

# Evonik

## Power to create.

Q3 2018  
Earnings Conference Call

6 November 2018

**Christian Kullmann**, Chief Executive Officer

**Ute Wolf**, Chief Financial Officer

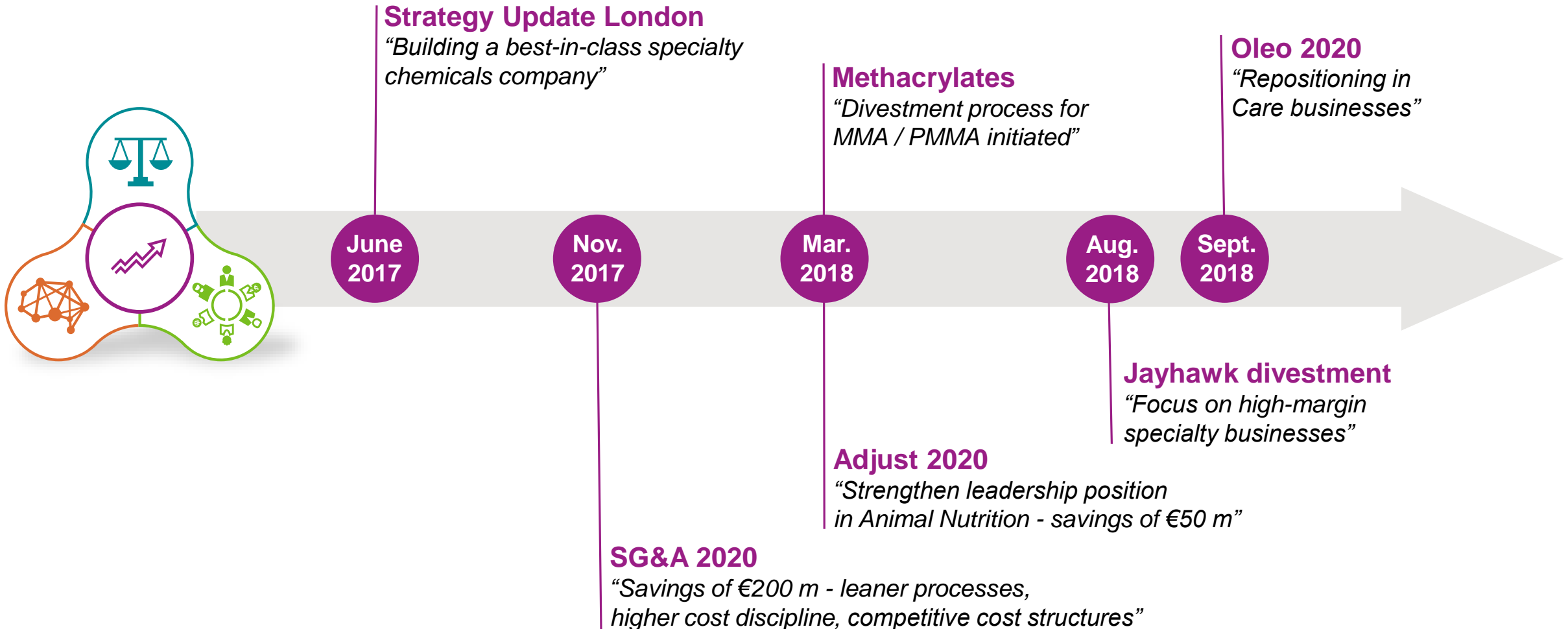
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- 1. Strategy execution**
2. Financial performance Q3 2018
3. Outlook FY 2018

# Building a best-in-class specialty chemicals company

## Step by step execution of strategic agenda



# Our agenda for 2018 – Driving the change

## Q3: Further strategy execution and ongoing improvement in operational performance



1

### Strategy execution

- MMA divestment fully on track
- Continued execution of efficiency programs
- Culture initiative started

2

### Earnings growth

- Earnings growth driven by growth segments
- Improved FCF performance YTD
- FY 2018 adj. EBITDA and FCF outlook confirmed

# Open & performance-oriented culture

## New corporate values and performance management system

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### New corporate values

- Guidelines for cultural change
- Introduced in September 2018, now drilled down into the organization

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### New performance management system

- Leaner process and strict alignment with Group financial targets on all levels
- Reach goals together rather than individually and in silos
- Clearer differentiation of individual performance levels
- To be implemented from 2019 onwards



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1. Strategy execution
- 2. Financial performance Q3 2018**
3. Outlook FY 2018

# Highlights Q3 2018

Earnings growth and margin expansion; higher FCF

## Sales growth

**+7%**

**Strong pricing** in all segments (+9%)  
**Volumes** (-1%) impacted by low Rhine river water levels, high utilization rates and limited raw material availability

## Adj. EBITDA and margin

**€692 m** (+8%<sup>1</sup>)

**18.2%** (+0.2pp<sup>1</sup>)

**Earnings growth** driven by growth segments; support from efficiency measures and successful compensation of raw material inflation

## Free cash flow (1-9)

**€442 m** (+26%)

**Higher cash generation** in first nine month driven by higher earnings, cost efficiency measures and realization of synergies

