

# Evonik

# Leading Beyond Chemistry

Strategy Update 2020

Strategic perspective

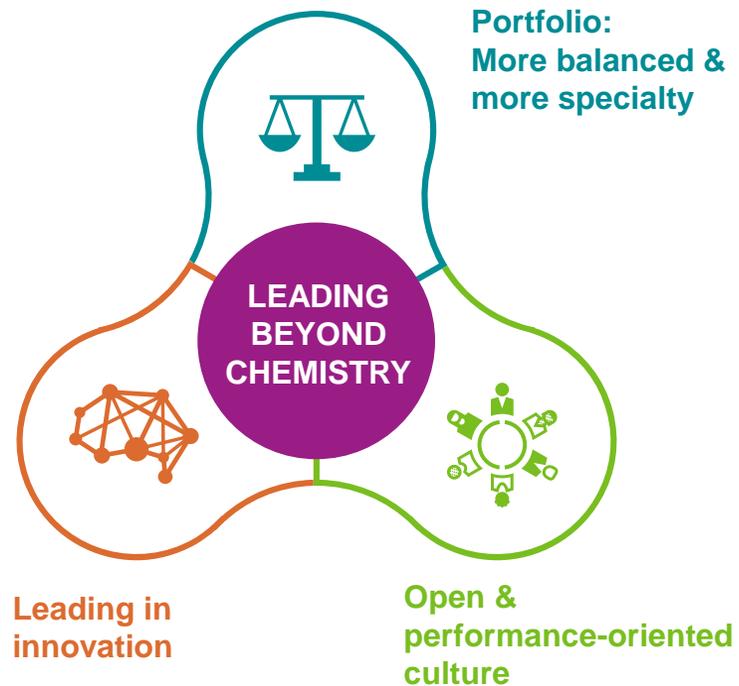
May 7, 2020

Christian Kullmann, CEO

# We delivered on our promises

## Successful transformation along our three strategic focus areas

### June 2017: Strategy Update



### What we have achieved so far

- ✓ **Portfolio transformation** towards higher resilience: **80% specialty businesses**
- ✓ **Innovation pipeline** ramping up: **€300 m additional sales achieved by 2019**
- ✓ **Performance-oriented culture** implemented: **New Compensation & Performance Mgmt. System**



## Performance-oriented culture

Establishment of delivery culture with increased capital market focus

	2017	2018	2019
1 Track record of guidance delivery established	✓	✓	✓
2 Cash conversion <sup>1</sup> significantly improved	from 22% (2017) to 33% (2019)		
3 High level of cost awareness adopted	~€160 m savings achieved by end of 2019 <sup>2</sup>		
4 Diversity as key economic success factor	53% female nominations for top corporate talents		
5 More transparent Performance Management	Group-wide incentive system aligned to financial targets		

Performance-oriented corporate culture with increased capital market focus

1: defined as FCF/Adjusted EBITDA | 2: SG&A program (€120 m of €200 m achieved by end of 2019), Adjust 2020 (€30 m of €50 m achieved), Oleo 2020 (€10 of €20 m achieved)



