

# Evonik

## Power to create.

Q2 2018  
Earnings Conference Call

2 August 2018

**Ute Wolf**, Chief Financial Officer

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**1. Financial performance Q2 2018**

2. Outlook FY 2018

# Our agenda for 2018 – Driving the change

Strategy execution more and more visible in accelerating financial performance



## 1 Strategy execution

- Continued execution of efficiency programs
- MMA divestment fully on track

## 2 Earnings growth

- Broad-based earnings growth across all segments
- Further progress on FCF: Q2 positive
- FY 2018 EBITDA and FCF outlook increased

# Highlights Q2 2018

Broad-based earnings growth and margin expansion, positive FCF in Q2

## Volume growth

**+3%**

Higher volumes in Nutrition & Care (+3%) and Performance Materials (+6%)

## Adj. EBITDA and margin

**€742 m** (+16%<sup>1</sup>)

**19.2%** (+1.5pp<sup>1</sup>)

Broad-based earnings growth across all three chemical segments; margin expansion mainly driven by both growth segments (NC, RE)

## Free cash flow

**€56 m**

Strong cash generation in Q2 in a normally negative quarter. FCF development driven by higher earnings and increased cash focus

## Outlook raised

**€2.6-2.65 bn**

Based on strong H1, FY EBITDA and FCF outlook raised. **FCF** expected to be **notably higher** compared to 2017

1. Compared to Q2 17 | 2017 financials restated for IFRS 15

# Earnings development Q2 2018

Broad-based margin expansion across all three chemical segments

## Resource Efficiency



Margin improvement yoy<sup>1</sup>

**+140 bps**

(Margin: 24.7%)

## Nutrition & Care



Margin improvement yoy<sup>1</sup>

**+140 bps**

(Margin: 18.7%)

## Performance Materials



Margin improvement yoy<sup>1</sup>

**+60 bps**

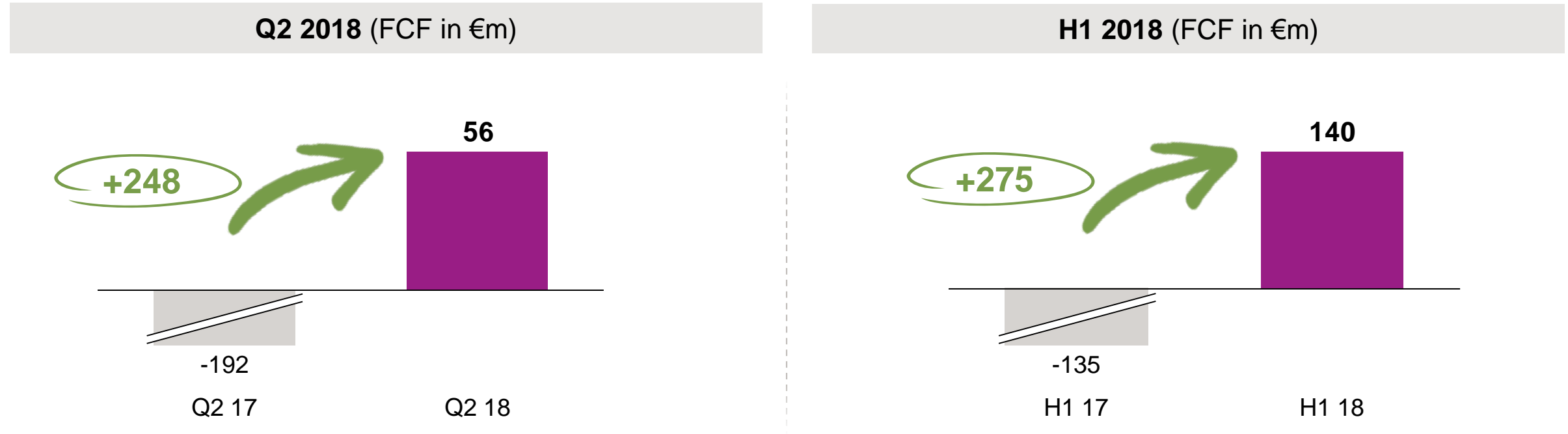
(Margin: 19.1%)

yoy higher earnings in all 16 business lines

1. Improvement yoy: Q2 18 vs. Q2 17 | 2017 financials restated for IFRS 15

# Free Cash Flow Q2 2018

Substantial progress on FCF development: Q2 and H1 FCF clearly positive



- Increase in FCF mainly driven by **higher earnings** and **increased focus on cash-generation**

# Spotlight on Resource Efficiency

## True specialty segment as main value driver for Evonik

### High profitability and high-value specialty portfolio

- 1 Resilience** No single business line accounting for >20% of EBITDA<sup>1</sup>
- 2 Integrated product chains** Strong **core technology platforms** (e.g. Silica, HPP, Crosslinkers)
- 3 Innovation** >20% annual sales growth in **New Growth Businesses**<sup>2</sup>
- 4 FCF generator** Major contributor to Evonik's FCF in recent years

