

# Evonik

# Leading Beyond Chemistry

Q3 2023

Earnings Conference Call

November 7<sup>th</sup>, 2023

**Christian Kullmann**, Chief Executive Officer

**Maik Schuh**, Chief Financial Officer

# Sequential earnings improvement despite ongoing challenging environment; self-help measures on track and extended

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**Adj. EBITDA of €485 m well above Q2 level,**  
weak economic environment offset by positive market momentum in Animal Nutrition and contingency support

**Reinforcement of self-help measures:**  
Contingency measures on track and to be extended into 2024

**Cash generation picking up strongly** with FCF of €469 m in Q3;  
positive year-end finish expected in Q4 **to reach cash conversion towards 40% for the full year**

**Adj. EBITDA outlook** for FY 2023 of €1.6 to 1.8 bn **confirmed**

**Strategic realignment of Technology & Infrastructure division and administration**  
to focus resources even more on operating businesses of three growth divisions

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- 1. Addressing the current downturn**
2. Financial performance Q3 2023
3. Outlook FY 2023

# Addressing the current downturn with short-term as well as structural measures

**Strong cash generation** even in downturn

FCF conversion **towards ~40%** in FY 2023

**Self-help  
measures  
for 2023**

Extension of **contingencies** into 2024

On track for **€250 m** savings in FY 2023

Adjustment of business model in **Animal Nutrition**

**First savings** realized in 2023 (of ~€200 m by 2025)

**Streamlining administration:**  
“Evonik Tailor Made”

Investments into  
**future growth**

**Mid-term  
structural  
measures**

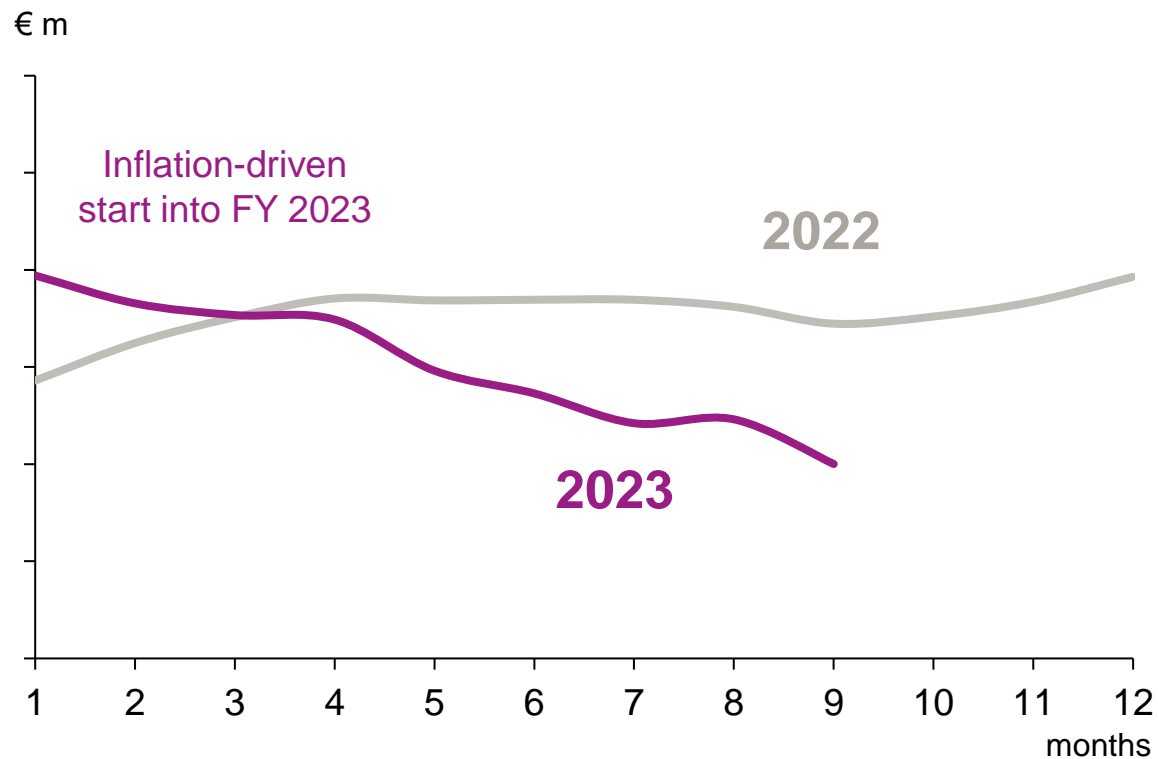
Process for **realignment of  
Technology & Infrastructure**  
started

# Reinforcement of contingency measures

## On track and extended into 2024

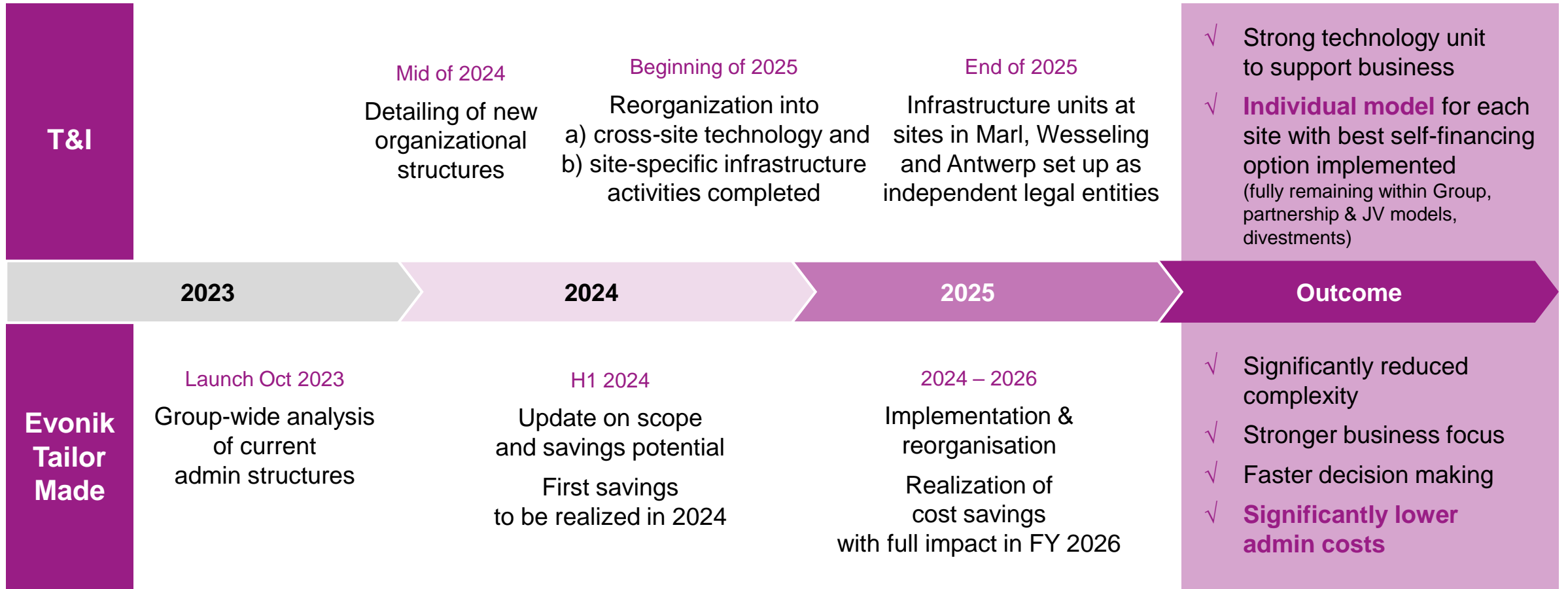
Self-help  
measures  
for 2023

### Fixed cost development (€ m)



- Overall contingency achievement level after 9M:  
**~70%** (of total €250 m targeted savings for FY 2023)
- Fixed costs now **clearly below FY 2022** and overcompensating cost inflation
- **Further declining trend** into Q4
- Among others, cost savings of
  - ~€90 m personnel
  - ~€40 m for external services & travel
  - ~€30 m optimized logistics & maintenance
- Contingencies **extended into FY 2024**