## Outlook

**€2.6-2.65 bn**

Outlook for **Adj. EBITDA** and **FCF** (“notably higher”) **confirmed**

1. Compared to Q3 17 | 2017 financials restated for IFRS 15

# Earnings development Q3 2018

## Earnings growth driven by growth segments

### Resource Efficiency



Adj. EBITDA growth yoy<sup>1</sup>

**+9%**

(Margin: 23.7%; +0.8 pp)

### Nutrition & Care



Adj. EBITDA growth yoy<sup>1</sup>

**+13%**

(Margin: 18.2%; +1.3 pp)

### Performance Materials



Adj. EBITDA growth yoy<sup>1</sup>

**+/-0%**

(Margin: 16.6%; -2.2 pp)

Growth segments driving earnings improvement

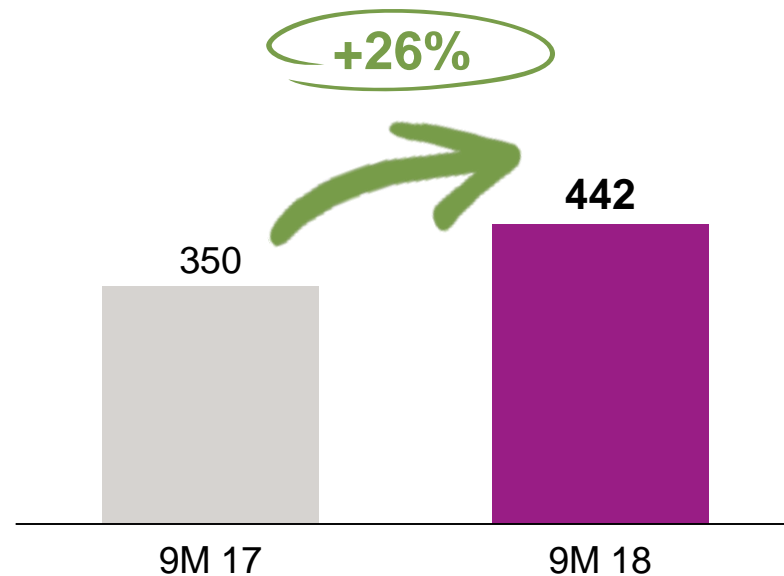
1. Improvement yoy: Q3 18 vs. Q3 17 | 2017 financials restated for IFRS 15



# Free Cash Flow 9M 2018

Progress in FCF development: 9M FCF clearly improved

9M 2018 (FCF in €m)

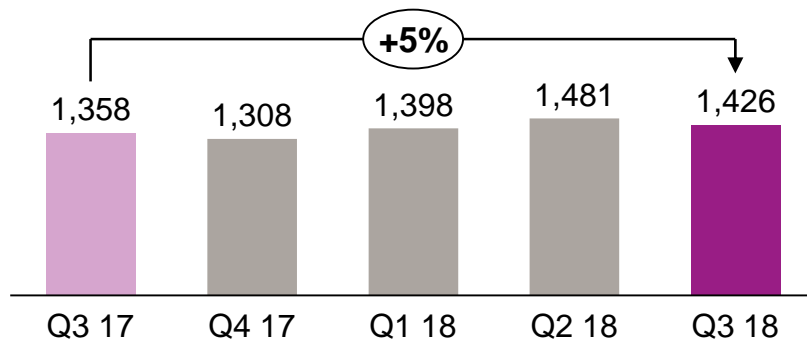


- FCF after 9M 2018 improved by €92 m
- **NWC outflow after 9M 2018** clearly above last year due to different phasing (H2 vs H1). Preparation for maintenance and logistical challenges from low Rhine water level in Q3 2018
- As expected, **different phasing** in cash taxes lead to lower cash-out for taxes in H1 2018; now catch-up in H2
- **Outlook confirmed:** FCF expected to be notably higher yoy

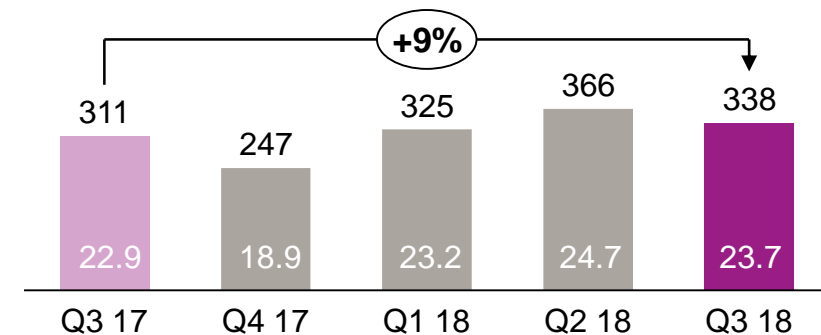
# Resource Efficiency

Sustained strong operational performance on attractive margin level

Sales (in € m)



Adj. EBITDA (in € m) / margin (in %)



