

EVONIK GROUP DEVELOPMENT

Highlights

- Adj. EBITDA of €728 m (+12% yoy) – pricing power intact
- Specialty Additives and Smart Materials as basis for strong Q2 with higher earnings both yoy and qoq; Performance Material with exceptionally strong spreads delivering a standout quarter
- Outlook for adj. EBITDA between €2.5 and 2.6 bn confirmed. With €1,462 m in H1, €2.6 bn is well underpinned even assuming a successive economic slowdown in H2 (~€1,140 m needed in H2)
- Risks around gas supply prevailing, tackled with up to 40% natural gas substitution in Germany through use of alternative energy sources
- H1 FCF of -€106 m burdened by ~€500 m higher NWC outflow yoy; inflow in H2 expected to achieve ~30% cash conversion for the full year

Energy Update

IR News on August 8th: **“Evonik is substituting up to 40% natural gas at its German sites”** ([Link](#))

- Energy supply at largest European sites largely secured even in case of Russian gas stop
- Usage of Liquefied Petroleum Gas at site in Marl as most significant measure
- Planned German gas levy will also be reduced by up to 40%

Income Statement

- **Sales** increased by 31% to €4,772 m (Q2 2021: €3,636 m)
 - Pricing campaigns accelerated further: +24% price effect in Q2 following +22% in Q1; all divisions posting double-digit price increases – a clear sign that pricing power is intact
 - Volumes overall slightly down (-2%)
 - Nutrition & Care (-6%) limited by China lockdowns and some customer destocking in Animal Nutrition
 - Performance Materials (-7%) negatively impacted by logistical challenges and reduced raw material availability
- **Adj. EBITDA** up 12% to €728 m (Q2 2021: €649 m)
 - Q2 continued on strong Q1 level despite €20 m costs for one-time payment to employees (mutual tariff agreement)
 - Higher prices again compensate higher variable costs in all divisions
 - Specialty Additives and Smart Materials with higher earnings both yoy and qoq
 - Health & Care continued strong growth yoy and stable qoq
 - Animal Nutrition impacted by China lockdowns
 - Performance Materials with extraordinary strong quarter and spreads for C4 business
 - Earnings supported by inventory revaluation effects (similar level as Q1), Performance Materials with biggest impact
- **Adj. EBITDA margin** decreased by 260bp to 15.2% (Q2 2021: 17.8%)
- **Adj. EBIT** of €456 m (Q2 2021: €398 m)
- **Adj. EPS** rising 39% to €0.75 (Q2 2021: €0.54), supported by positive financial result (higher discount rate on other provisions; provision release for tax interest)

Cash Flow Statement

- **H1 2022 free cash flow** of -€106 m lower vs. prior year (€413 m), impacted by:
 - significantly higher NWC outflow yoy (-€911 m vs -€399 m)
 - Increased raw material prices resulting in higher inventories (valuation) as well as higher receivables (increased sales base)
 - Additionally higher inventory levels due to more goods in transit and higher level of safety stocks
 - higher cash outflow for variable remuneration (for FY 2021)

Balance Sheet

- **Net financial debt** of €3,836 m (end of Q1 2022: €2,794 m); increase due to negative free cashflow and dividend payment in May
- **Pension provisions** almost halved to €1,780 m due to higher discount rate of now 3.30% (€3,166 m end of Q1 2022 at 1.90%)
- **Leverage** (adj. net debt / adj. EBITDA) of 2.1x (Q1 2022: 2.3x); net financial debt leverage of 1.4x

DIVISIONAL BUSINESS DEVELOPMENT

Specialty Additives (SP)

- Continued positive underlying end market dynamics across all businesses in a good pricing environment
- Crosslinkers with strong earnings momentum as a result of ongoing pricing campaigns to compensate higher raw mat costs
- Additives businesses with good pricing and solid demand especially in agro and industrial applications
- Volumes down slightly (-2%) against tough comparables (Q2 2021: +24%), still limited by logistics and ongoing raw material constraints
- Pricing campaigns accelerating further (with time-lag): +18% in Q2
- Gap between prices and variable costs closed in Q2 22, in addition some raw material prices start to flatten out, however logistics and energy costs remain elevated

Nutrition & Care (NC)

- Health & Care with continued strong growth yoy and stable qoq
- Care Solutions with continued strong volume growth and accelerating pricing esp. for active cosmetic ingredients and cosmetic solutions
- Health Care with slightly lower order pattern for drug delivery, catch-up in H2 expected
- Animal Nutrition with strong pricing for another quarter, volumes lower mainly due to lockdowns of major Chinese cities and some customer destocking

Smart Materials (SM)