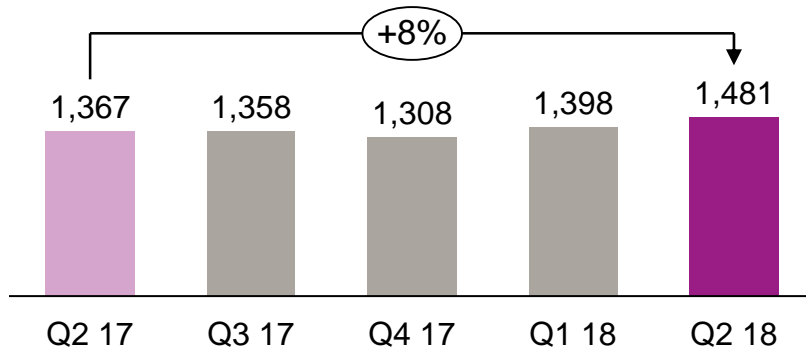
1. Segment EBITDA | 2. 2012-2017 sales of "New Growth Businesses"



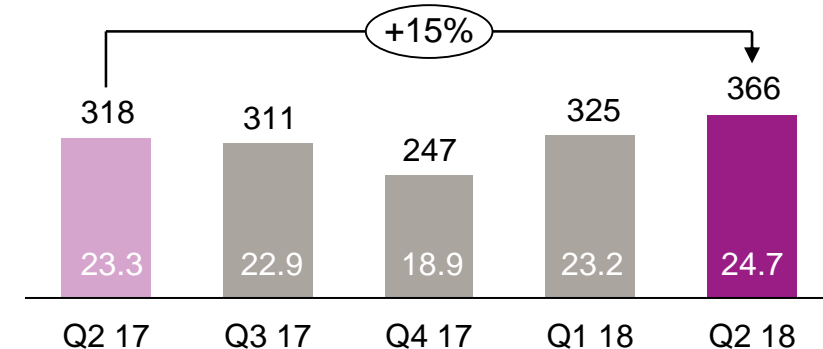
# Resource Efficiency

All business lines exceeding prior-year earnings

**Sales (in € m)**



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



**Q2 18 vs. Q2 17**

Volume	0% →	Price	+5% ↗	FX	-3% ↘	Other <sup>1</sup>	+6% ↗
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- Outstanding performance with all nine business lines exceeding prior-year earnings
- Continued high demand for majority of businesses, especially HPP, Silica and Coating Additives
- Stable volumes on good prior-year level. Plant utilization remains high, railway strikes in France negatively impacting volumes

1. Mix of portfolio effects and others | 2017 financials restated for IFRS 15



# Spotlight on Nutrition & Care

Pioneer solutions for nutrition, healthcare, personal care and everyday living

A high-value portfolio shaped by the individual needs of our customers

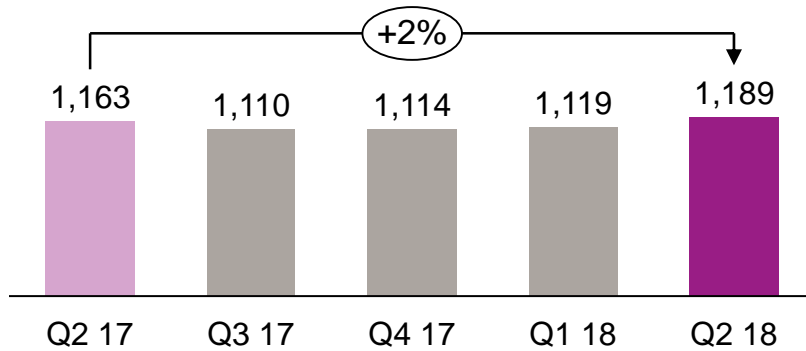
- 1 Non-cyclical growth trends** Serving end markets with **robust and resilient growth (~5%)**
- 2 Technology platforms** **Strong backbone** for innovation & growth (e.g. Silicone Chemistry, Advanced Biotechnology)
- 3 Innovation** **Breakthrough innovations:** biodegradable medical devices, all-natural cosmetic raw materials, algae-based omega-3 fatty acids
- 4 Efficiency** Advance leadership by **growth initiatives & efficiency improvements**