Q3 18 vs. Q3 17	Volume	Price	FX	Other <sup>1</sup>
	-2% ↓	+6% ↑	-1% ↓	+2% ↑



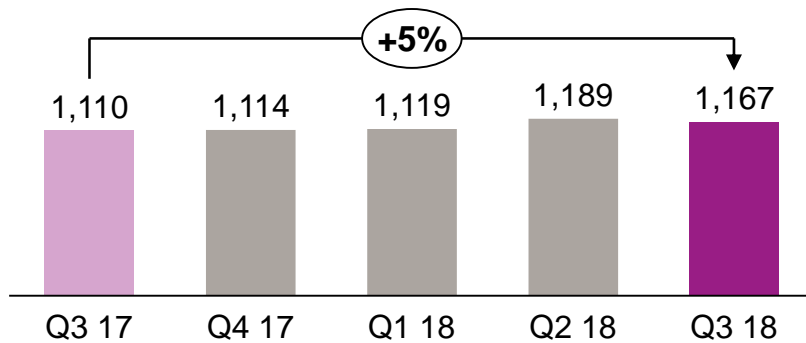
- Strong performance at attractive margin level continued into Q3
- Organic sales growth of 4% driven by strong pricing, successfully compensating raw material inflation
- Volumes not reaching high prior-year comps due to already high plant utilization levels, limited raw material availability and more cautious customer behavior in auto-related activities towards the end of the quarter
- Ongoing strong demand for eco-friendly, water-borne Coating Additives

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

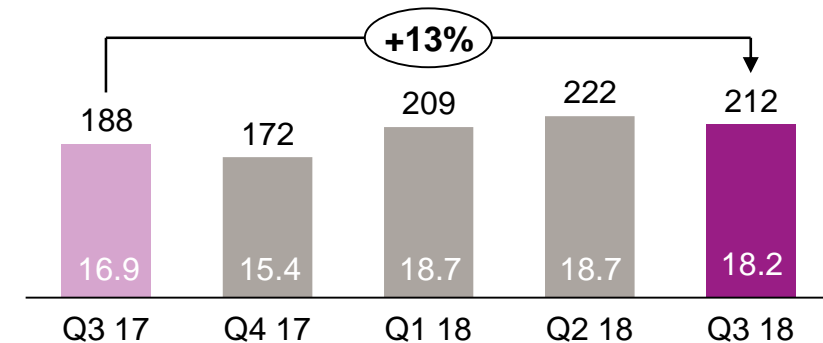
# Nutrition & Care

## Solid operational performance throughout the first three quarters

**Sales (in € m)**



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



Q3 18 vs. Q3 17	Volume	Price	FX	Other <sup>1</sup>
+5%	↗	↗	↘	↘



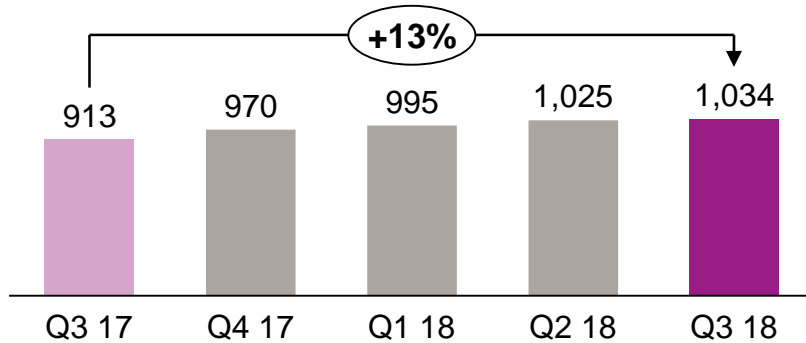
- Good operational performance continuing – strong volume and price development in majority of businesses
- yoy margin expansion driven by improving product mix, successful management of higher raw material prices and efficiency measures
- Health Care and Personal Care with ongoing strong performance and further improving product mix
- Methionine with robust demand trend and yoy higher volumes; prices fairly stable in local currency

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

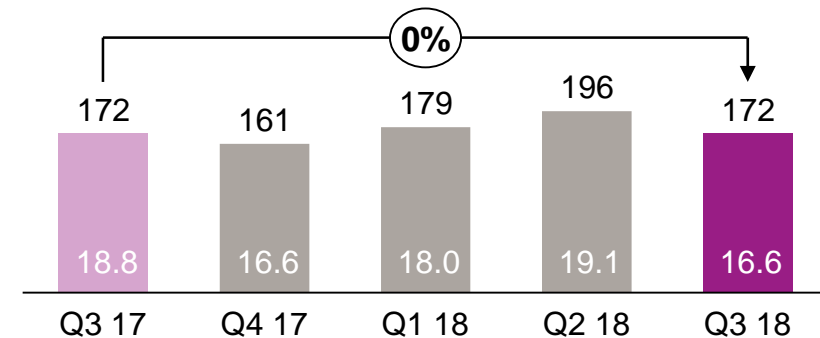
# Performance Materials

## Good operational quarter – one-time effects impacting profitability

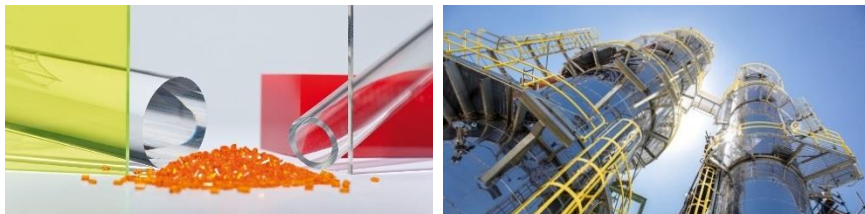
**Sales (in € m)**



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



Q3 18 vs. Q3 17	Volume	Price	FX	Other
	-6% ↘	+21% ↗	-2% ↘	0% →



- Good operational performance in both MMA/PMMA and C4
- Weaker volume mainly as a result of logistical constraints from low Rhine water level, raw material availability and maintenance turnaround in MMA
- Sustained high MMA/PMMA margins and yoy notably higher butadiene spreads lead to double-digit price increase
- Sequentially weaker margin due to time-lag in pass-on of higher Naphtha prices and higher logistics costs (low Rhine water level) and maintenance turnaround in MMA; total effect of €15 m