# Leading in innovation

On track to achieve target of >1 bn sales from innovation

## Innovation Growth Fields



Advanced Food Ingredients



Additive Manufacturing



Sustainable Nutrition



Cosmetic Solutions



Membranes



Healthcare Solutions

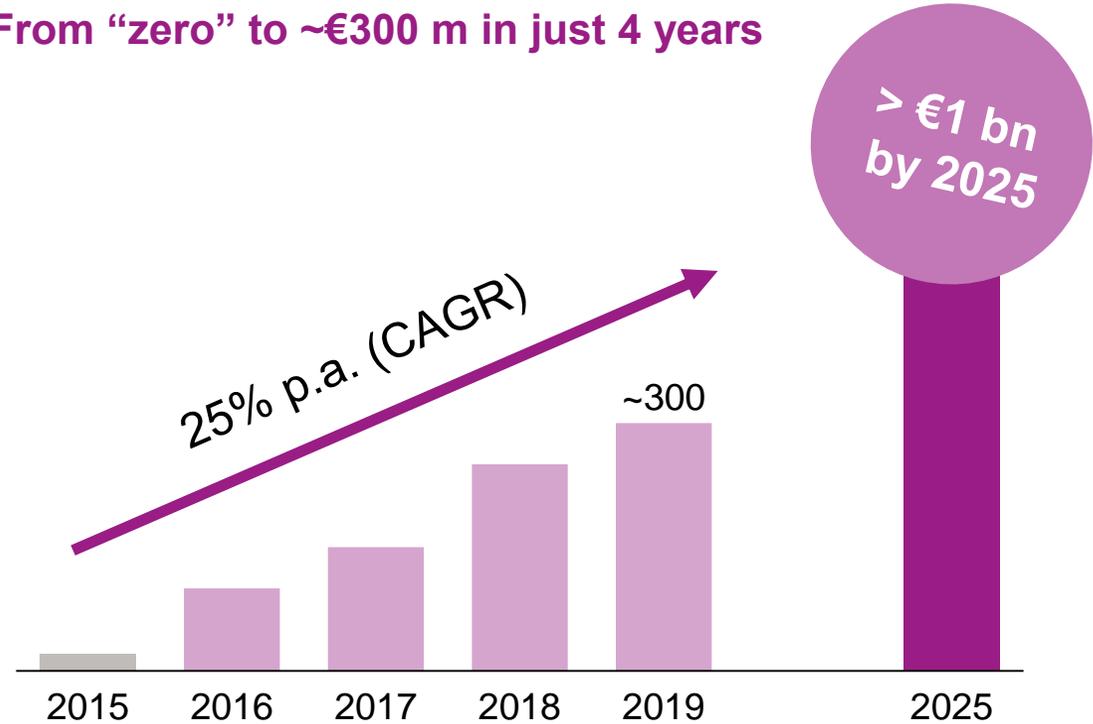


**Sizeable sales base** established in all growth fields

**Above-average margin** contribution

## Sales contribution Innovation Growth Fields

From “zero” to ~€300 m in just 4 years





# Leading in innovation

A well-filled R&D pipeline with different target horizons

## Short-term



### Additive Manufacturing

- Evonik’s 3D printing portfolio as beneficiary of trend from “prototyping only” into real series production

## Mid-term



### Biosurfactants

- Based on Evonik’s leading biotechnology know-how
- 100% renewable natural resource & biodegradable

## Long-term



### Precision Livestock Farming

- Digital solutions to optimize every aspect of livestock production – in one holistic approach





# Portfolio: More balanced & more specialty

## Decisive and value-accretive portfolio management

### Divestments

~€2 bn cyclical sales

sold at attractive valuation  
(**8.5x** EV/EBITDA)

Ø EBITDA margin: ~**15%**<sup>1</sup>



### Acquisitions

>€2 bn resilient sales

Ø multiple of **9.1x** EV/EBITDA  
(incl. synergies)

Ø EBITDA margin: ~**22%**

Delivery of synergies on track (€70 m by end of 2019)



### Decisive and value-accretive portfolio management

- Portfolio cyclicalities & Capex intensity reduced
- More resilient EBITDA margin and improved cash profile

Divestments: Methacrylates business sold for EV of €3 bn (8.5x EV/EBITDA) in July 2019

Acquisitions: Air Products specialty additives business for US\$3.8 bn (9.9x EV/EBITDA incl. synergies & tax benefits) in January 2017 | Dr. Straetmans cosmetics business in May 2017

Huber Silica business for US\$630 m (~7x EV/EBITDA incl. synergies & tax benefits) in September 2017 | PeroxyChem for US\$640 m (7.6x EV/EBITDA incl. synergies) in February 2020