# Realignment of Technology & Infrastructure and administration to focus resources on operating businesses of three growth divisions



# Investments into future growth

## Strengthening Next Generation Solutions

Mid-term  
structural  
measures

### SEPURAN® Membranes



#### Capacity expansion for gas-separation membranes

- **1,000<sup>th</sup> biogas plant** using SEPURAN® Green membranes in September
- Mid-double-digit million € investment into capacity expansions in Austria
- Completion scheduled for **H1 2025**

### Biosurfactants



#### First world-scale biosurfactant plant start up is on time

- Plant **for bio-based rhamnolipids in Slovakia** mechanically completed
- Start-up and production of first samples in **Q4 2023**
- Further ramp-up in 2024 & 2025, with initial volumes already committed by partners

### Gut Health for Animal Nutrition



#### JV in China for gut health products

- Evonik and **Shandong Vland Biotech** join forces
- Focus on **gut health solutions for animals products incl. probiotics**
- JV to enter the market in **Q1 2024**

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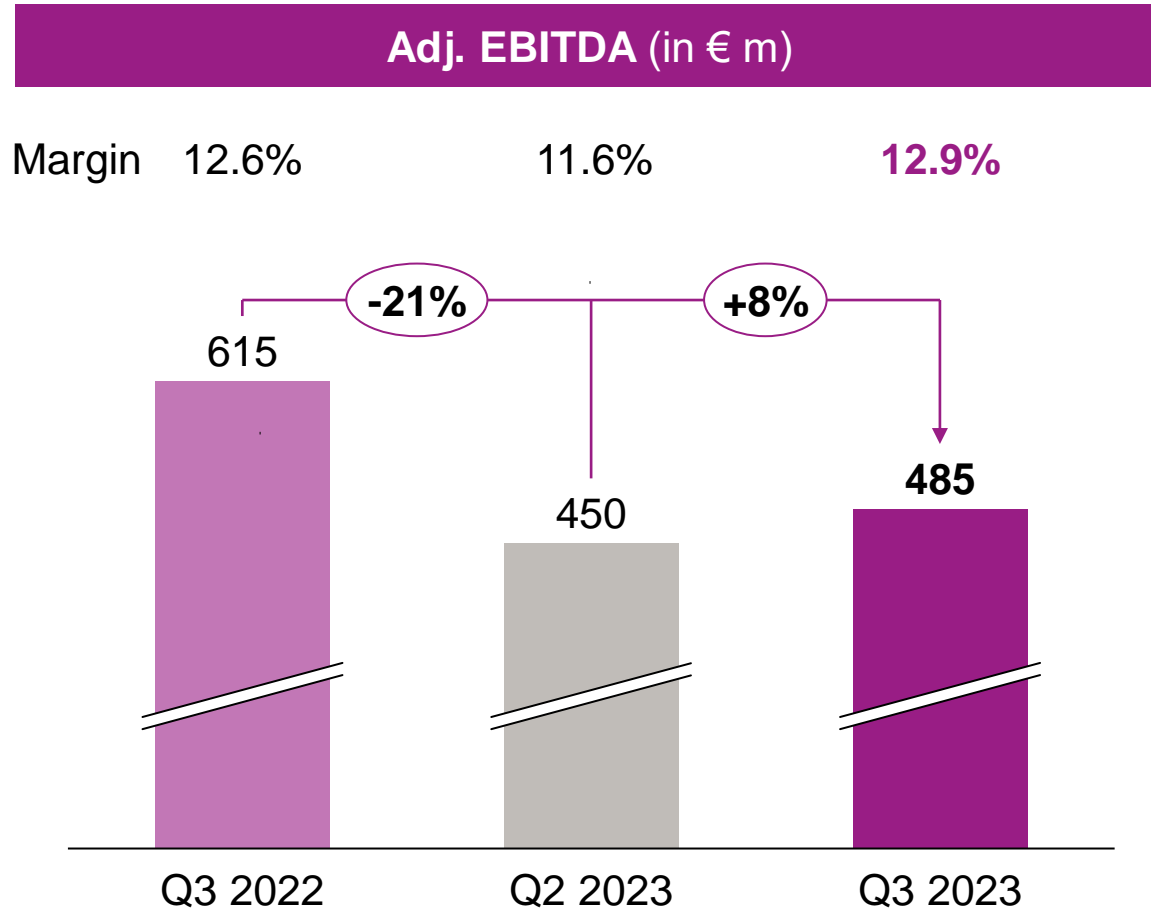
1. Addressing the current downturn
- 2. Financial performance Q3 2023**
3. Outlook FY 2023



## Q3 2023 results overview

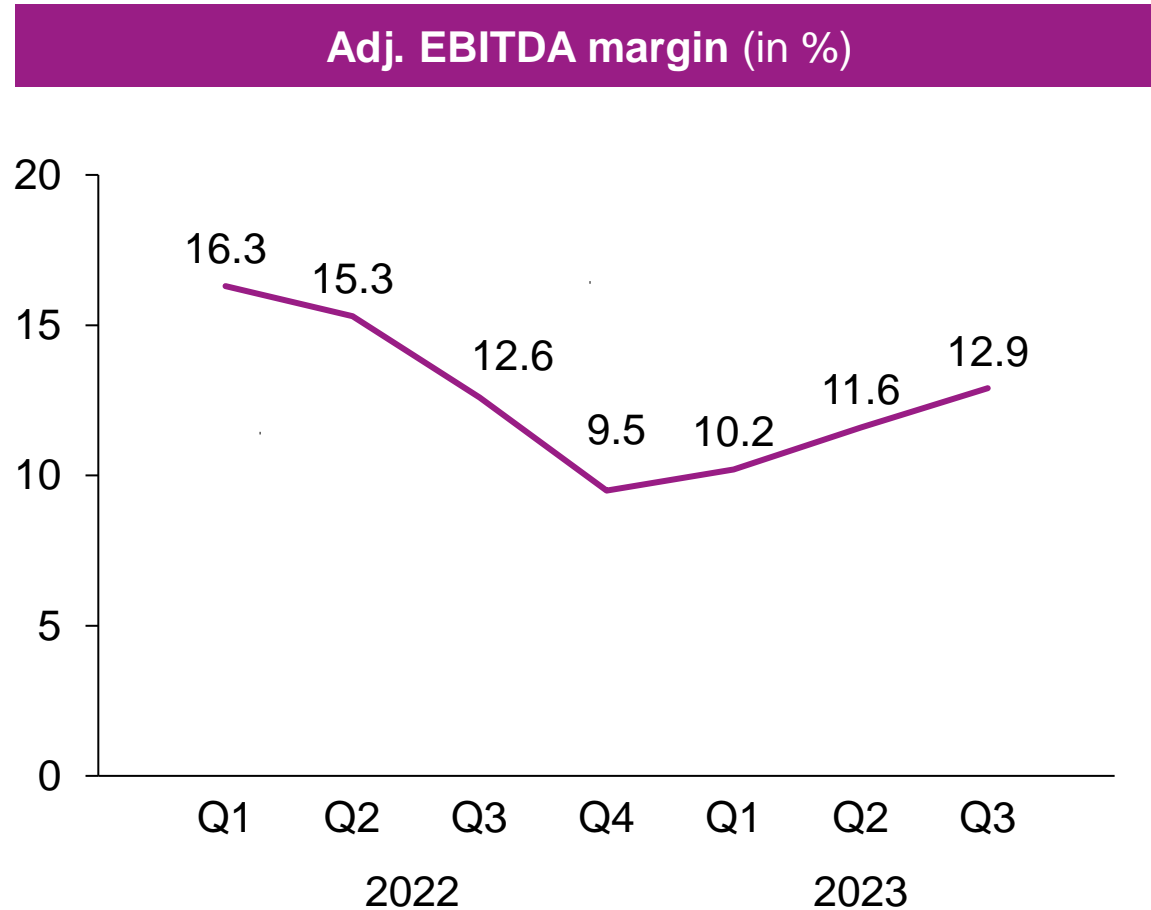
Sales (in € m)	Adj. EBITDA (in € m)	Free cash flow (in € m)	Adj. EPS (in €)
<b>3,771</b> (Q3 2022: 4,878)	<b>485</b> (Q3 2022: 615)	<b>469</b> (Q3 2022: 288)	<b>0.41</b> (Q3 2022: 0.54)
Lower volumes and pricing both yoy and qoq	Benefitting from positive momentum in Animal Nutrition and contingency ramp-up	Strong cash generation owing to strict NWC management	Reported EPS of -0.21€ impacted by impairment on planned divestments (Superabsorber)

