feel like the big message here is that last slide, the free cash flow inflection, we do not need to continue to spend in the way we have. That's just going to open up free cash flow for us. We've got a number of things we can do with it. I think that's just a big move for us. Our next step, just as we all know, will be at the multiple investor conferences while doing a couple NVRs and a couple – in the coming months. And we look forward to the engagement and hope to see some of you there. Have a good rest of your day. Thank you very much.

Operator: Thank you. This does conclude today's teleconference. We thank you for your participation. You may disconnect your lines at this time.