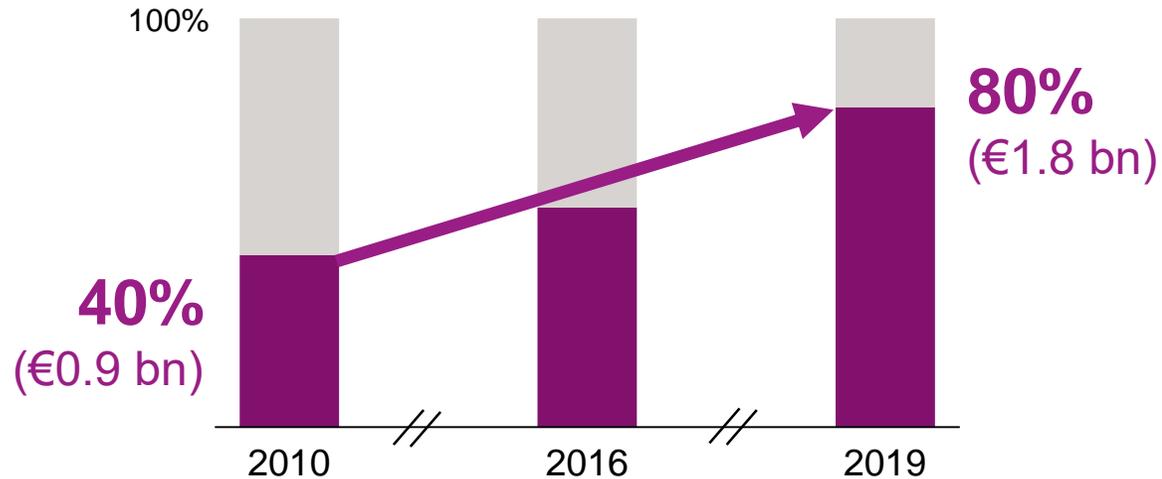
1: 2014-2019



## Portfolio: More balanced & more specialty

Portfolio quality significantly improved – today 80% specialty businesses

### Adj. EBITDA operating businesses



### Portfolio characteristics

- **Specialty businesses** now represent ~**80%** of EBITDA<sup>1</sup>
- Specialty businesses with track record of **6% annual organic earnings growth**<sup>2</sup>

Specialty businesses: Specialty Additives, Smart Materials, Health & Care

1: Calculation for operating businesses excluding Services & Corporate | 2: organic EBITDA CAGR (excl. M&A) 2014 – 2019



# Portfolio: Focus on Sustainability

Sustainability important part of portfolio & strategic management decisions

## Excellent Rankings



### Sector leading ESG rankings

Evonik amongst leaders in all relevant ratings

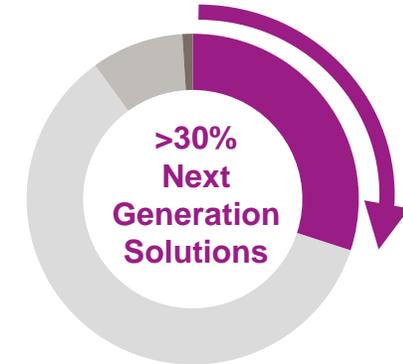
## Environmental Targets



### Ambitious environmental targets

Average reduction of climate-relevant emissions by 3% p.a. affirms strong commitment to the Paris Agreement on Climate Change

## Portfolio Management



### Portfolio aligned to sustainability

>30% of sales with superior sustainability benefits to customers; integration of sustainability into strategic management processes and decisions

"A" MSCI ESG rating (on a scale of AAA to CCC); EcoVadis "Gold" rating; "B-" ISS Oekom rating (on a scale of A+ to D-) and "B" CDP rating (on a scale of A+ to D-)

# Structure follows strategy

## Organization now fully aligned with growth engines



# Rationale for new management and reporting structure

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**Clearly defined strategic roles**

**3 “Growth” divisions with >3% volume growth target  
Performance Materials as “Efficiency” division**



**More homogeneous divisions**

**Common themes & trends in growth divisions**



**Higher transparency**

**4 divisions; sales split for sub-divisions**



**More efficient internal management**

**Clear-cut technology platforms**



**Leaner organization**

**Reduction of 150 FTE, €25 m p.a. savings by end of 2021<sup>1</sup>**

1: mainly in cross-segment- and administrative functions in the operating segments