# Adj. EBITDA of €485 m well above Q2 level



- **Specialty Additives** with continued weak demand and low plant utilization resulting in qoq earnings decline
- **Nutrition & Care** with positive momentum and price turnaround in Animal Nutrition, additionally supported by inventory build ahead of Singapore shutdown in Q4
- **Smart Materials** benefitting from full availability of both PA12 plants after maintenance in Q2 while demand across virtually all market segments remains weak
- Support from contingency measures and reduced bonus provisions across all divisions, most pronounced in **T&I / Other**

# Adj. EBITDA margin with positive trend

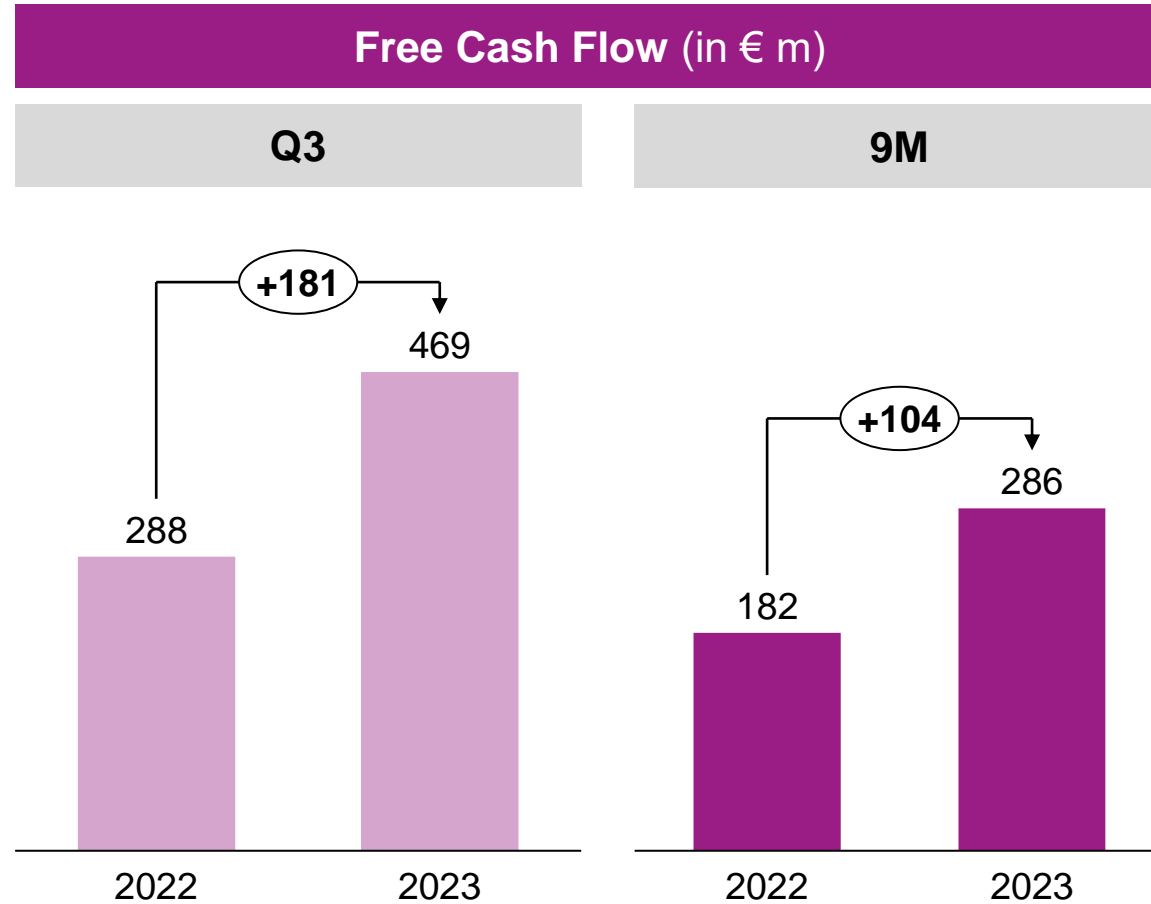


- **EBITDA margin of 12.9%** in Q3 2023 still on unsatisfactory level (impacted by low volumes and utilization rates) ... but **positive margin trend**

## Supporting factors

- Successful **pricing** policy despite challenging volume environment
- **Contingency measures** gaining more and more speed
- **Bonus provision** release during fiscal 2023

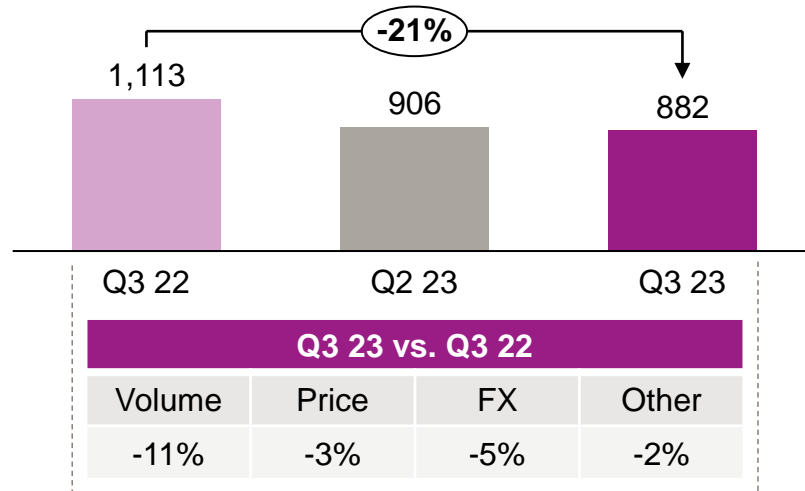
# Cash generation picking up strongly with FCF of €469 m in Q3



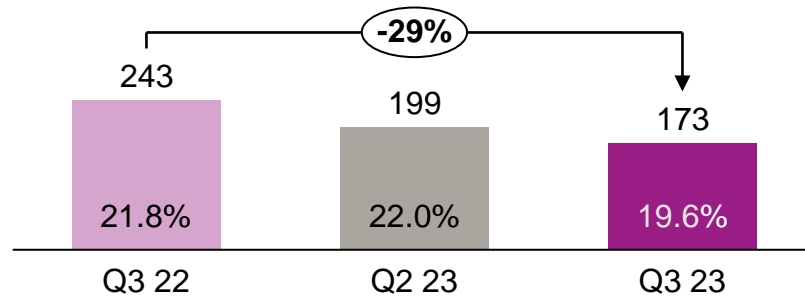
- **Track record of strong cash generation** continuing despite more challenging environment
- FCF after 9M **even exceeding prior year** (+€104 m) despite significantly weaker adj. EBITDA (-€733 m)
- Continued and stringent NWC management throughout the year resulting in **significantly lower NWC outflow** (+€857 m yoy after 9M)