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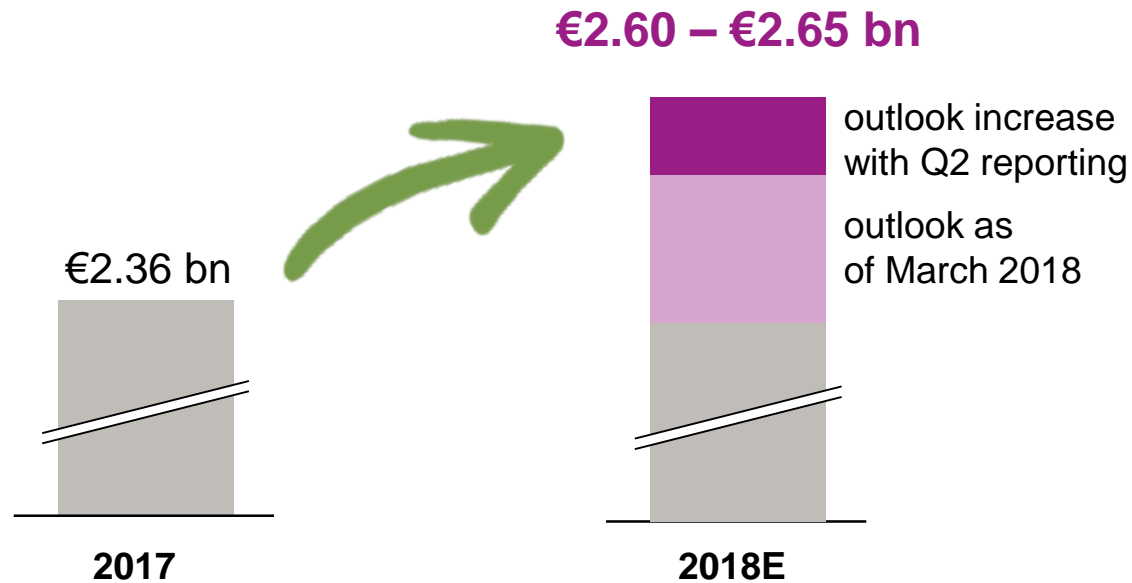
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1. Strategy execution
2. Financial performance Q3 2018
- 3. Outlook FY 2018**

# Outlook 2018

## Outlook confirmed

### Adj. EBITDA and FCF outlook



FCF expected to be notably higher compared to prior year (2017: €511 m)

2017 financials restated for IFRS 15

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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 **Notably higher compared to prior year** (2017: €511 m)
- EUR/USD **Changed to 1.18 EUR/USD** (previously: 1.20; 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> **On previous year's level** (previously: ~ -€190 m; 2017: -€175 m)
- Adj. tax rate **Changed to ~26%** (previously: ~29%, change due to reversal of tax provisions relating to prior periods (non-cash); (2017: 29%))

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



# Outlook 2018

## Outlook on segment level confirmed

Segment outlook	
Nutrition & Care	“higher earnings yoy”
Resource Efficiency	“perceptibly higher earnings yoy”
Performance Materials	“higher earnings yoy”



# IFRS 16 impact on main KPI's

Changes: 1) Lessee leases are capitalized as assets and liabilities on balance sheet (and depreciated)  
 2) Previous leasing expenses will be replaced by D&A and interest expenses (Financial result)

Impact on

Balance Sheet [€ m]		P&L [€ m]		Cash Flow [€ m]	
CAPEX	n. a.	EBITDA	+100	Operating CF	+90
Capital Employed	+600	D&A	+90	FCF	+90
ROCE	↓	Interest result	-10	Financing CF	-90

Impact on 2019 financials based on 2018 lease contracts | CAPEX on Balance Sheet will be determined without effects from lease transactions

# IFRS 16: guidance on accounting for leases

- **First-time** application as of **January 2019**, no restatement of prior-year figures

## OLD leasing accounting:

1. Balance Sheet:  
Lessee leases reported as operating leases as off-balance commitments (no impact on balance sheet)
2. P&L:  
Leasing expenses **included** in **EBITDA**
3. Cash Flow:  
Leasing payments part of Operating Cash Flow (as part of “Income before financial result & income taxes”)

## NEW leasing accounting:

1. Balance Sheet:  
Lessee **leases** now **capitalized** as assets and liabilities on **balance sheet** (and depreciated)
2. P&L:  
No more **leasing expenses** in P&L, but to be treated as **D&A** and **interest expenses** (Financial Result)
3. Cash Flow:
  - a) **Operating** CF
    - Higher D&A with positive impact
    - Higher interests with negative impact
  - b) **Repayments** (excl. interest) now part of **Financing** Cash Flow