# Leading beyond chemistry – Growth Divisions

Specialty chemicals portfolio with strong positioning and attractive financials

## Specialty Additives



*Leading positions  
in performance-defining  
specialty additives*

-  Growth track record 3%<sup>1</sup>
-  Margin level of 26%
-  ROCE of 18%

## Nutrition & Care



*Innovation leader in  
resilient Health & Care market  
  
Building a system house for  
Sustainable Animal Nutrition*

-  Growth track record 4%<sup>1</sup>
-  Margin level of 16%
-  ROCE of 8%

## Smart Materials



*Leading player in  
inorganic specialties  
and  
high performance polymers*

-  Growth track record 3%<sup>1</sup>
-  Margin level of 19%
-  ROCE of 16%

**Strong  
positioning...**

**... and  
attractive  
financials**

1. average volume growth 2015-2018

# Strategic agenda going forward

## Clear strategic and financial targets



### Mid-term Group targets:

- >3%** Volume growth<sup>1</sup>
- 18-20%** EBITDA margin
- >40%** FCF conversion
- 11%** ROCE

1: in growth divisions over the cycle

# Animal Nutrition

## Cost leadership in Methionine - Sustainable Healthy Nutrition is gaining importance

### Efficient Nutrition

- **Cost leadership** in Methionine  
(“Adjust 2020” program with €50 m cost savings by 2020)
- Focus on **3 global world-scale hubs**  
(Europe, US & Asia)
- Modular **debottleneckings** to serve ongoing strong market growth



### Sustainable Healthy Nutrition

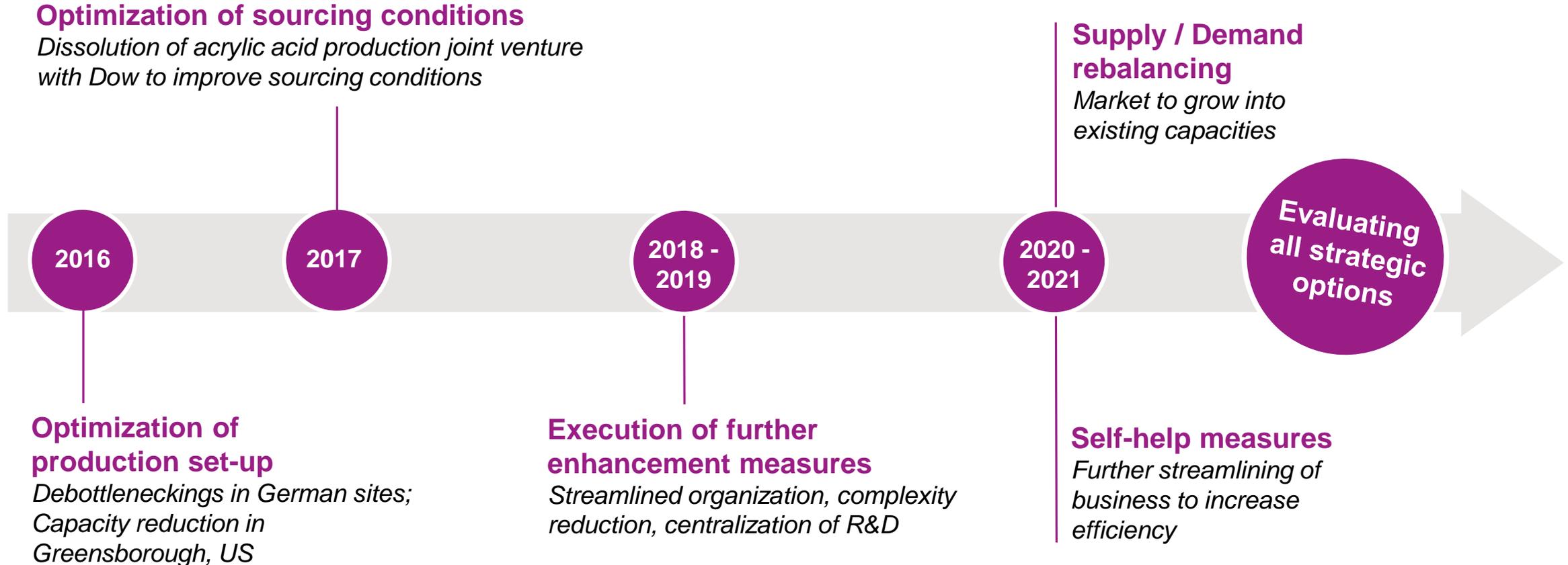
- Building a **system house** for sustainable healthy nutrition
- **Leverage strong sales force** and direct customer access
- **Digital technologies** to optimize every stage of **livestock production**