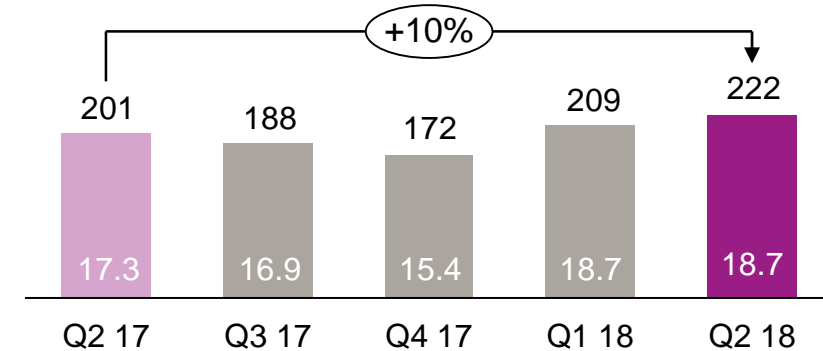
# Nutrition & Care

## Good operational performance continuing, margin further expanding

**Sales (in € m)**



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



Q2 18 vs. Q2 17	Volume	Price	FX	Other <sup>1</sup>
+3%	↗	0%	→	+3%
			↘	↗



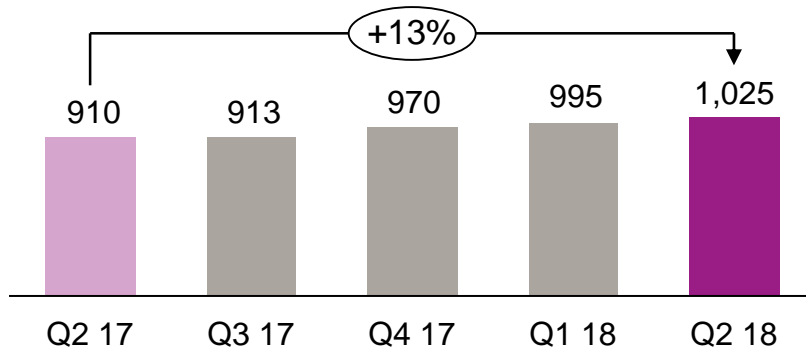
- Good operational performance continuing, driven by focus on product mix, raw material management and strict cost optimization
- Higher volumes across virtually all business lines
- Comfort & Insulation with continued positive development, Health Care with biggest absolute earnings growth year-on-year
- Methionine with robust demand trend and yoy higher volumes; prices stable on average 2017 level (in local currencies)

1. Mix of portfolio effects and others | 2017 financials restated for IFRS 15

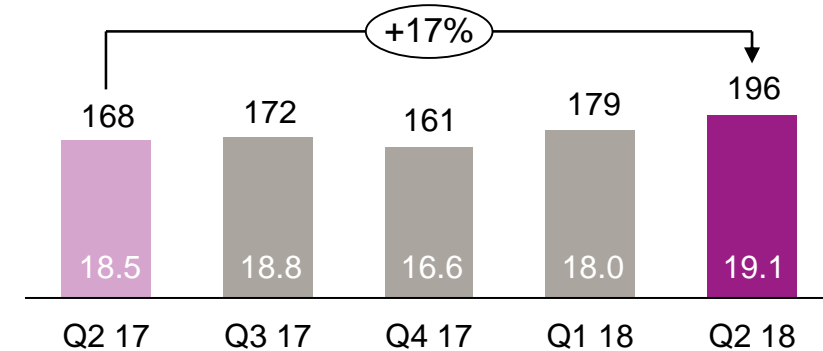
# Performance Materials

## Strong performance in Methacrylates to continue

**Sales (in € m)**



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



Q2 18 vs. Q2 17	Volume	Price	FX	Other
	+6% ↗	+9% ↗	-2% ↘	0% →



- Another good quarter for Performance Materials driven by MMA/PMMA
- Volumes (+6%) driven by ongoing good demand in MMA/PMMA, supported by easier comparables (Q2 17 impacted by force majeure in Antwerp)
- C4 business with sequentially improving market conditions