# Structural changes in Cash Flow Statement 2019

1) Application of IFRS 16 for leases

2) Reclassification of cash inflows/ - outflows for interests to industry standards

	IFRS 16 [€ m]	Interests [€ m]	Σ Changes [€ m]
Income before financial result and income taxes = EBIT	+10		+10
D&A	+90		+90
Change in NWC			
Change in provisions			
Inflows from interest		-20*	-20*
Outflows from interest	-10	+110**	+100**
Cash inflows/outflows for income taxes			
...			
<b>Operating Cash Flow:</b>	+90	+90	+180
CAPEX	unchanged	unchanged	unchanged
<i>Inflows from interest (NEW)</i>		+20*	+20*
<b>Investing Cash Flow:</b>	unchanged	+20	+20
<b>Free Cash Flow</b>	+90	+90	+180
<i>Outflows from interest (NEW)</i>		-110**	-110**
<i>Cash outflows for repayments of leasing liabilities (NEW)</i>	-90		-90
<b>Financing Cash Flow:</b>	-90	-110	-200

Impact on 2019 financials based on 2018 lease contracts

\* ~€20 m = FY 2018 (e) cash inflows from interest, based on 9 months 2018 run rate

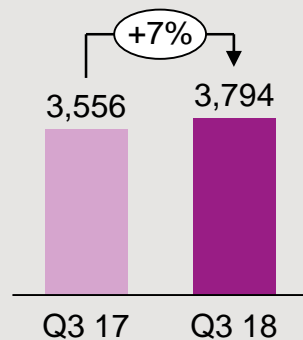
\*\* Total cash outflows from interest: ~€10 m = expected impact from IFRS 16; ~€100 m = FY 2018 (e) cash outflows from interest, based on 9 months 2018 run rate

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# Financial highlights Q3 2018

Strong quarterly performance reflected in all KPI's

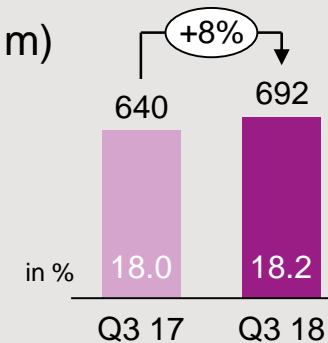
Sales  
(in € m)



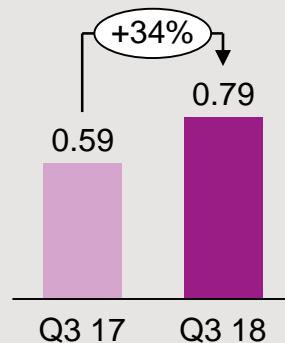
Q3 18 vs. Q3 17

Volume	Price
-1% ↘	+9% ↗
FX	Other <sup>1</sup>
-1% ↘	+/-0% →

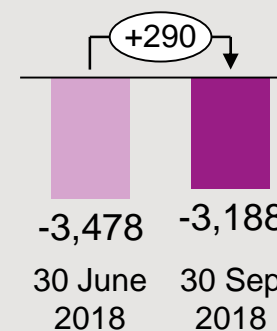
Adj. EBITDA (in € m)  
/ margin (in %)



Adj. EPS  
(in €)



Net financial  
position  
(in € m)

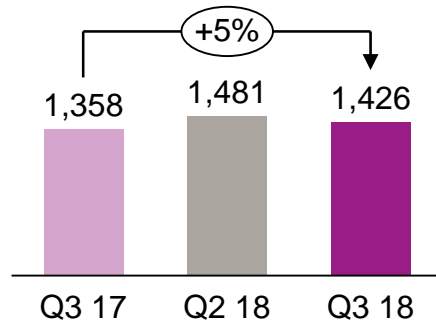


1. Portfolio effects and others | 2017 financials restated for IFRS 15

# Resource Efficiency

## Q3 2018 Business Line comments

### Sales (in € m)



**Coating Additives:** Business benefits from ongoing high demand for waterborne coating in China; earnings partially offset by higher raw material costs



**Crosslinkers:** Slightly softened demand across all regions and market segments compared to prior-year, in contrast recently increasing IPD volumes after first signs of wind market recovery

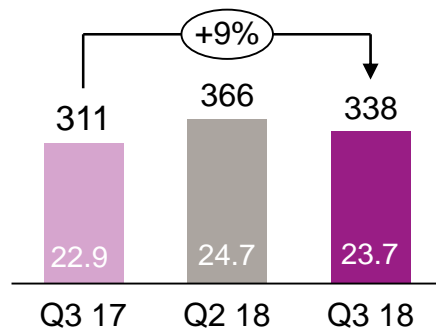


**High Performance Polymers:** Continued high demand for PA12 compounds, powders and membranes; plant utilization remains on high level



**Silica:** Solid demand for precipitated silica, volumes for fumed silica slightly impacted by maintenance in Antwerp

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



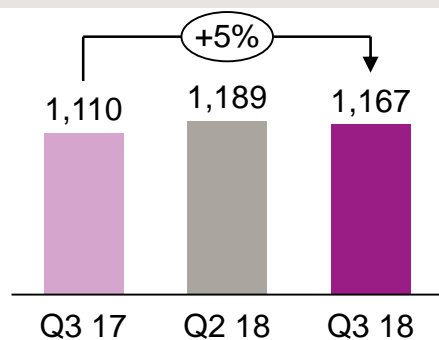
2017 financials restated for IFRS 15

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# Nutrition & Care

## Q3 2018 Business Line comments

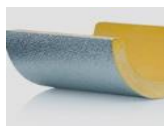
### Sales (in € m)



**Personal Care:** Strong performance due to higher volumes with specialty products and active ingredients (especially Asia-Pacific and North America) leading to an overall improved product mix.