# Specialty Additives

**Sales**  
(in € m)



**Adj. EBITDA / margin**  
(in € m)  
(in %)



- Unprecedented demand weakness continued in Q3: 4<sup>th</sup> quarter in a row with double-digit volume declines (yoy), resulting from a combination of weak end customer demand, still destocking in some areas and Asian exports into Europe and US
- Margin pressure from low plant utilization; reacting with capacity adjustments of selected plants from Q4 onwards
- Pricing turning negative in this difficult environment, but also falling raw material costs
- Positives: Volumes in China turning slightly better yoy; PU foam and Oil Additives with robust performance

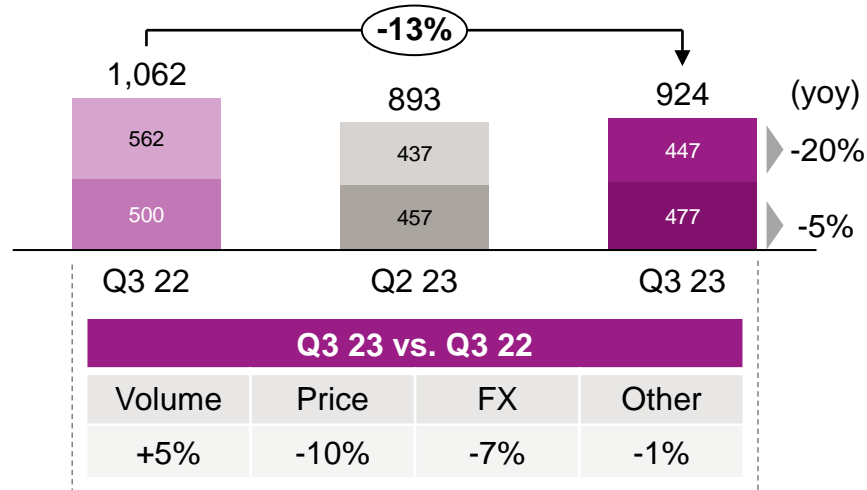


Q3 2022 still contained sales and earnings from the TAA derivatives business, which was divested in Q4 2022

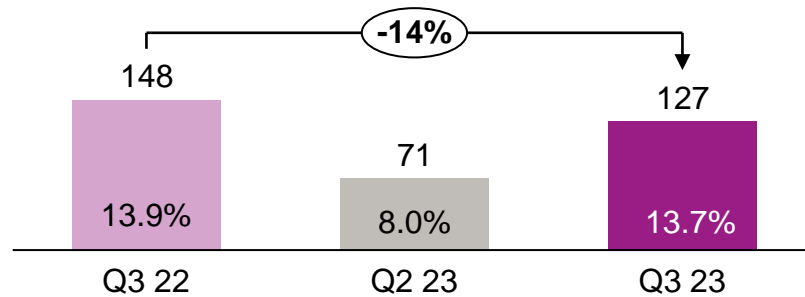
# Nutrition & Care

## Sales (in € m)

Animal Nutrition  
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Health & Care



## Adj. EBITDA (in € m) / margin (in %)



## Health & Care

- Care Solutions: Strong performance (already stable yoy) driven by ongoing portfolio upgrading towards sustainable specialties
- Health Care: Solid oral drug delivery and drug substance business

## Animal Nutrition

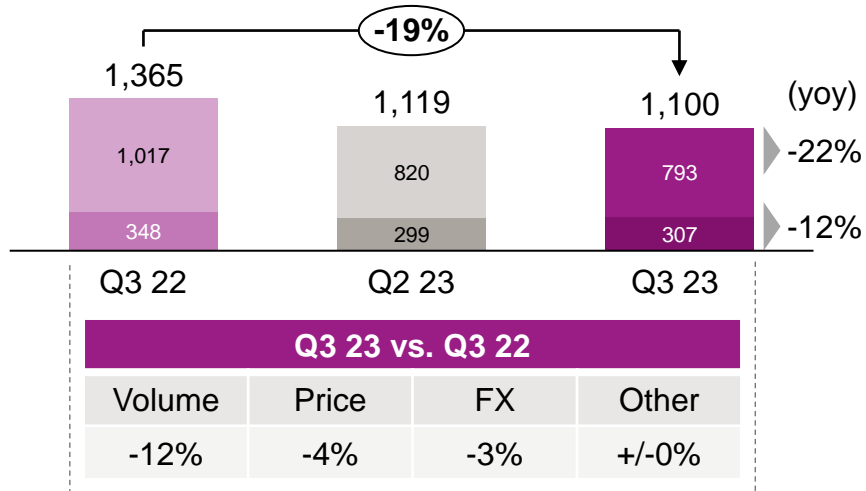
- Overall positive volume development (qoq) across all regions; support from lower variable costs
- Price trend turning positive during Q3, further positive momentum for Q4 and into Q1 2024
- Q3 result benefits from inventory build-up in preparation of Singapore expansion shutdown with corresponding negative impact in Q4



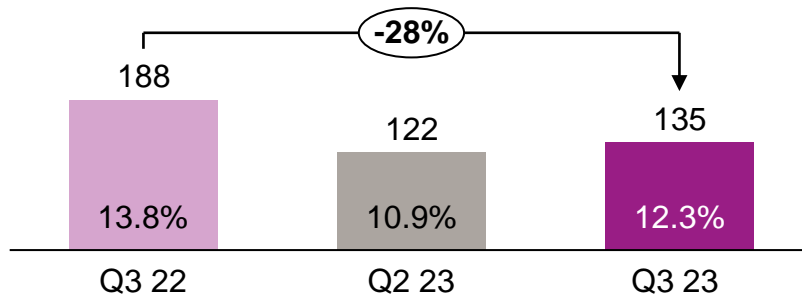
# Smart Materials

## Sales (in € m)

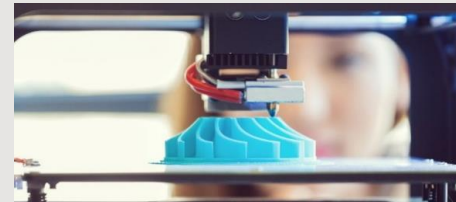
Inorganics  
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Polymers



## Adj. EBITDA (in € m) / margin (in %)

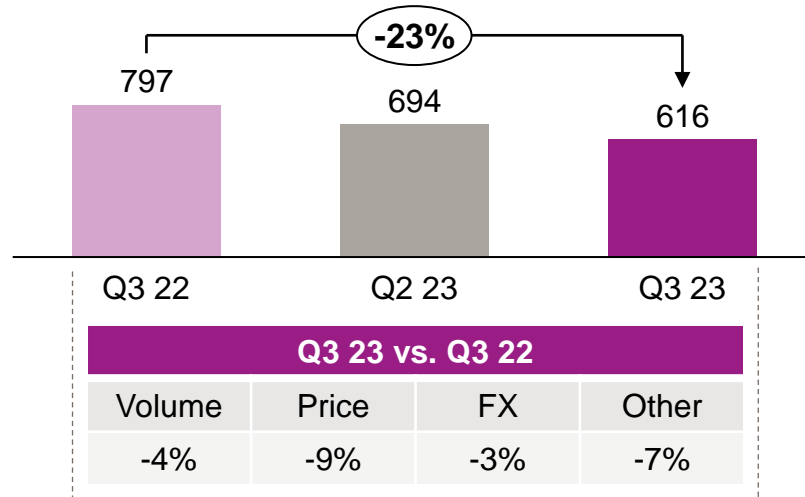


- Sales continue to be impacted by broad-based volume declines due to lower demand across virtually all market segments
- Prices decreased due to pass-on of lower raw material costs
- Sequential adj. EBITDA improvement based on
  - improving Active Oxygens business (mostly lower variable costs)
  - additional PA12 volumes (maintenance in Q2) and increase in membrane sales
- ... although limited by qoq weaker other businesses (e.g. Silanes and Catalysts)

