S&P Global
Ratings

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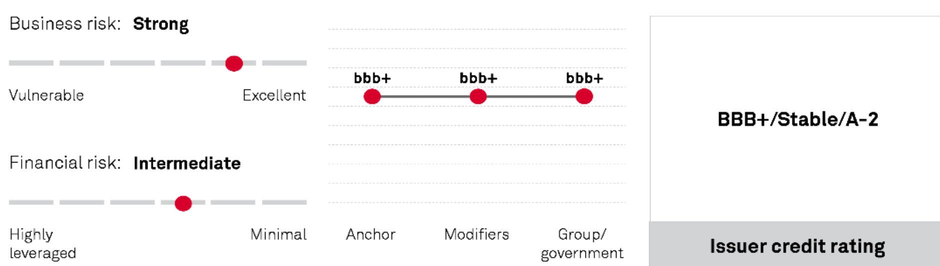
Evonik Industries AG

February 18, 2022

Ratings Score Snapshot



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Credit Highlights

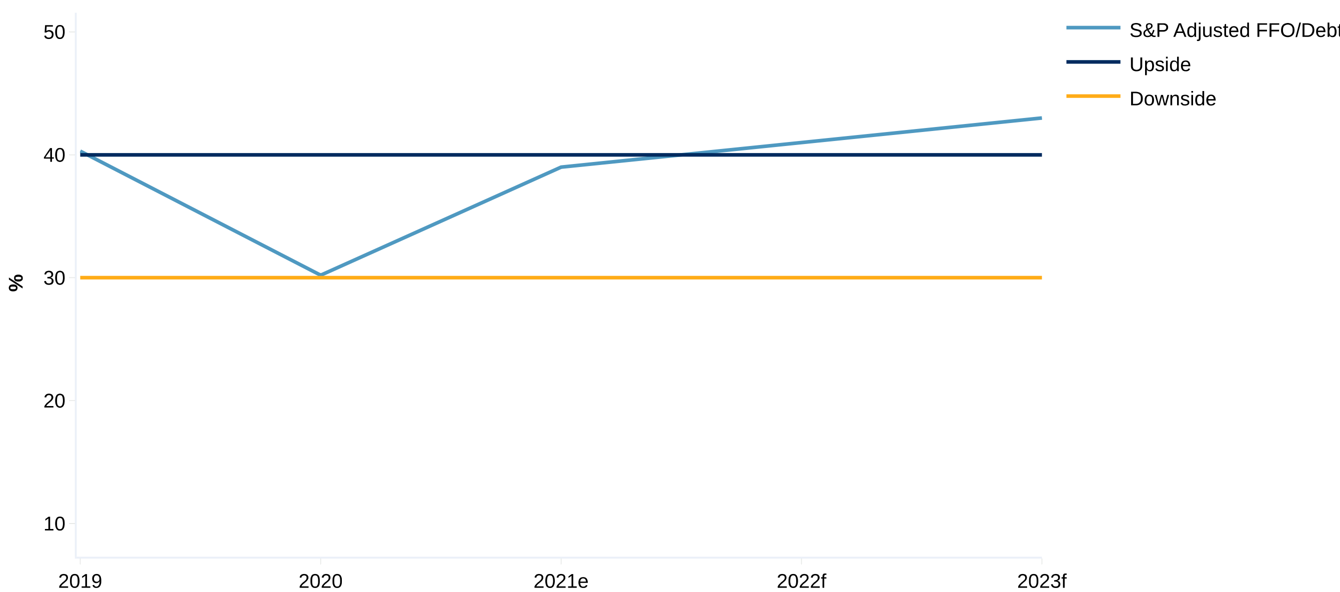
Overview

Key strengths	Key risks
Leading global specialty-chemicals manufacturer with healthy market positions and estimated 2021 revenue of about €14.5 billion	High concentration of revenue from the developed markets of Western Europe and North America (about 72% of 2020 revenue).
Significantly reduced exposure to cyclical and/or commoditized products following disposal of methyl methacrylates (MMA) business.	Exposure to some cyclical end-markets and volatile raw material prices, pressuring overall operating performance.
Average but resilient profitability overall, with potential improvement over the medium term thanks to cost-saving initiatives, portfolio transformation, and innovation.	Significant post-retirement obligations and limited flexibility of dividend payments.
Successful integration of recent acquisitions.	
Supportive financial policy and management's commitment to a solid investment-grade rating.	