**>30%**  
margin  
potential



# Strategic perspective for Baby Care

## Evaluating all strategic options to leverage full business potential



# Evonik – A compelling equity story today and tomorrow

## Leading beyond chemistry to drive shareholder value

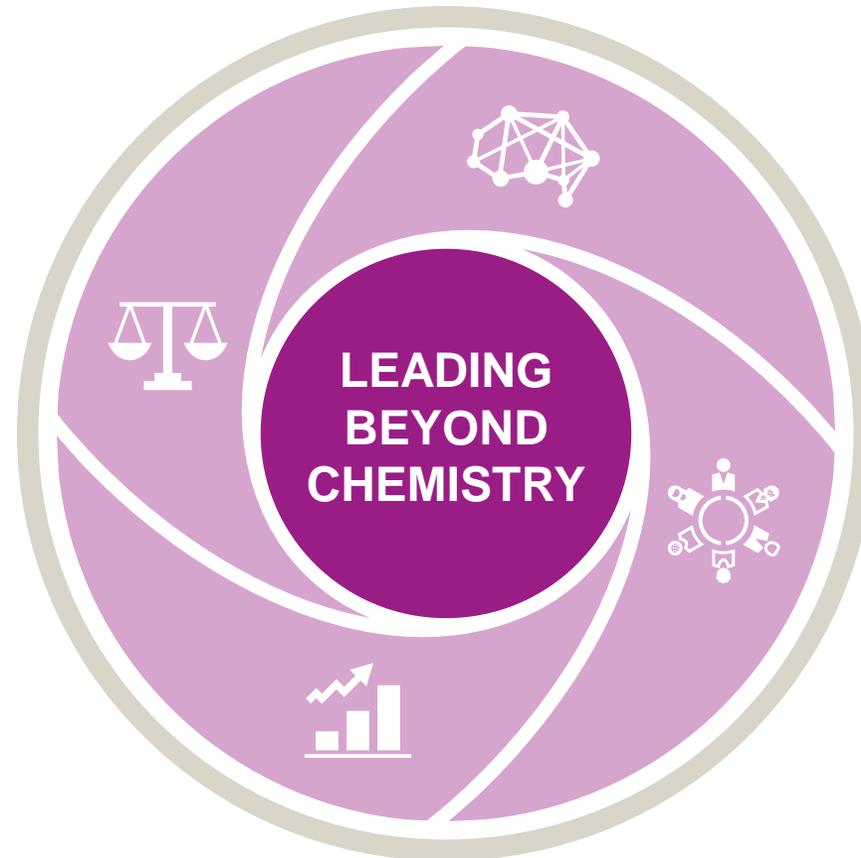
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### Ongoing portfolio transformation

- Target: Specialty portfolio with 100% growth businesses

### Ambitious financial targets

- EBITDA margin: 18-20%
- Cash conversion ratio: >40%
- ROCE: 11%



### Innovation & Sustainability as growth drivers

- €1 bn additional sales from innovation growth fields by 2025
- Growing portfolio share of “Next generation solutions”

### Performance-driven corporate culture

- Further drive gender & cultural diversity
- Deliver on efficiency programs in Administration & Operations