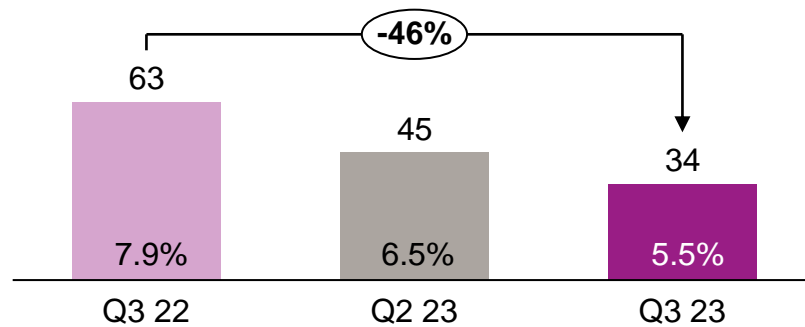


# Performance Materials

**Sales**  
(in € m)



**Adj. EBITDA / margin**  
(in € m)  
(in %)

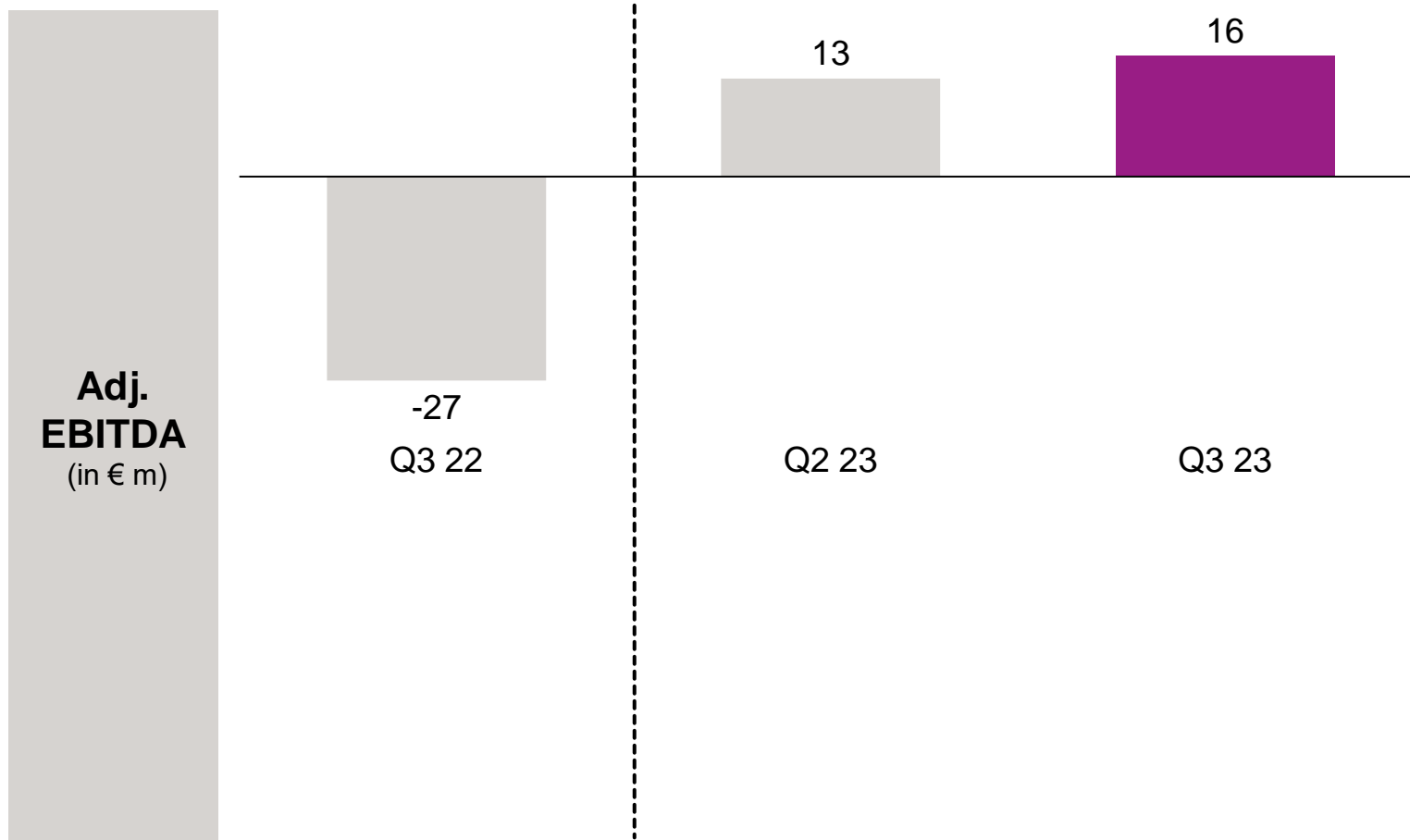


- Strong prices and margins in MTBE, market remained short
- However, all other C4 products (Butadiene, INA, Butene-1) weakened further, lower prices & margins and weak downstream demand
- Superabsorber continue to benefit from improved contract price level
- “Other” at -7% driven by divestments of Lülldorf site (Q2 2023)





# Technology & Infrastructure / Other



- T&I / Other again with extraordinary earnings level mainly driven by
  - Ramp-up of contingencies
  - Release of bonus provisions
  - Positive effects from option valuation, partly already pulled forward from Q4 2023
- For Q4, clearly more negative adj. EBITDA expected (qoq)
  - Lower utilization in technical services
  - Year-end invoicing in “Other” functions
  - Negative effects from tariff payment (inflation compensation) and FX