In 2021, Evonik Industries restored rating headroom toward 2019 levels.

We calculate that the company's ratio of adjusted funds from operations (FFO) to debt increased to the upper end of 35%-40% at end-2021, close to the pre-pandemic level of about 40% at year-end 2019. It remains comfortably within the 30%-40% we view as commensurate with the 'BBB+' rating. Evonik posted a strong performance during the first nine months of 2021 on the back of post-pandemic macroeconomic recovery and improving demand. The company has indicated that positive trends continued in the final quarter of 2021 and now guides EBITDA of about €2.4 billion, which is at the top end of the previously mentioned range and up from €1.9 billion in 2020. In line with our macroeconomic forecasts, we factor in continued growth in 2022 due to growth from innovation fields and a ramp-up of new capacity (polyamide-12), and supported by its ability to mitigate cost inflation and carry out continued cost cutting.

Rating headroom is restored in 2021



Source: S&P Global Ratings.

Self-help measures are improving Evonik's cash generation.

The company's credit metrics should be supported by its strong focus on maintaining or improving its cash conversion rate through capital expenditure (capex) discipline, strict working capital management, pension reimbursements, lower bonuses and tax payments in 2021, and overall strict cost management. We factor in strong S&P Global Ratings-adjusted free operating cash flow (FOCF) of about €1.0 billion in 2021, in line with Evonik's increased public guidance. Evonik's cash conversion rate has roughly doubled over the past five years and it has closed the gap with its key peers.

S&P Global Ratings believes the new omicron variant is a stark reminder that the COVID-19 pandemic is far from over.

Although already declared a variant of concern by the World Health Organization, uncertainty still surrounds its transmissibility, severity, and the effectiveness of existing vaccines against it. Early evidence points toward faster transmissibility, which has led many countries to close their borders with Southern Africa or reimpose international travel restrictions. Over coming weeks, we expect additional evidence and testing will show the extent of the danger it poses to enable us to make a more informed assessment of the risks to credit. Meanwhile, we can expect a precautionary stance in markets, as well as governments to put into place short-term containment measures. Nevertheless, we believe this shows that, once again, more coordinated, and decisive efforts are needed to vaccinate the world's population to prevent the emergence of new, more dangerous variants.

Outlook

The outlook is stable because we expect Evonik will generate solid S&P adjusted EBITDA of €2.3 billion-€2.5 billion in 2021, despite pandemic headwinds, and achieve a similar range in 2022. We also factor in Evonik's financial policy commitment to a solid investment-grade rating and anticipate that dividends and acquisitions (if any) will be financed prudently. For 2021, we factor in a ratio of adjusted FFO to debt at the higher end of 35%-40%, comfortably within the 30%-40% we view as commensurate with the rating, and around 40% in 2022 and 2023.

Downside scenario

We could lower the ratings if we anticipate that our adjusted FFO to debt was to decline below 30% without the near-term prospect of recovery. This could be caused by a significant drop in profit due to a weaker market environment, or come from material debt-funded acquisitions.

Upside scenario

Upside rating potential could emerge over time if Evonik can maintain a resilient performance via a higher share of specialty chemicals in its product portfolio, visible EBITDA contributions from acquisitions and expansion projects, and a financial track record of adjusted FFO to debt of 40%-45%--including increased free cash flow after dividends. A financial policy commitment to a higher rating would be important for any upgrade considerations.

Our Base-Case Scenario

Assumptions

- After a global recession in 2020 and subsequent recovery in 2021 (estimated global GDP growth 5.6%); S&P Global Ratings expects the world economy to grow by 4.3% in 2022 and 3.7% in 2023. The eurozone is expected to grow by 5.1%, 4.4%, and 2.4%; and the U.S. by 5.5%, 3.9%, and 2.7% in 2021, 2022, and 2023 respectively.
- Revenues to increase by 16%-18% in 2021 due to a rebound in economic activity, followed by more normalized 3%-4% increases in 2022 and 2023.
- We expect S&P Global Ratings-adjusted EBITDA of €2.4 billion-€2.5 billion for 2021 and €2.4 billion-€2.5 billion in 2022 due to the company's self-help measures and synergies from high margin acquisitions (PeroxyChem and Porocel).
- We expect S&P Global Ratings-adjusted EBITDA margins to be structurally higher at 17%-18%, up from 15.4% in 2020.
- Capex of €900 million in 2021, which the company views as a sustainable level for the next few years..
- Dividends of €0.5 billion-€0.6 billion per year.