**Health Care:** Good quarter in all product lines, Exclusive Synthesis and Pharma & Food Ingredients expected with strong finish of a very successful year 2018.



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

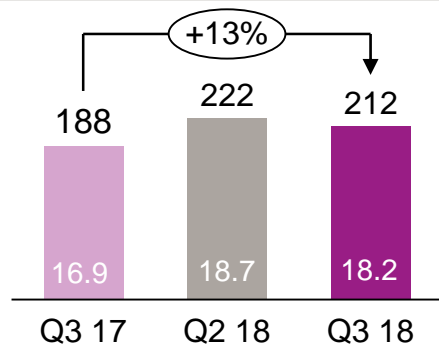


**Baby Care:** Volumes improving in the US and EU; self-help measures with positive effects on margins. Negative pass-on effect from propylene prices in Q3.



**Animal Nutrition:** Methionine with robust demand trend and yoy higher volumes; prices fairly stable in local currency. Robust development in Bio-Amino acids.

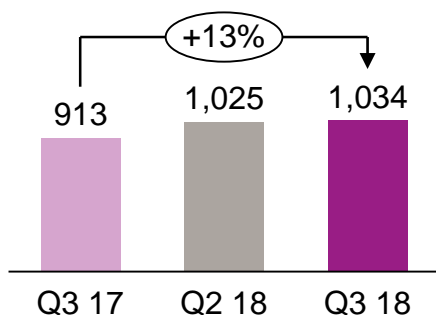
### Adj. EBITDA (in € m) / margin (in %)



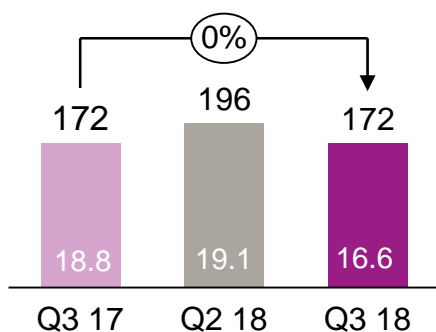
# Performance Materials

## Q3 2018 Business Line comments

### Sales (in € m)



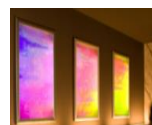
### Adj. EBITDA (in € m) / margin (in %)



### MMA/PMMA:



Methacrylates with solid demand and margins; less overheated market outlook.



Demand for Bulk Monomers softer after tight markets in H1.

Application Monomers with healthy demand in the oil & gas and personal care sector.

Successful introduction of new PMMA applications in automotive sector leading to above industry growth rates in Molding Compounds.

Supply more balanced in EU and Asia. US tighter due to several plant outages in the industry.

Higher costs due to low Rhine water level and maintenance shutdown in MMA in Q3.



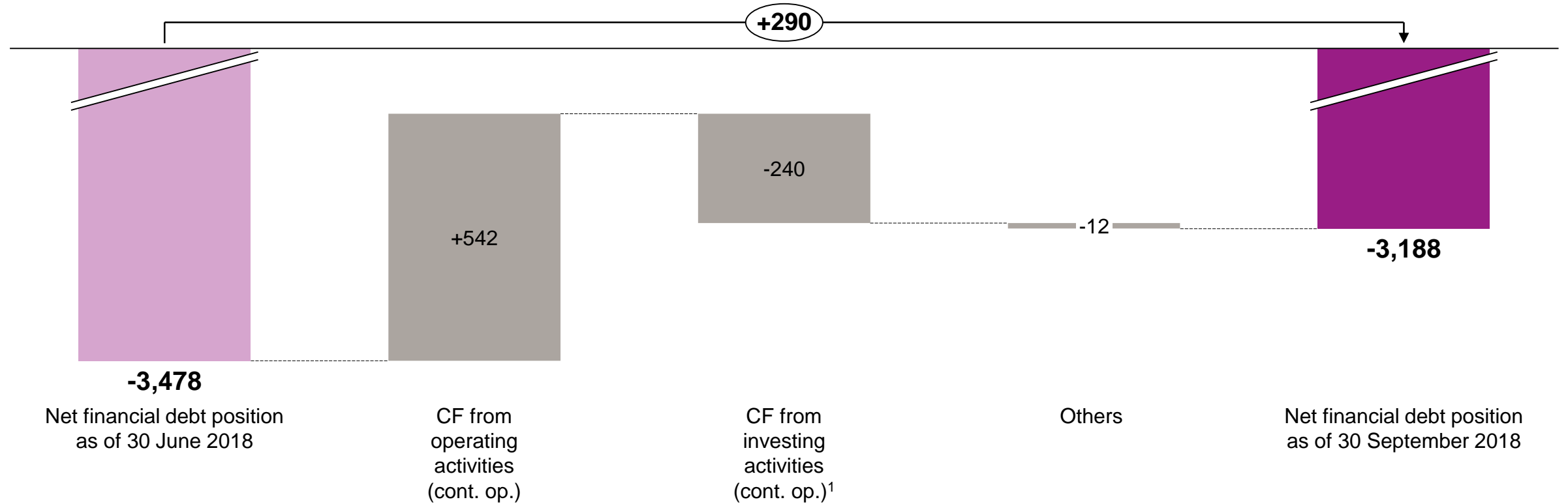
### Performance Intermediates:

Higher variable costs (Naphtha) and time-lag in pass-on. Higher logistics costs due to low Rhine water level. European Butadiene price sequentially up in Q3.