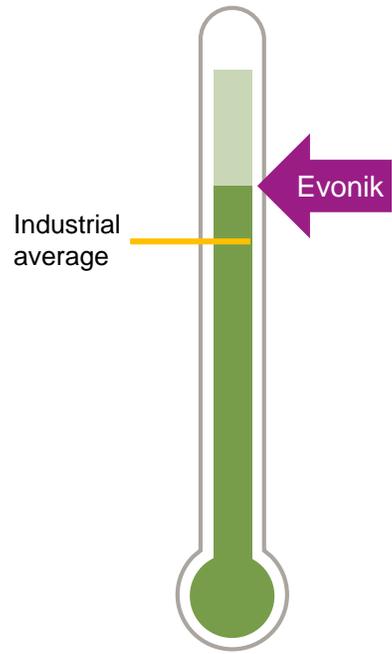


**EVONIK**

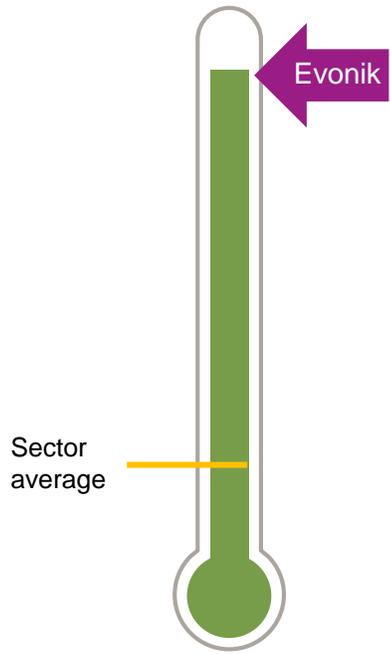
**Leading Beyond Chemistry**

# Backup: Sustainability Rankings

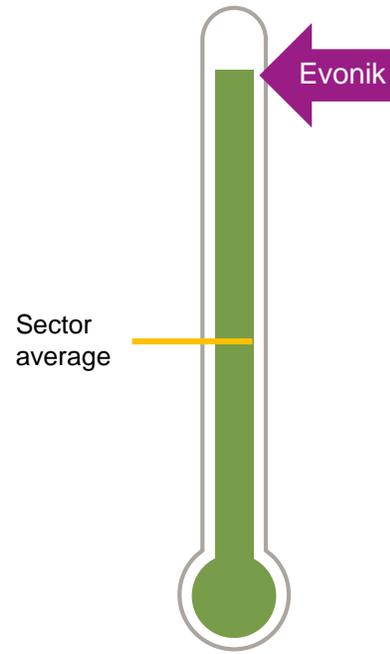
## Evonik best-in-class within chemicals sector in terms of sustainability