Key metrics

Company Name--Key Metrics*

Bil. €	2019a	2020a	2021e	2022f	2023f
EBITDA margin (%)	16.2	15.4	17.0-18.0	17.0-18.0	17.0-18.0
Funds from operations (FFO)	1.8	1.7	2.0-2.2	2.0-2.2	2.0-2.2
FFO to debt (%)	40.3	30.2	35-40	38-43	40-45

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

Industry conditions will remain a key driver of Evonik's performance in 2021 and 2022.

The company generates revenues from well-diversified end-markets (at least five major unrelated markets) and regions (EMEA, North America, APAC, and Central and South America). We therefore expect the post-vaccination increase in activities globally will support Evonik's performance this year and next amid strong global GDP growth of 5.6% in 2021 and 4.4% in 2022.

The specialty focused strategy is paying off, with credit metrics expected to be within our guided range for the current ratings.

Evonik's portfolio transformation focuses more on specialty products with higher margin and better growth trends, enabling it to generate stronger EBITDA. The specialty business represents almost 80% of EBITDA with a higher price spread and lower share of cost in end-products. Evonik has made cost-cutting measures and taken steps to realign its portfolio-like the planned divestment of the Baby Care business and the acquisitions of PeroxyChem and Porocel.

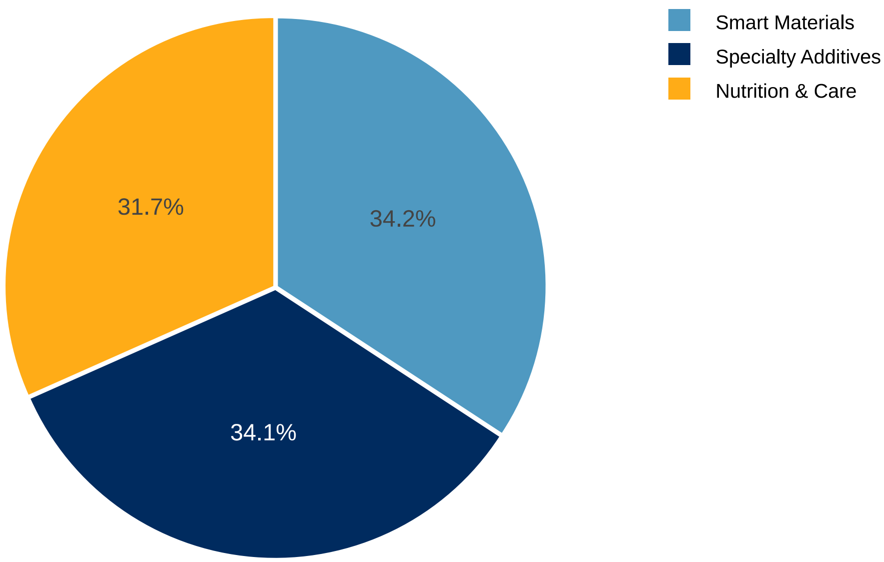
Company Description

Evonik is one of the leading specialty chemical companies, with about €12.2 billion of revenue reported in fiscal 2020 and likely over €14 billion in 2021. Evonik produces products like methionine, cosmetic ingredients, superabsorbent material, silica, polyamide 12, hydrogen peroxide, and C4 derivatives.

Evonik's businesses are organized in four divisions:

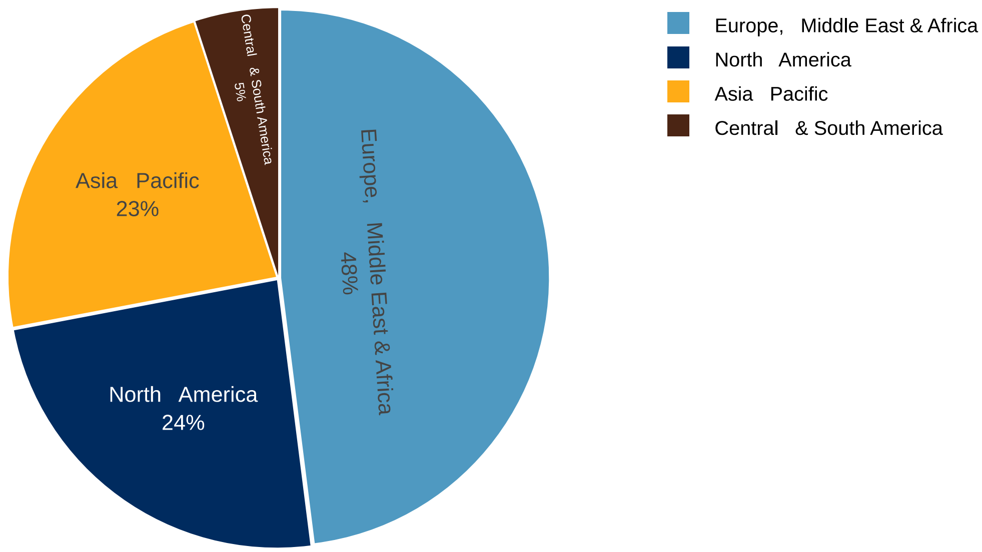
- Nutrition & Care: Animal nutrition, as well as health and personal care.
- Specialty Additives: Crosslinkers, coating additives, oil additives.
- Smart Material: Silica, catalysts, high performance polymers, among others.
- Performance Material: Baby care, performance intermediates, among others.

2020 Revenue by Division



Source: Evonik 2020 Annual Report

2020 Sales by Region



Source: Evonik 2020 Annual Report

Peer Comparison

Evonik Industries AG--Peer Comparisons

	Evonik	BASF	SOLVAY	EASTMAN CHEMICAL CO.	LANXESS AG
Foreign currency issuer credit rating	BBB+/Stable/A-2	A/Stable/A-1	BBB/Stable/A-2	BBB/Stable/A-2	BBB/Stable/A-2
Local currency issuer credit rating	BBB+/Stable/A-2	A/Stable/A-1	BBB/Stable/A-2	BBB/Stable/A-2	BBB/Stable/A-2
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2020-12-31	2020-12-31	2020-12-31	2020-12-31	2020-12-31
Mil.	EUR	EUR	EUR	EUR	EUR
Revenue	12,199	59,149	8,965	6,926	6,104

Evonik Industries AG--Peer Comparisons

EBITDA	1,884	6,661	1,716	1,394	764
Funds from operations (FFO)	1,723	5,695	1,471	1,083	565
Interest	108	649	187	184	74
Cash interest paid	78	371	149	165	68
Operating cash flow (OCF)	1,688	5,383	1,088	1,240	681
Capital expenditure	950	3,099	502	310	456
Free operating cash flow (FOCF)	738	2,284	586	930	225
Discretionary cash flow (DCF)	165	(855)	(425)	589	95
Cash and short-term investments	1,028	4,537	1,002	461	1,794
Gross available cash	1,028	4,537	1,121	461	1,794
Debt	5,706	23,116	4,958	5,161	1,682
Equity	8,348	34,398	6,404	4,993	3,244
EBITDA margin (%)	15.4	11.3	19.1	20.1	12.5
Return on capital (%)	6.2	3.3	5.6	8.2	22.9
EBITDA interest coverage (x)	17.5	10.3	9.2	7.6	10.3
FFO cash interest coverage (x)	23.2	16.4	10.9	7.6	9.3
Debt/EBITDA (x)	3.0	3.5	2.9	3.7	2.2
FFO/debt (%)	30.2	24.6	29.7	21.0	33.6
OCF/debt (%)	29.6	23.3	21.9	24.0	40.5
FOCF/debt (%)	12.9	9.9	11.8	18.0	13.4
DCF/debt (%)	2.9	(3.7)	(8.6)	11.4	5.6

Business Risk: Strong

Evonik's business risk profile is underpinned by the size and strong market position of its specialty chemicals, as well as its global market reach. The specialty business portfolio was further strengthened by the acquisitions of PeroxyChem and Porocel. Evonik intends to divest its Lülsdorf site, where it produces products like potassium derivatives or alkoxides (basic chemicals), and its Baby care business.

Evonik benefits from greater end-market and product-range diversity than most of its peers, while there are limited synergies between its business units. About one-quarter of its sales comes from nutrition and care products and about 15%-20% from the more cyclical auto end-markets. It also has well-diversified exposure to other end-markets. The group has a good track record in research and development, which accounts for 3.0%-3.5% of its annual sales.