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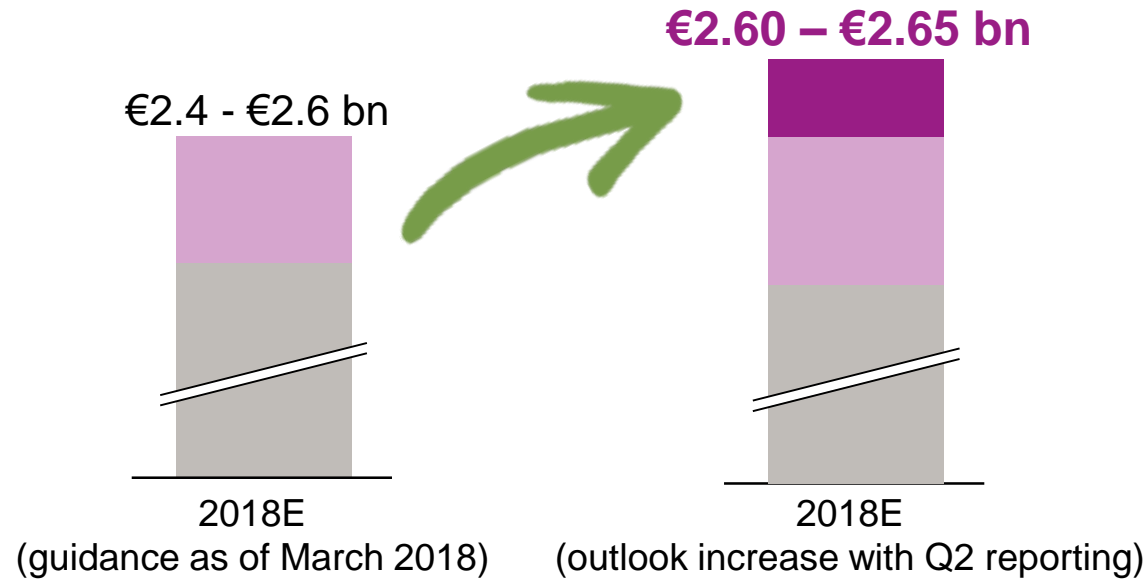
1. Financial performance Q2 2018

**2. Outlook FY 2018**

# Outlook 2018

## EBITDA and FCF outlook raised – Strong H1, confidence for H2

### Adj. EBITDA and FCF outlook



▶ **FCF expected to be notably higher compared to prior year** (previously: slightly higher)



# Outlook 2018

## FY outlook for Nutrition & Care and Performance Materials raised

Segment outlook		
Nutrition & Care	“higher earnings yoy ”	previously: slightly higher
Resource Efficiency	“perceptibly higher earnings yoy”	
Performance Materials	“higher earnings yoy ”	previously: not achieve prior-year level



# Invitation

## “Meet the Management”

- Dr. Harald Schwager, Deputy CEO
- Dr. Reiner Beste, Head of Nutrition & Care
- Dr. Claus Rettig, Head of Resource Efficiency

**September 14, 2018**  
**8.30 a.m. – 2.00 p.m.**

**“Hotel M by Montcalm”, 151-157 City Road, Hoxton, London**



**EVONIK**

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# Additional indications for 2018

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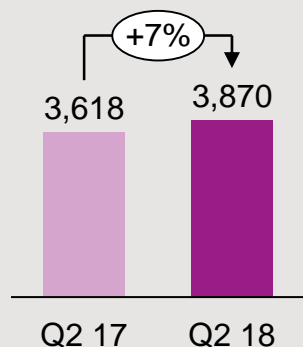
- Synergies from acquisitions (APD Specialty Chemicals & Huber Silica) **Additional synergies of ~€25 m** (Synergies 2018e: ~€40 m; 2017: ~€15 m)
- Huber Additional adj. EBITDA of **~€30 m** for further eight months of consolidation (closing Sept 1<sup>st</sup> 2017)
- ROCE **Above cost of capital** (10.0% before taxes) and around the level of last year (2017: 11.2%)
- Capex **~€1 bn** (2017: €1,078 m)
- Free cash flow **Changed to “notably higher compared to prior year”** (previously: “slightly above 2017”; 2017: €511 m)
- EUR/USD **Changed to 1.20 EUR/USD** (previously: 1.26; 2017: 1.13 EUR/USD)
- EUR/USD sensitivity<sup>1</sup> +/-1 USD cent = **-/+ ~€8 m** adj. EBITDA (FY basis)
- Adj. EBITDA Services **Slightly higher than in 2017** (2017: €123 m)
- Adj. EBITDA Corporate / Others **Slightly less negative than in 2017** (2017: -€346 m)
- Adj. D&A **€840 m** (2017: €870 m)
- Adj. net financial result<sup>2</sup> **~-€190 m** (2017: -€175 m); increase mainly due to hybrid bond issuance in July 2017
- Adj. tax rate **~29%** (2017: 29% including positive one-time effects from US tax reform in Q4, 31% without this one-time effect)

1. Including transaction effects (after hedging) and translation effects; before secondary / market effects | 2. Guidance for “Adj. net financial result” subject to interest rate fluctuations which influence discounting effects on provisions

# Financial highlights Q2 2018

Strong quarterly performance reflected in all KPI's

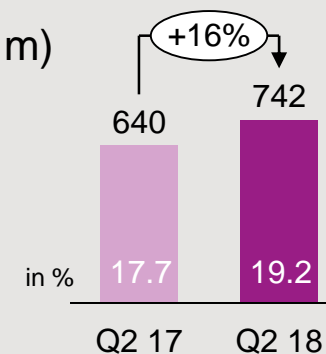
Sales  
(in € m)