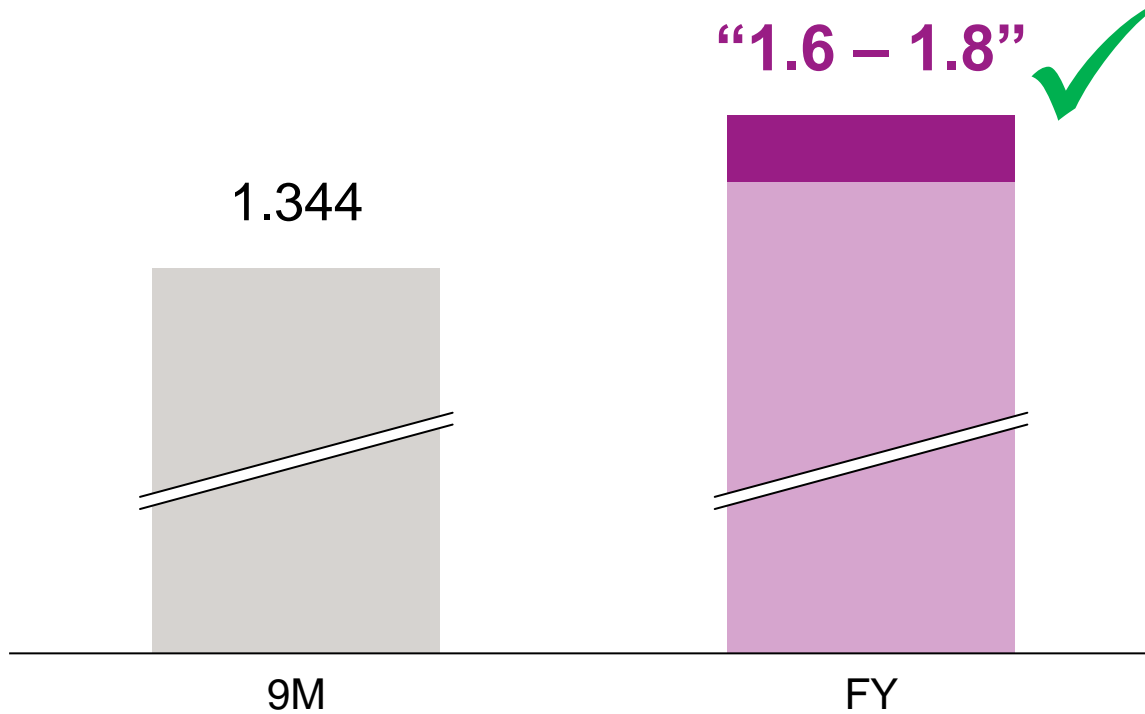
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# Adj. EBITDA outlook for FY 2023 confirmed

## Adj. EBITDA (in € bn)

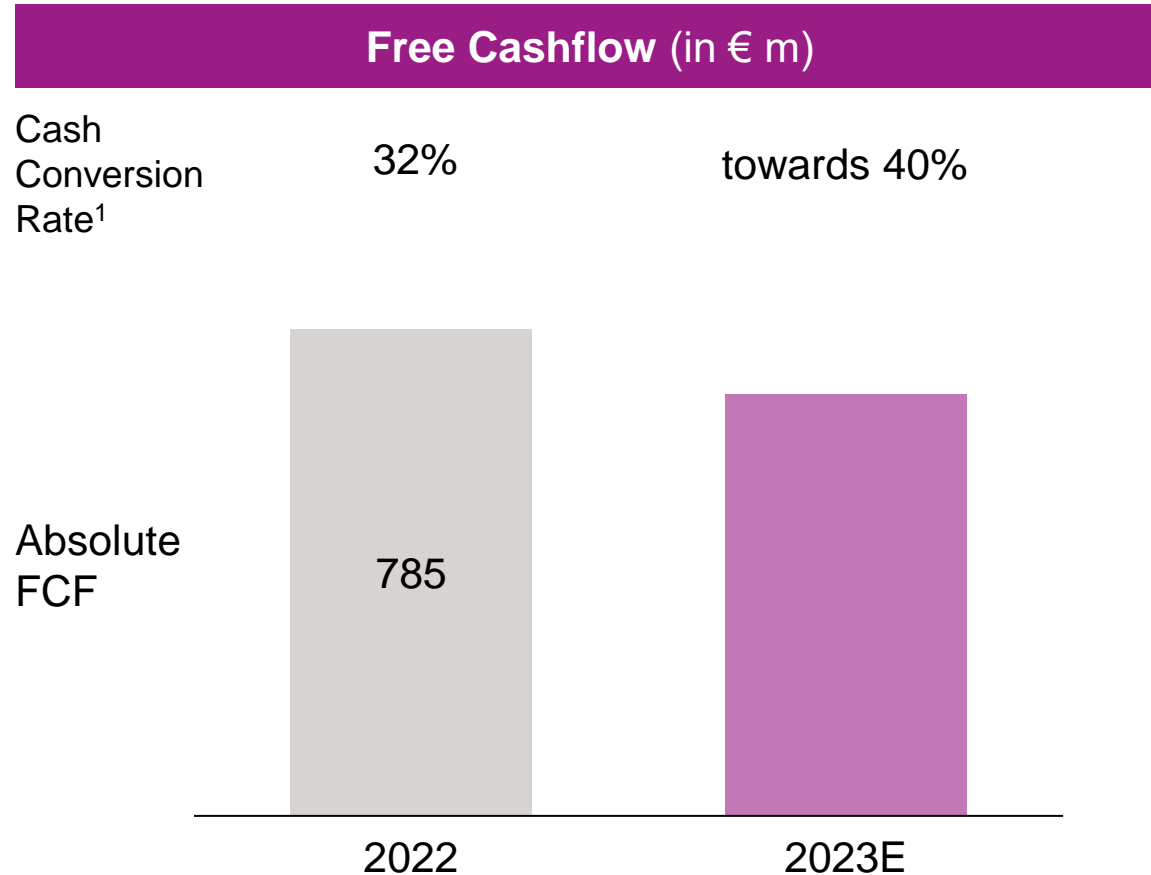


## Basis for the outlook

### Expectations for Q4:

- Continued demand weakness with no recovery in Q4, plus year-end seasonality
- Nutrition & Care with ongoing positive momentum in Animal Nutrition and positive year-end finish in Health Care, negative effect from Methionine Singapore expansion shutdown in Q4
- T&I / Other with further support from contingency measures; negative effects in Q4 expected from tariff payment (inflation compensation) and FX

# Cash conversion rate “towards 40%” confirmed



1. Free cash flow conversion (FCF / adj. EBITDA)

## Outlook for FY:

- Lower absolute FCF (based on lower EBITDA level)
- FCF conversion to develop towards 40% target (FY 2022: 32%)

## Expectations for Q4





- Strong cash generation from Q3 continuing into Q4
- Lower cash inflow from NWC expected in Q4 (yoy) as stronger NWC reductions were already achieved in Q3 this year



**EVONIK**

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# Indications for adj. EBITDA FY 2023 on division level

Specialty Additives	Nutrition & Care	Smart Materials	Performance Materials
 <ul style="list-style-type: none"> <li>Specialty Additives division faced weak demand and destocking by customers in the first nine months</li> <li>An improvement of this situation and a recovery of demand is not expected in Q4</li> <li>Support from cost savings and lower raw material costs</li> </ul>	 <ul style="list-style-type: none"> <li>Health &amp; Care expected to deliver a considerably better H2 after a weak first half</li> <li>Animal Nutrition with significantly lower prices yoy, price trend turning positive during Q3</li> <li>First savings from new amino acid operating model supportive</li> </ul>	 <ul style="list-style-type: none"> <li>Weak demand especially in Inorganics</li> <li>New PA12 capacities to contribute to earnings in H2, following a planned maintenance in Q2</li> </ul>	 <ul style="list-style-type: none"> <li>Significant pressure on margins in the C<sub>4</sub> business</li> <li>Superabsorbers to benefit from improving market environment and long-term customer relationships</li> </ul>
<p><b>“significantly lower than prior-year level”</b> (previously: considerably lower)</p>	<p><b>“significantly lower than prior-year level”</b> (unchanged vs. Q2 reporting)</p>	<p><b>“considerably lower than prior-year level”<sup>1</sup></b> (unchanged vs. Q2 reporting)</p>	<p><b>“significantly lower than prior-year level”<sup>1</sup></b> (unchanged vs. Q2 reporting)</p>

1. Outlook for Smart Materials and Performance Materials based on restated prior-year figures: alkoxides business moved from PM to SM as of January 1<sup>st</sup>, 2023