We view Evonik's profitability as industry-average despite improvements in 2021 supported by efficiencies in groupwide selling, general, and administrative (SG&A) functions. Its cost position from 2021 onward will be further strengthened by the completion of its SG&A saving program and the ongoing cost optimization of its processes, portfolio, and supply chain.

The company's exposure to commoditized and/or cyclical products--including amino acids, C4 derivatives, and superabsorbers for baby care--has materially reduced compared with a few years ago. This has stemmed from the company's portfolio management and methionine prices having normalized since 2015. The EBITDA contribution from this single product has substantially decreased. We view these trends as having improved Evonik's portfolio quality, given the higher volatility of these products compared with the rest of its offerings and their sensitivity to economic cycles and supply-demand balances. Accordingly, the proportion of specialty businesses in Evonik's portfolio has increased to about 80% of EBITDA, which should result in somewhat lower earnings volatility. Historically, such volatility had also been driven by cyclical highs in methionine and the divested methacrylates business.

We note the enhancements to portfolio quality from recent acquisitions, and recognize Evonik's strategy to accelerate growth and attain a sustainable EBITDA margin of 18%-20% on average over the cycle through price increase, cost efficiencies, and a further shift toward specialty chemicals. In our view, a track record of sustainably better and stable margins would be a key indication of the strengthening business profile.

Financial Risk: Intermediate

Our view of Evonik's financial risk profile factors in our base-case forecast of adjusted FFO to debt at the higher end of 35%-40% in 2021 and the following year, up from 30% at year-end 2020. This restored Evonik’s comfortable headroom in 2021 on the back of an operational recovery and strong FOCF generation of about 40%.

In our base case, we expect the company to generate FOCF of about €1 billion in 2021, allowing it to deleverage gradually. This improvement in FOCF is supported by management's focus on improving Evonik's cash conversion rate by cutting capex, adopting strict working capital management, and offering lower bonus and tax payments in 2021.

We also factor in increased adjusted EBITDA to €2.4 billion-€2.5 billion in 2021, from 2020, leading to FFO of €2.1 billion. This is evident from the strong first-nine-months-2021 performance in which the company generated adjusted EBITDA of €1.9 billion and FFO of €1.7 billion. We also assume that the company will continue its focus on high-margin businesses via internal initiatives, external opportunities, and a shift toward specialty products in its portfolio.

We note Evonik's financial policy commitment to a solid investment-grade rating and assume that capex, dividends, and future acquisitions (if any) will be balanced appropriately or prudently funded, as demonstrated in previous transactions.

Evonik Industries AG--Financial Summary

Period ending	Dec-31-2015	Dec-31-2016	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020
Reporting period	2015a	2016a	2017a	2018a	2019a	2020a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	13,507	12,732	14,419	15,024	13,108	12,199
EBITDA	2,433	2,194	2,361	2,414	2,126	1,884
Funds from operations (FFO)	1,999	1,571	1,891	1,991	1,802	1,723
Interest expense	174	164	168	156	132	108
Cash interest paid	98	131	157	156	115	78
Operating cash flow (OCF)	2,019	1,820	1,624	1,783	1,287	1,688
Capital expenditure	908	942	1,036	1,026	872	950
Free operating cash flow (FOCF)	1,111	878	588	757	415	738
Discretionary cash flow (DCF)	620	318	16	183	(155)	165
Cash and short-term investments	2,733	4,940	1,163	1,128	2,368	1,028
Gross available cash	2,655	4,668	1,052	1,068	2,368	1,028
Debt	1,829	2,177	5,771	5,747	4,472	5,706
Common equity	7,576	7,750	7,777	8,073	9,309	8,348
Adjusted ratios						
EBITDA margin (%)	18.0	17.2	16.4	16.1	16.2	15.4

Evonik Industries AG--Financial Summary

Return on capital (%)	15.4	13.4	11.7	10.7	8.3	6.2
EBITDA interest coverage (x)	14.0	13.4	14.1	15.5	16.1	17.5
FFO cash interest coverage (x)	21.5	13.0	13.1	13.8	16.7	23.2
Debt/EBITDA (x)	0.8	1.0	2.4	2.4	2.1	3.0
FFO/debt (%)	109.3	72.2	32.8	34.6	40.3	30.2
OCF/debt (%)	110.4	83.6	28.1	31.0	28.8	29.6
FOCF/debt (%)	60.8	40.3	10.2	13.2	9.3	12.9
DCF/debt (%)	33.9	14.6	0.3	3.2	(3.5)	2.9