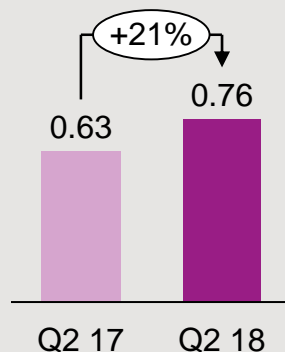
Q2 18 vs. Q2 17

Volume	+3%	↗	Price	+4%	↗
FX	-3%	↘	Other <sup>1</sup>	+3%	↗

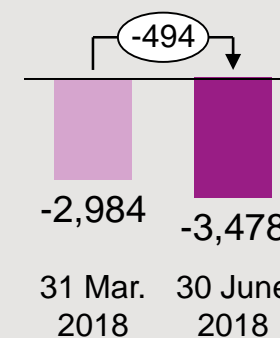
Adj. EBITDA (in € m)  
/ margin (in %)



Adj. EPS  
(in €)



Net financial  
position  
(in € m)



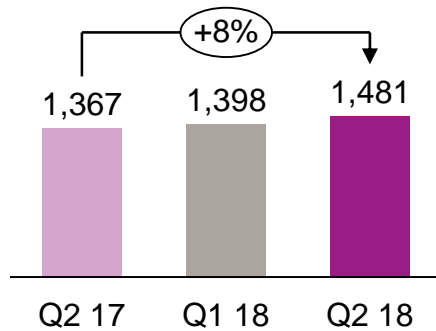
- Higher net financial position mainly due to dividend cash-out

1. Portfolio effects and others | 2017 financials restated for IFRS 15

# Resource Efficiency

## Q2 2018 Business Line comments

### Sales (in € m)



**Coating Additives:** Excellent operational performance, earnings further driven by good volume development especially of low VOC coatings.



**Crosslinkers:** Positive volume development driven by high demand for IP and IPD products, especially in America and Asia.

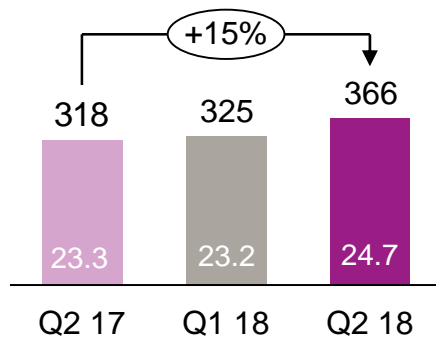


**High Performance Polymers:** Continued high market demand for PA12 compounds and powders.



**Silica:** Strong demand from tire industry for rubber silica especially in North America and Asia. In addition, positive earnings contribution from Huber Silica.

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

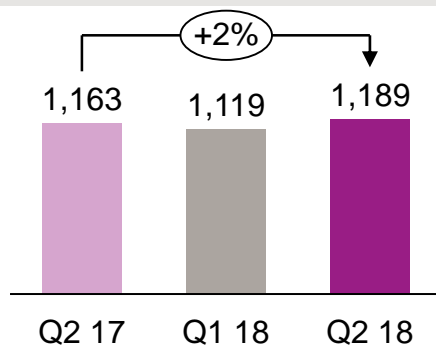


2017 financials restated for IFRS 15

# Nutrition & Care

## Q2 2018 Business Line comments

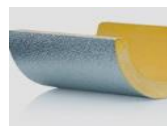
### Sales (in € m)



**Personal Care:** Strong performance due to higher volumes (especially Asia-Pacific and EU) as well as and improved product mix (Specialties and Actives on high level, also base business above prior year)



**Health Care:** Biggest absolute earnings growth year-on-year on segment level, especially strong growth in Pharma Polymers and Exclusive Synthesis



**Comfort & Insulation:** Positive development with price initiatives well established to mitigate higher raw materials in Europe and Americas.

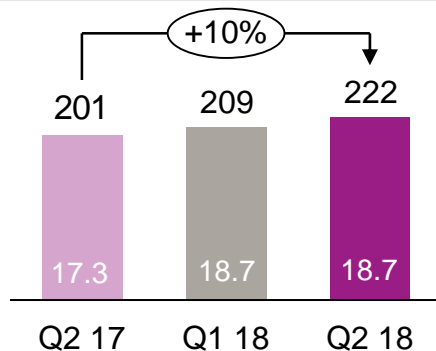


**Baby Care:** continues on low level, but self-help measures and positive pass-on effect from propylene contributing to slight improvement



**Animal Nutrition** with robust demand trend for methionine, yoy higher volumes and stable prices in local currencies. Bio-Amino acids with improved cost position due to improved asset footprint