# Additional indications for FY 2023

<b>Sales</b>	<b>between €14 and 16 bn</b> (unchanged; 2022: €18.5 bn)
<b>ROCE</b>	<b>significantly below the level of 2022</b> (unchanged; 2022: 8.3%)
<b>Capex<sup>1</sup></b>	<b>around €850 m</b> (unchanged; 2022: €865 m), incl. maintenance and growth investments as well as investments in Next Generation Technologies (€700 m until 2030)
<b>EUR/USD sensitivity<sup>2</sup></b>	+/-1 USD cent <b>-/+ ~€6 m</b> adj. EBITDA (FY basis) (previously: +/- ~€10 m)
<b>Adj. EBITDA T&amp;I/Other</b>	<b>negative mid-double digit million € amount</b> (unchanged; 2022: -€226 m)
<b>Adj. D&amp;A</b>	<b>around the level of 2022</b> (previously: slightly above the level of 2022; 2022: €1,140 m)
<b>Adj. net financial result</b>	<b>back to around 2021 level</b> (unchanged; 2022: -€19 m; 2021: -€97 m)
<b>Adj. tax rate</b>	<b>considerably below the level of 2022</b> (1-9/2023 at 21%) (previously: ~30%; 2022: 29%)

1. Cash outflow for investment in intangible assets, pp&e | 2. Including transaction effects (after hedging) and translation effects; before secondary / market effects

# Adjusted income statement Q3 2023

in € m	Q3 2022	Q3 2023	Δ in %
<b>Sales</b>	<b>4,878</b>	<b>3,771</b>	<b>-23</b>
<b>Adj. EBITDA</b>	<b>615</b>	<b>485</b>	<b>-21</b>
Depreciation & amortization	-273	-283	
<b>Adj. EBIT</b>	<b>342</b>	<b>202</b>	<b>-41</b>
Adj. net financial result	-21	-13	
D&A on intangible assets	39	38	
<b>Adj. income before income taxes</b>	<b>360</b>	<b>227</b>	<b>-37</b>
Adj. income tax	-106	-33	
<b>Adj. income after taxes</b>	<b>254</b>	<b>194</b>	<b>-24</b>
Adj. non-controlling interests	-1	-5	
<b>Adj. net income</b>	<b>253</b>	<b>189</b>	<b>-25</b>
<b>Adj. earnings per share (in €)</b>	<b>0.54</b>	<b>0.41</b>	
Adjustments	-16	-303	

## Adj. net financial result (-€13 m)

- Income from positive valuation effects in high inflation countries overcompensating higher interest expenses due to higher interest rates

## Adj. tax rate (15%)

- Significantly below FY guidance of 30% reflecting lower earnings level and due to one-time tax effects relating to other periods

## Adjustments (-€303 m)

- Impairment in the context of planned divestments (-€233 m on Superabsorber) and smaller asset impairments (-€47 m) in Smart Materials



# Cash flow statement Q3 2023

in € m	Q3 2022	Q3 2023
Income before financial result and income taxes (EBIT)	326	-101
Depreciation and amortization	275	574
Δ Net working capital	-115	111
Change in provisions for pensions & other post-employment benefits	-5	-31
Change in other provisions	85	31
Change in miscellaneous assets/liabilities	12	108
Cash outflows from income taxes	-59	-60
Others	-2	-1
<b>Cash flow from operating activities</b>	<b>517</b>	<b>631</b>
Cash outflows for investment in intangible assets, pp&e	-229	-162
<b>FCF</b>	<b>288</b>	<b>469</b>
<b>Cash flow from investing activities</b>	<b>-188</b>	<b>-17</b>
<b>Cash flow from financing activities</b>	<b>27</b>	<b>-426</b>

## CF from operating activities (€631 m)

- EBIT significantly lower yoy; including higher impairment charges
- Considerable reduction in inventories vs an increase last year
- Higher cash inflow from miscellaneous assets related to other tax receivables

## CF from investing activities (-€17 m)

- Higher cash inflow from the sale of short-term securities

## CF from financing activities (-€426 m)

- Lower inflow from debt issuance and higher outflows from debt repayment yoy

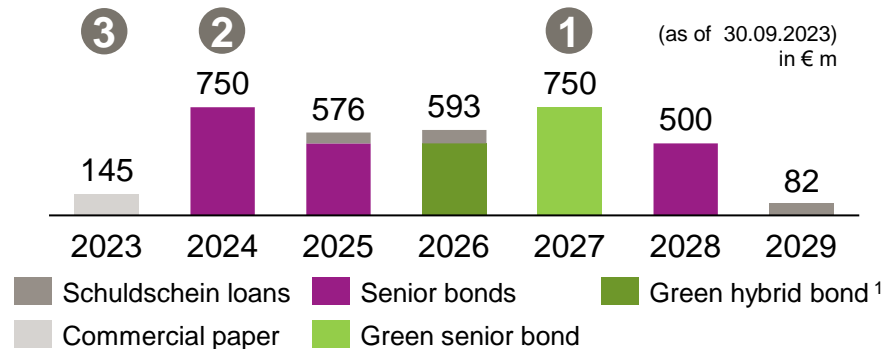
# Evonik financially solidly positioned

## Liquidity safeguarding measures implemented in 2022, ratings confirmed

### Strong liquidity

- Comfortable level of **cash and cash equivalents** in amount of **€588 m** as of the end of Q3
- **€1.75 bn syndicated revolving credit facility** refinanced in November 2022 with a tenor of 5 years (plus two extension options of one year each)
- In H2 2022 **bilateral revolving credit facilities** increased from €200 m to **€800 m**
- Further strengthening of liquidity with **issuance of Schuldschein loans** of **€250 m** in **August 2022**

### Well-balanced capital market maturity profile



- 1 **Early refinancing** of January 2023 bond maturity by issuing a **€750 m green senior bond in May 2022**
- 2 **No bond maturity before September 2024**
- 3 **Temporary use of commercial paper** to cover peak liquidity need for dividend payout in June 2023

### Solid investment grade rating

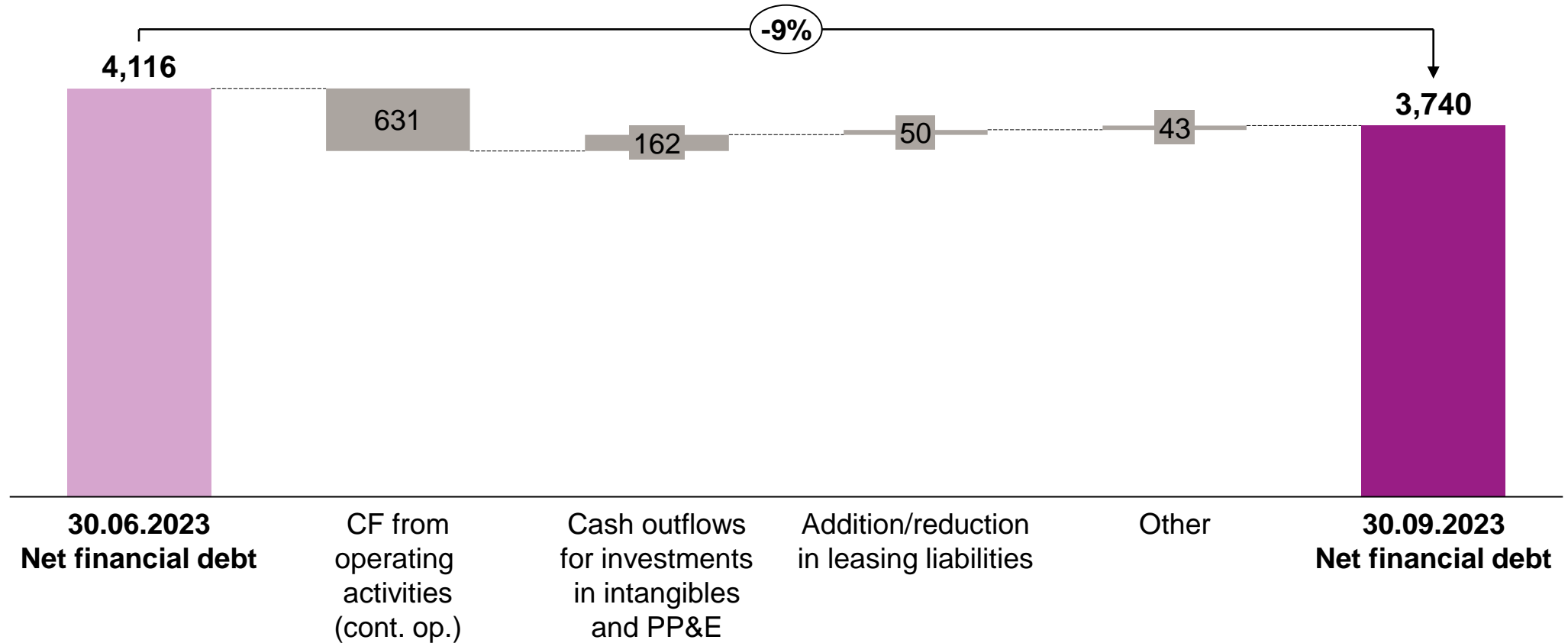
S&P: **BBB+ stable**  
Moody's: **Baa2 stable**