# Net financial position development Q3 2018

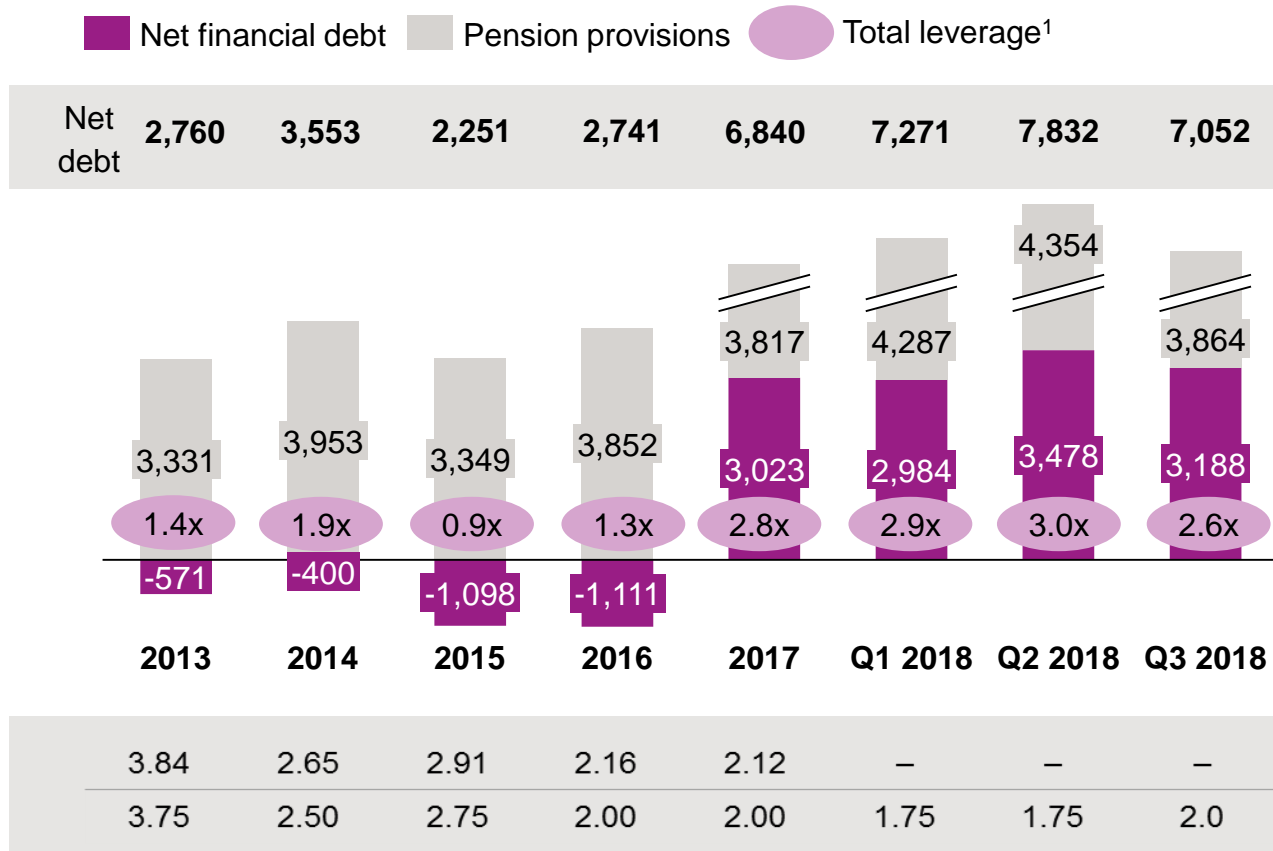
(in € m)



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

# Development of net debt and leverage over time

(in € m)



- Decrease of net financial debt during Q3 due to positive operating cash flow
- Increase of pension discount rate for Germany (from 1.75% to 2.00%) resulting in decrease 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 ~€1.1 bn
- More than half of total net debt consists of long-dated pension obligations; average life of DBO exceeds 15 years