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

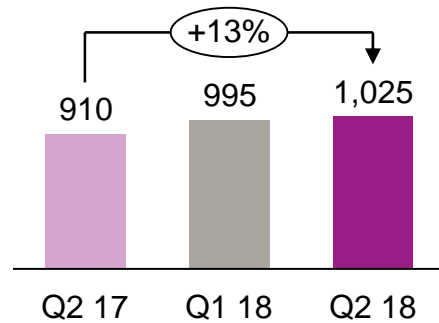


2017 financials restated for IFRS 15

# Performance Materials

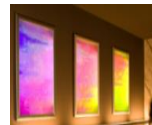
## Q2 2018 Business Line comments

### Sales (in € m)



**MMA:** MMA supply again rather tight in Q2 2018, although new capacities in Middle East are up and running. In Bulk Monomers, healthy demand from automotive, coatings and construction continues from Q1 into Q2. Application Monomers with strong demand in the Oil&Gas and personal care sector

Pricing in MMA expected to stay healthy for Q3



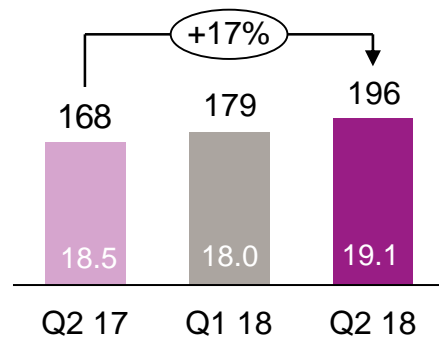
**PMMA:** Successful introduction of new PMMA applications in automotive sector leading to above industry growth rates. Persistent strong demand in base business like construction, automotive and medical business.

Pricing in Q3 expected to remain healthy



**Performance Intermediates:** Increase in demand for MTBE during summer months (driving season) not as pronounced as usual. European Butadiene-Naphtha spread in Q2 slightly up vs. Q1. Q3 started with a moderate softening against relatively high spread in June.