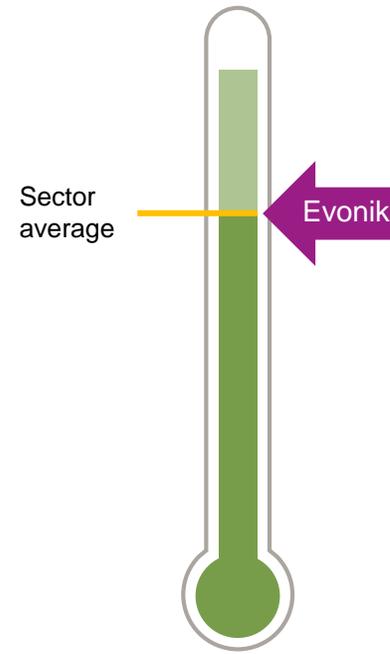
MSCI 



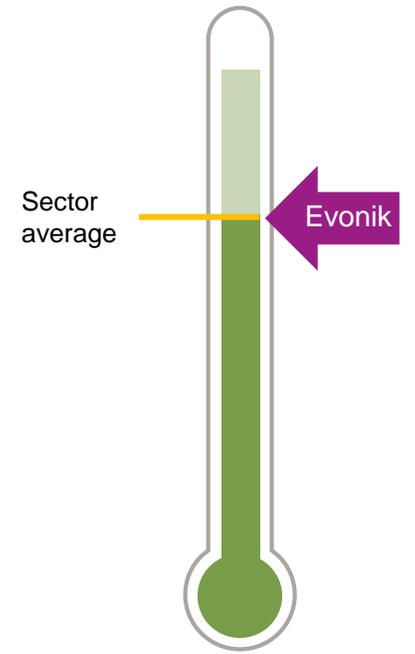
ecovadis



ISS-oekom 



 SUSTAINALYTICS



 CDP  
DRIVING SUSTAINABLE ECONOMIES

# Backup: Evonik Sustainability Analysis – Portfolio Management (1/3)

## Sustainability Analysis integrated into strategy and portfolio decisions

### Portfolio management via sustainability criteria

#### Method



- WBCSD<sup>1</sup> sector **standard approach** aligned to specific requirements of Evonik
- Approach **audited** by PwC



#### Analysis and results



- **99%** of sales covered by Sustainability analysis
- **Classification** of product portfolio according to its **sustainability performance** (A++ to C--)



#### Strategic measures



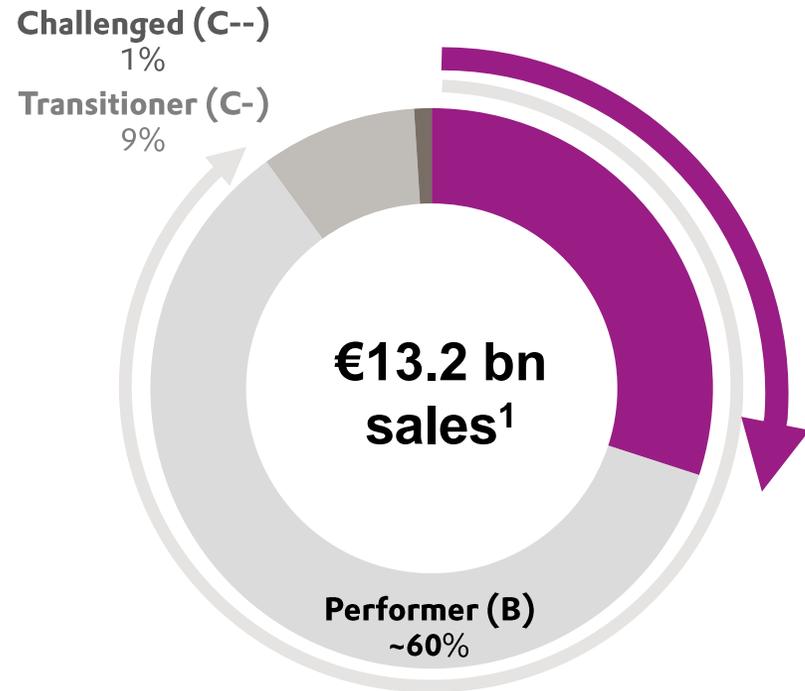
- Analysis part of **strategic portfolio management** e.g. for
  - Investments
  - Innovation
  - M&A



1. Portfolio Sustainability Assessments (PSA) from World Business Council for Sustainable Development

# Backup: Evonik Sustainability Analysis – Results (2/3)

>30% of Evonik’s portfolio with superior sustainability benefits



~90%

generated with products or solutions **above or on market reference** in terms of sustainability

>30%

## “Next Generation Solutions”<sup>2</sup>

- ... address globally **increasing demand** for sustainable solutions
  - ... deliver **above-average growth rates**
- ... are highly **profitable** (in or above margin target range of 18-20%)

### Target to further increase “Next Generation Solutions”

- Challenged products: evaluation of strategic options (transform/exit/divest) within 5 years