# Adjusted income statement Q3 2018

in € m	Q3 2017	Q3 2018	Δ in %
<b>Sales</b>	<b>3,556</b>	<b>3,794</b>	<b>+7</b>
<b>Adj. EBITDA</b>	<b>640</b>	<b>692</b>	<b>+8</b>
Depreciation & amortization	-217	-224	
<b>Adj. EBIT</b>	<b>423</b>	<b>468</b>	<b>+11</b>
Adj. net financial result	-55	-41	
D&A on intangible assets	34	34	
<b>Adj. income before income taxes</b>	<b>402</b>	<b>461</b>	<b>+15</b>
Adj. income tax	-123	-86	
<b>Adj. income after taxes</b>	<b>279</b>	<b>375</b>	<b>+34</b>
Adj. non-controlling interests	4	5	
<b>Adj. net income</b>	<b>275</b>	<b>370</b>	<b>+35</b>
<b>Adj. earnings per share</b>	<b>0.59</b>	<b>0.79</b>	<b>+35</b>
Adjustments	-31	-19	

## Adj. net financial result:

- Reduced financing costs for cross currency swaps; FY 18 indication changed to “on prior year level”

## Adj. income tax:

- Q3 18 adj. tax rate of 19% benefitted from reversals of tax provisions relating to prior periods (non-cash). Consequently, FY indication changed to ~26%.

## Adjustments:

- Adjustments of -€19 m, partly related to M&A activities; Q3 17 with acquisition related and integration costs for Air Products and Huber Silica and inventory step-up

# Cash flow statement Q3 2018

in € m	Q3 2017	Q3 2018
Income before financial result and income taxes	392	449
Depreciation and amortization	213	219
Δ Net working capital	+131	-60
Change in provisions	+23	+20
Change in miscellaneous assets/liabilities	+69	+35
Outflows from income taxes	-78	-103
Others	-23	-18
<b>Cash flow from operating activities</b>	<b>+727</b>	<b>+542</b>
Cash inflows/outflows for investment in intangible assets, pp&e	-242	-240
Cash inflows/outflows from investments/divestments of shareholdings & intangible assets and pp&e	-533	-3
Cash inflows/outflows relating to securities, deposits and loans	-10	-13
<b>Cash flow from investing activities</b>	<b>-785</b>	<b>-258</b>
<b>Cash flow from financing activities</b>	<b>+370</b>	<b>-108</b>

Continuing operations 2017 financials restated for IFRS 15

## CF from operating activities

- Improvement in operating earnings (EBIT) of €57 m
- Strong swing in NWC: outflow in Q3 2018 mainly for inventories (logistical issues due to Rhine water levels and preparation for upcoming maintenance) as well as some more cautious customer behavior towards the end of the quarter in auto-related activities; Q3 2017 benefitted from strong inflows
- Outflows from income taxes higher yoy; different phasing as guided with Q2: lower in H1, higher in H2 – opposite in 2017)

## CF from investing activities

- Stable capex spendings, Q3 2017 contains cash outflow for acquisition of Huber Silica

## CF from financing activities

- Q3 2017 includes issuance of bonds to finance Huber Silica acquisitions

## Segment overview by quarter

Sales (in € m)	FY 2016	Q1/17	Q2/17	Q3/17	Q4/17	FY 2017	Q1/18	Q2/18	Q3/18
Nutrition & Care	<b>4,316</b>	1,120	1,163	1,110	1,114	<b>4,507</b>	1,119	1,189	1,167
Resource Efficiency	<b>4,473</b>	1,360	1,367	1,358	1,308	<b>5,393</b>	1,398	1,481	1,426
Performance Materials	<b>3,245</b>	959	910	913	970	<b>3,751</b>	995	1,025	1,034
Services	<b>683</b>	193	174	172	178	<b>717</b>	163	172	164
Corporate / Others	<b>15</b>	4	4	3	3	<b>15</b>	3	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	3,794

Adj. EBITDA (in € m)	FY 2016	Q1/17	Q2/17	Q3/17	Q4/17	FY 2017	Q1/18	Q2/18	Q3/18
Nutrition & Care	<b>1,006</b>	187	201	188	172	<b>747</b>	209	222	212
Resource Efficiency	<b>977</b>	297	318	311	247	<b>1,173</b>	325	366	338
Performance Materials	<b>371</b>	157	168	172	161	<b>658</b>	179	196	172
Services	<b>151</b>	43	38	49	3	<b>133</b>	49	35	49
Corporate / Others	<b>-340</b>	-89	-85	-80	-100	<b>-354</b>	-83	-77	-79
<b>Evonik Group</b>	<b>2,165</b>	595	640	640	483	<b>2,357</b>	679	742	692

2017 financials restated for IFRS 15

# Upcoming IR events

## Conferences & Roadshows

<b>8 November</b>	Roadshow Frankfurt
<b>13 November</b>	UBS European Conference, London
<b>13 November</b>	Morgan Stanley Global Chemicals Conference, Boston
<b>14 November</b>	Roadshow London
<b>21 November</b>	Kepler Cheuvreux One-Stop-Shop, Dublin
<b>22 November</b>	Roadshow Edinburgh
<b>29 November</b>	Société Générale Premium Review Conference, Paris
<b>4 December</b>	Credit Suisse Specialty Chemicals Conference, London
<b>5 December</b>	Berenberg European Conference, Pennyhill
<b>6 December</b>	Bank of America Chemicals Conference, London

## Upcoming Events & Reporting Dates

<b>5 March 2019</b>	FY 2018 reporting
<b>7 May 2019</b>	Q1 2019 reporting
<b>28 May 2019</b>	AGM
<b>1 August 2019</b>	Q2 2019 reporting
<b>5 November 2019</b>	Q3 2019 reporting

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