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

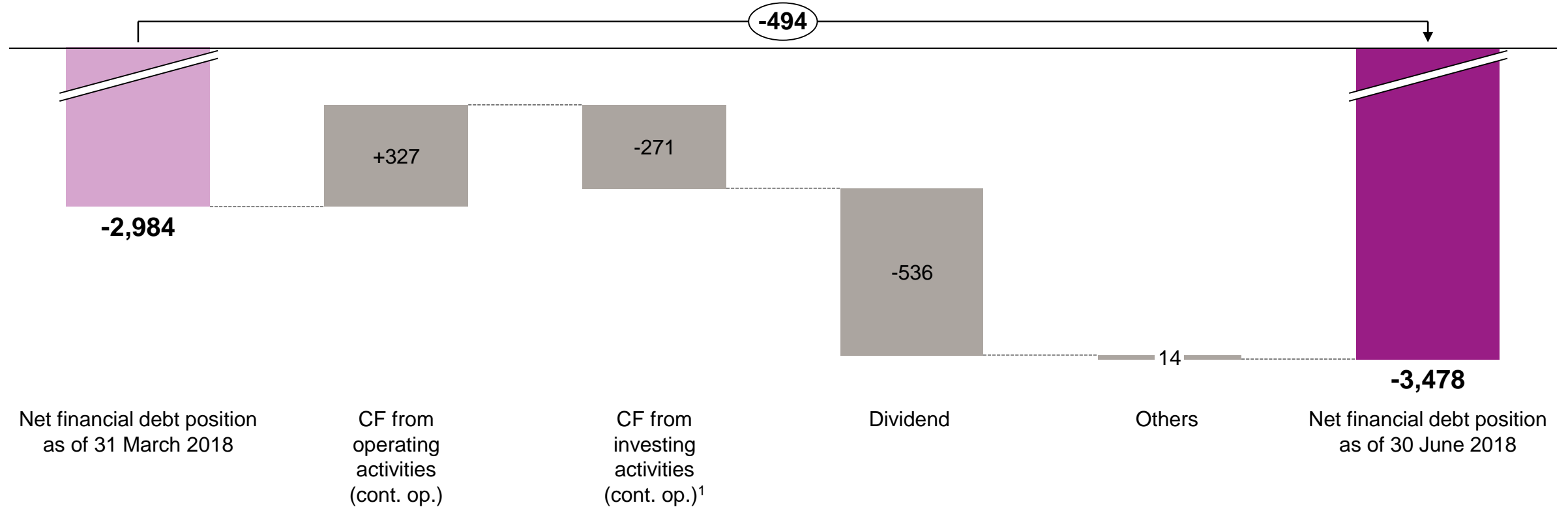


2017 financials restated for IFRS 15

21 2 August 2018 | Evonik Q2 2018 Earnings Conference Call

# Net financial position development Q2 2018

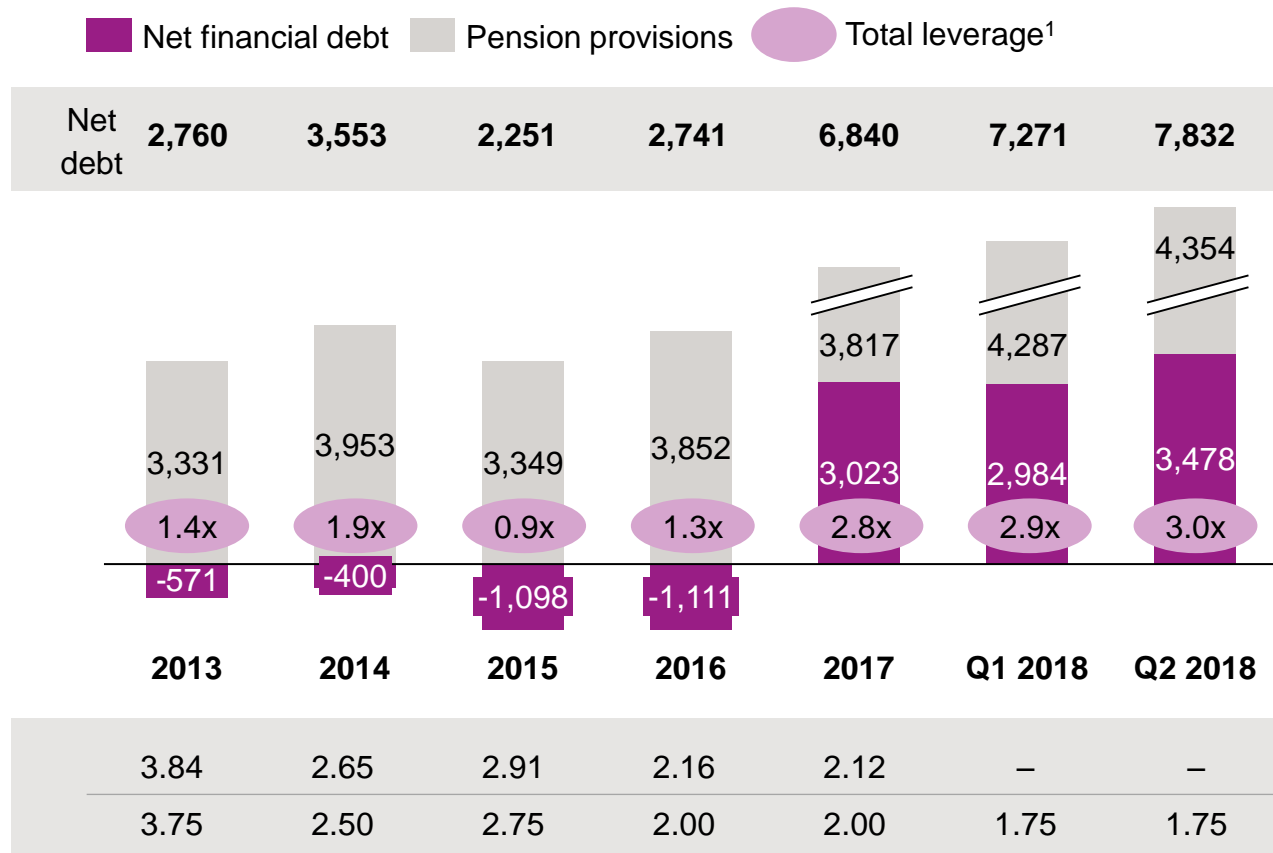
(in € m)



1. Cash outflow for investments in intangible assets and PP&E

# Development of net debt and leverage over time

(in € m)



- Increase of net financial debt during Q2 due to dividend payment for fiscal year 2017 (€536 m)
- Change in discount rate for Germany (from 2.00% to 1.75 %, as per March 31, 2018) resulting in an increase in pension provisions
- Net financial debt development 2017 mainly driven by acquisition-related purchase price payments (in particular APD and Huber Silica)
- Pension provisions are partly balanced by corresponding deferred tax assets of ~€1.2 bn
- More than half of total net debt consists of long-dated pension obligations; average life of DBO exceeds 15 years

1. Total leverage defined as (net financial debt - 50% hybrid bond + pension provisions) / adj. EBITDA LTM | 2. Calculated annually

# Adjusted income statement Q2 2018

in € m	Q2 2017	Q2 2018	Δ in %
<b>Sales</b>	<b>3,618</b>	<b>3,870</b>	<b>+7</b>
<b>Adj. EBITDA</b>	<b>640</b>	<b>742</b>	<b>+16</b>
Depreciation & amortization	-206	-228	
<b>Adj. EBIT</b>	<b>434</b>	<b>514</b>	<b>+18</b>
Adj. net financial result	-33	-48	
D&A on intangible assets	34	42	
<b>Adj. income before income taxes</b>	<b>435</b>	<b>508</b>	<b>+17</b>
Adj. income tax	-137	-149	
<b>Adj. income after taxes</b>	<b>298</b>	<b>359</b>	<b>+20</b>
Adj. non-controlling interests	5	5	
<b>Adj. net income</b>	<b>293</b>	<b>354</b>	<b>+21</b>
<b>Adj. earnings per share</b>	<b>0.63</b>	<b>0.76</b>	<b>+21</b>
Adjustments	-54	-19	