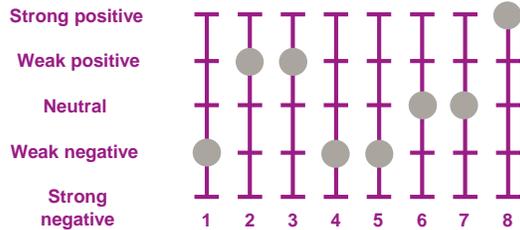
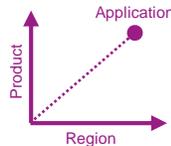
1. 2018 sales continuing operations | 2. “Next Generation Solutions” include “Leader” (A++) and “Driver” (A+) products and solutions

# Backup: Evonik Sustainability Analysis – Methodology (3/3)

I. Defining objectives, scope and process

II. Defining assessment segments

III. Defining market signals



### Market signals

1. Critical substances
2. Regulatory trends and global commissions
3. Sustainability ambitions along the value chain
4. Ecolabels, certification and standards
5. Relative environment and social performance
6. Contribution to ecological and social value creation
7. Contribution to SDGs
8. Internal guidelines and principles

IV. Categorizing the portfolio

V. Reporting and using the result

Are there **strong negative** signals?

No

Yes

Challenged (C--)

Are there **material negative** signals?

No

Yes

Transitioner (C-)

Are there **material positive** signals?

Yes

No

Performer (B)

Are there **strong positive** signals?

Yes

No

Driver (A+)

Leader (A++)

Leader (A++)

Driver (A+)

Performer (B)

Transitioner (C-)

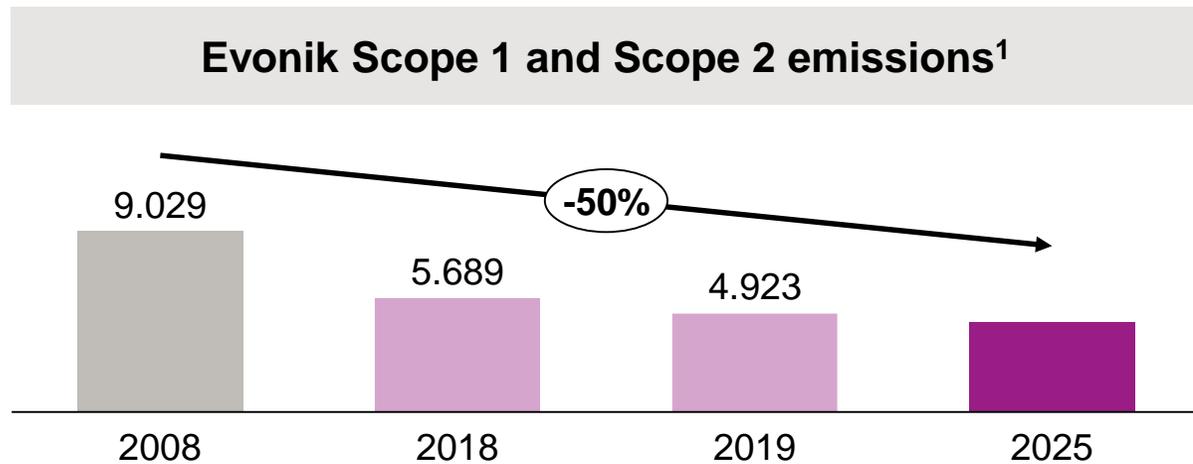
Challenged (C--)

### Next Generation Solutions

- >30% of Evonik's sales deliver material or strong material benefits in terms of sustainability
- Products address customers desire for sustainable solutions
- Next Generation Solutions include ...
  - established products like green tires, oil additives or water-borne coatings additives
  - innovations like active food packaging or thermal insulation

# Backup: Environmental Targets

## Ambitious greenhouse gas emission reduction targets



- Strong commitment to **"Paris Agreement on Climate Change"** reflected in implementation and execution on environmental targets
- **"Sustainability Strategy 2020+"** targets reduction of -50% of Scope 1 and Scope 2 emissions by 2025 (compared to base year 2008)
- Global **CO<sub>2</sub> pricing** used as an additional planning parameter for investment decisions

1. in thousand metric tons CO<sub>2</sub>eq