- **Ratings confirmed** by both rating agencies in **July 2023 despite profit warning**

1. Formal lifetime of 60 years, first redemption right for Evonik in 2026

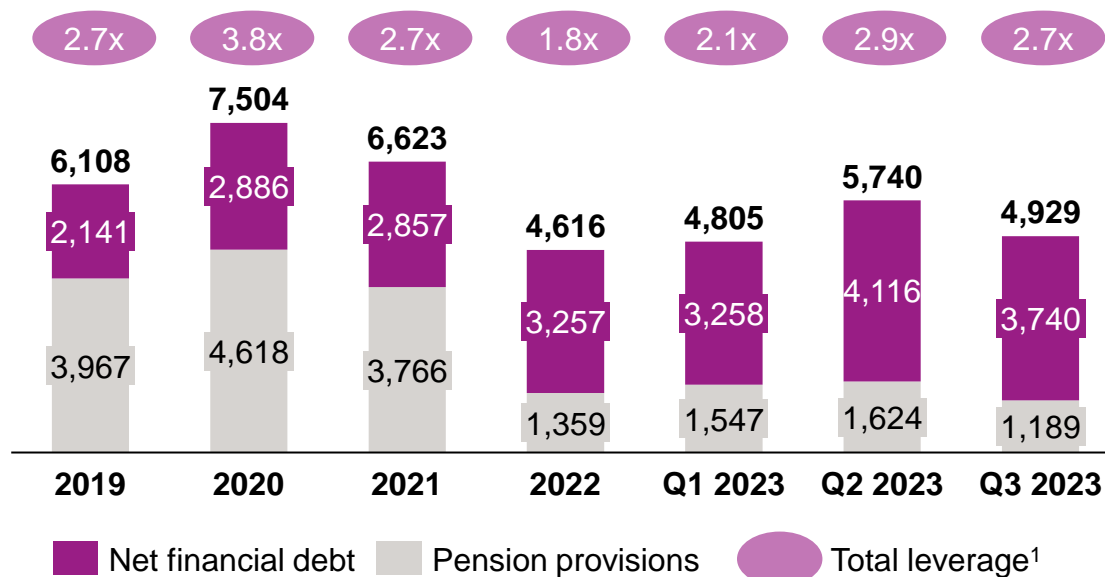
# Net financial debt development Q3 2023

(in € m)



# Development of debt and leverage over time

(in € m)



<b>Adj. net debt<sup>2</sup></b>	5,858	7,254	6,373	4,366	4,555	5,490	4,679
<b>Adj. EBITDA (last 12 months)</b>	2,153	1,906	2,383	2,490	2,164	1,887	1,756
<b>German pension discount rate (%)</b>	1.30	0.90	1.30	4.10	3.90	3.80	4.40

1. Adj. net debt / adj. EBITDA | 2. Net financial debt – 50% hybrid bond + pension provisions  
3. (Net financial debt – 50% hybrid bond) / adj. EBITDA

## Net financial debt (€3,740 m)

- Decrease by €0.4 bn mainly driven by strong cash generation in Q3
- Stable net financial debt leverage qoq at 2.0x<sup>3</sup> (Q2: 2.0x; Q1: 1.4x; FY 2022: 1.2x)

## Pension provisions (€1,189 m)

- Long-dated pension obligations with >13 years duration
- Lower pension provisions qoq after increase of pension discount rates (esp. in Germany from 3.8% to 4.4%)
- Pension provisions partly balanced by corresponding deferred tax assets of ~€0.4 bn

## Divisional overview by quarter

Sales (in € m)	FY 2021	Q1/22	Q2/22	<b>Q3/22</b>	Q4/22	FY 2022	Q1/23	Q2/23	<b>Q3/23</b>
Specialty Additives	3,710	1,049	1,116	<b>1,113</b>	906	4,184	921	906	<b>882</b>
Nutrition & Care	3,557	1,038	1,027	<b>1,062</b>	1,111	4,237	886	893	<b>924</b>
Smart Materials	3,918	1,284	1,335	<b>1,365</b>	1,256	5,240	1,188	1,119	<b>1,100</b>
Performance Materials	2,911	844	945	<b>797</b>	666	3,253	707	694	<b>616</b>
T&I / Other	859	283	349	<b>541</b>	401	1,574	303	274	<b>249</b>
<b>Evonik Group</b>	<b>14,955</b>	<b>4,498</b>	<b>4,772</b>	<b>4,878</b>	<b>4,340</b>	<b>18,488</b>	<b>4,005</b>	<b>3,886</b>	<b>3,771</b>
Adj. EBITDA (in € m)	FY 2021	Q1/22	Q2/22	<b>Q3/22</b>	Q4/22	FY 2022	Q1/23	Q2/23	<b>Q3/23</b>
Specialty Additives	920	252	263	<b>243</b>	188	946	168	199	<b>173</b>
Nutrition & Care	717	222	185	<b>148</b>	122	677	76	71	<b>127</b>
Smart Materials	650	212	219	<b>188</b>	124	743	164	122	<b>135</b>
Performance Materials	317	82	142	<b>63</b>	63	350	37	45	<b>34</b>
T&I / Other	-221	-33	-81	<b>-27</b>	-85	-226	-36	13	<b>16</b>
<b>Evonik Group</b>	<b>2,383</b>	<b>735</b>	<b>728</b>	<b>615</b>	<b>413</b>	<b>2,490</b>	<b>409</b>	<b>450</b>	<b>485</b>

Alkoxides business moved from Performance Materials to Smart Materials as of January 1<sup>st</sup>, 2023; 2022 financials restated

# Upcoming IR events

## Conferences & roadshows

<b>November 14, 2023</b>	UBS European Conference, London
<b>November 15, 2023</b>	Frankfurt Roadshow with Oddo
<b>November 15, 2023</b>	Virtual Investor Meetings with Bank of America
<b>November 29, 2023</b>	Bank of America European Materials Conference, London
<b>November 30, 2023</b>	Societe Generale The Premium Review Conference, Paris
<b>December 5, 2023</b>	Berenberg European Conference, London Pennyhill

## Upcoming events & reporting dates

<b>March 4, 2024</b>	Q4 / FY 2023 Reporting
<b>May 8, 2024</b>	Q1 2024 Reporting
<b>June 4, 2024</b>	Evonik Annual General Meeting
<b>August 1, 2024</b>	Q2 2024 Reporting
<b>November 6, 2024</b>	Q3 2024 Reporting

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