## Depreciation & amortization

- Impairment of intangible asset ~€10 m (R&D project no longer pursued); FY guidance of €840 m unchanged

## Adj. net financial result:

- Below prior-year, Q2 17 with interest income from tax refunds; in-line with FY 18 guidance

## Adj. income tax:

- Q2 18 adj. tax rate of 29 % in-line with FY 18 guidance

## Adjustments:

- Adjustments of -€19 m, majority (~€10 m) related to M&A activities
- Q2 17 with integration costs for Air Products and Huber Silica and inventory step-up



# Cash flow statement Q2 2018

in € m	Q2 2017	Q2 2018
Income before financial result and income taxes	380	495
Depreciation and amortization	207	226
Δ Net working capital	-89	-100
Change in other provisions	-283	-203
Change in miscellaneous assets/liabilities	-45	4
Outflows from income taxes	-95	-30
Others	-46	-65
<b>Cash flow from operating activities</b>	<b>29</b>	<b>327</b>
Cash inflows/outflows for investment in intangible assets, pp&e	-221	-271
Cash inflows/outflows from investments/divestments of shareholdings	-55	3
Cash inflows/outflows relating to securities, deposits and loans	0	-13
<b>Cash flow from investing activities</b>	<b>-299</b>	<b>-306</b>
<b>Cash flow from financing activities</b>	<b>-477</b>	<b>-610</b>

## CF from operating activities

- Improvement driven by both, yoy higher earnings as well as high cash retention down to FCF
  - First cost saving benefits and strict cash focus on all levels
  - Lower adjustments on EBIT(DA) level (+€35 m yoy) beneficial for FCF
- “Change in other provisions” contains payments for variable remuneration (€40 m pulled forward into Q1 2018)
- Income taxes of -€30 m lower compared to prior-year of; higher cash-out in H2 expected versus H1

## CF from investing activities

- Slightly higher capex spending mainly due to investment in new methionine plant

## Segment overview by quarter

Sales (in € m)	FY 2016	Q1/17	Q2/17	Q3/17	Q4/17	FY 2017	Q1/18	Q2/18
Nutrition & Care	<b>4,316</b>	1,120	1,163	1,110	1,114	<b>4,507</b>	1,119	1,189
Resource Efficiency	<b>4,473</b>	1,360	1,367	1,358	1,308	<b>5,393</b>	1,398	1,479
Performance Materials	<b>3,245</b>	959	910	913	970	<b>3,751</b>	995	1,025
Services	<b>683</b>	193	174	172	178	<b>717</b>	163	172
Corporate / Others	<b>15</b>	4	4	3	3	<b>15</b>	3	3
<b>Evonik Group</b>	<b>12,732</b>	3,636	3,618	3,556	3,573	<b>14,383</b>	3,678	3,870

Adj. EBITDA (in € m)	FY 2016	Q1/17	Q2/17	Q3/17	Q4/17	FY 2017	Q1/18	Q2/18
Nutrition & Care	<b>1,006</b>	187	201	188	172	<b>747</b>	209	222
Resource Efficiency	<b>977</b>	297	318	311	247	<b>1,173</b>	325	366
Performance Materials	<b>371</b>	157	168	172	161	<b>658</b>	179	196
Services	<b>151</b>	43	38	49	3	<b>133</b>	49	35
Corporate / Others	<b>-340</b>	-89	-85	-80	-100	<b>-354</b>	-83	-77
<b>Evonik Group</b>	<b>2,165</b>	595	640	640	483	<b>2,357</b>	679	742

2017 financials restated for IFRS 15

# Upcoming IR events

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## Conferences & Roadshows

<b>6 August</b>	Roadshow, Frankfurt
<b>7 August</b>	Roadshow, London
<b>23 August</b>	Deutsche Bank Corporate Days, Helsinki
<b>26 September</b>	Bernstein SDC Conference, London
<b>26 September</b>	Berenberg/Goldman Sachs German Corporate Conference, Munich
<b>27 September</b>	Baader Investment Conference, Munich
<b>27 September</b>	J.P. Morgan Investor Forum, Milan

## Upcoming Events & Reporting Dates

<b>14 September 2018</b>	Meet the Management, London
<b>6 November 2018</b>	Q3 2018 reporting
<b>5 March 2019</b>	FY 2018 reporting

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