Reconciliation Of Evonik Industries AG Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

	Debt	Shareholder equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2020									
Company reported amounts	3,185	8,012	12,199	1,844	804	53	1,884	1,736	552	956
Cash taxes paid	-	-	-	-	-	-	(83)	-	-	-
Cash interest paid	-	-	-	-	-	-	(77)	-	-	-
Lease liabilities	653	-	-	-	-	-	-	-	-	-
Intermediate hybrids (debt)	(249)	249	-	-	-	(5)	5	5	5	-
Postretirement benefit obligations/ deferred compensation	3,023	-	-	(3)	(3)	54	-	-	-	-
Accessible cash and liquid investments	(928)	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	0	0	6	(6)	(6)	-	(6)
Dividends from equity investments	-	-	-	27	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	30	-	-	-	-	-

Reconciliation Of Evonik Industries AG Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

	Debt	Shareholder equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	(47)	-	-
Noncontrolling/ minority interest	-	87	-	-	-	-	-	-	-	-
Debt: Guarantees	22	-	-	-	-	-	-	-	-	-
EBITDA - Gain/(loss) on disposals of PP&E	-	-	-	12	12	-	-	-	-	-
EBITDA: Foreign exchange gain/(loss)	-	-	-	4	4	-	-	-	-	-
D&A: Impairment charges/ (reversals)	-	-	-	-	22	-	-	-	-	-
Total adjustments	2,521	336	0	40	65	55	(161)	(48)	5	(6)
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	5,706	8,348	12,199	1,884	869	108	1,723	1,688	557	950

Liquidity

Our short-term issuer credit rating on Evonik is 'A-2'. We view Evonik's liquidity as strong based on our estimate that sources will exceed uses by 2x over the 12 months from Sept. 30, 2021, and 0.8x over the subsequent 12 months. Evonik's debt documentation does not include any covenants and the group has a track record of addressing its maturities well ahead of time.

Principal liquidity sources

- At Sept. 30, 2021, about €0.8 billion of cash and €0.3 billion of marketable securities.
- A €1.75 billion undrawn revolving credit facility (RCF) maturing in June 2024. The facility is not subject to any financial covenants.
- FFO of €1.8 billion-€1.9 billion over the next 12 months, according to our base-case credit scenario.

Principal liquidity uses

- Short-term debt of €235 million at Sept. 30, 2021.
- Moderate working capital outflows of about €0.2 billion in the next 12 months, and €0.1 billion of peak intra-year working capital needs.
- Assumed capex of €0.8 billion-€0.9 billion.
- Dividends of €0.5 billion-€0.6 billion.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	**G-1**	G-2	G-3	G-4	G-5

- N/A	- N/A	- Risk management, culture, and oversight

N/A—Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

Environmental and social factors are an overall neutral consideration in our credit rating analysis of Evonik because it has migrated its product mix substantially to specialty chemicals (80% of total) through selling its resource-intensive methacrylates business in 2019 and making several targeted acquisitions. The company has embedded sustainability as a growth driver and already generates 35% of sales from products and solutions with a clearly positive sustainability profile (its "Next Generation Solutions"). Evonik's goal for the coming years is to increase the share of Next Generation Solutions in its portfolio. Governance factors are a moderately positive consideration, as reflected in the group's risk management systems and strategy of refocusing the business mix toward specialty chemicals, in line with best corporate practices.

Rating Component Scores

Foreign currency issuer credit rating	**BBB+/Stable/A-2**
Local currency issuer credit rating	**BBB+/Stable/A-2**
Business risk	**Strong**
Country risk	Low
Industry risk	Intermediate
Competitive position	Strong
Financial risk	**Intermediate**
Cash flow/leverage	Intermediate
Anchor	**bbb+**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Strong (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**bbb+**

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012

Related Research

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RatingsDetail

Ratings Detail (as of February 18, 2022)*

Evonik Industries	
Issuer Credit Rating	BBB+/Stable/A-2
Senior Unsecured	BBB+
Short-Term Debt	A-2
Subordinated	BBB-
Issuer Credit Ratings History	
09-May-2012	BBB+/Stable/A-2
06-May-2011	BBB/Stable/A-2
21-Sep-2010	BB+/Positive/B

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.