- Double-digit EBITDA growth, driven by strong pricing
- Solid volume growth despite limitations by China lockdown, logistic issues and planned maintenance shutdown in PA12
- Continued strong growth in Silanes and Silica
- Project-based catalyst business supporting growth of the division
- Pricing campaigns accelerating further (with time-lag): +21%, following +16% in Q1 and +10% in Q4

Performance Materials (PM)

- Extraordinary strong quarter and spreads for C4 business
- Tight C4 markets in Q2, mainly supply-driven (several planned and unplanned shutdowns in Asia & US); markets relaxing into H2
- Naphtha price further supportive in Q2
- Q2 volumes negatively impacted by logistical challenges and reduced raw material availability; Q3 with planned maintenance in C4 operations in Marl, Germany
- Superabsorber with ongoing market recovery, Q2 negatively impacted by time lag in raw material pass-on

Technology & Infrastructure (T&I)/Other

- Clearly below prior year and usual run rate due to
 - higher energy costs (e.g. additional purchase of coal)
 - higher costs for power plants in Marl for the preparation of coal power plant for extended run-time and ramp-up of gas power plant using LPG
 - higher personnel costs (one-time payment to employees as result of mutual tariff agreement)
- Normalization in Q3 and Q4 leading to unchanged expectation for considerably less negative result in FY 2022

OUTLOOK FY 2022

Basis for the outlook

- GDP growth expectation lowered to 2.7% (previously: Q1: 3.3%)
- Internal raw material cost index significantly higher than in FY 2021

Group outlook

- With strong H1 performance as basis, EBITDA outlook for the year confirmed
- €2.6 bn well underpinned - even assuming a successive macro slowdown in second half of the year
- Energy supply:
 - Outlook based on sufficient gas supply to maintain production on necessary scale
 - Levy for higher costs from gas imports and gas storage in Germany included
 - Implementation of extensive measures to make energy production at European sites largely independent from further gas cuts
- **Sales:** between €17 and 18 bn (previously: between €15.5 and 16.5 bn; FY 2021: €15.0 bn)
- **Adj. EBITDA:** between €2.5 and 2.6 bn; €2.6 bn well underpinned (unchanged; FY 2021: €2,383 m)
- **FCF:** FCF conversion of around 30%, based on NWC cash inflow of ~€400-500 m in H2, leading to yoy lower absolute FCF (previously: stable FCF conversion of around 40% expected; FY 2021: cash conversion 40%; FCF €950 m)
- **Capex:** around long-term sustainable level of €900 m (unchanged; FY 2021: €865 m)
- **ROCE:** slightly above the level of 2021 (unchanged; FY 2021: 9.0%)

Divisional indications for adj. EBITDA

- **Specialty Additives:** “slightly above prior year level” (unchanged; FY 2021: €920 m)
- **Nutrition & Care:** “considerably above prior year level” (unchanged; FY 2021: €717 m)
- **Smart Materials:** “considerably above prior year level” (previously: significantly above PY; FY 2021: €650 m)
- **Performance Materials:** “significantly above prior year level” (previously: below prior year level; FY 2021: €317 m)

Additional indications (all unchanged)

- **EUR/USD sensitivity:** +/-1 USD cent = +/- ~€6 m adj. EBITDA (FY basis)
- **Adj. EBITDA T&I/Other:** considerably less negative than prior year level (unchanged; FY 2021: -€221 m)
- **Adj. D&A:** slightly above the level of 2021 (unchanged; FY 2021: €1,045 m)
- **Adj. net financial result:** slightly less negative than 2021 (unchanged; FY 2021: -€97 m)
- **Adj. tax rate:** around long-term sustainable level of ~30% (unchanged; FY 2021: 28%); higher compared to previous years, amongst others due to changes in international tax legislation

Key Financials Q2 2022

Evonik Group (continuing operations)

in € million	Q2 2021	Q2 2022	yoy Δ%	Q1 2022	Q2 2022	qoq Δ%	Q2 2022 Consensus*
External sales	3.636	4.772	31%	4.498	4.772	6%	4.445
<i>Volumes (%)</i>			-2%				1%
<i>Prices (%)</i>			24%				16%
<i>Exchange Rates (%)</i>			6%				5%
<i>Other (incl. M&A; %)</i>			4%				0%
Adjusted EBITDA	649	728	12%	735	728	-1%	700
Adjusted EBITDA Margin (%)	17,8%	15,2%	-2,6 pp	16,3%	15,2%	-1,1 pp	15,8%
Adjusted EBIT	398	456	15%	472	456	-3%	428
Adjustments	-18	-35		-16	-35		
EBIT	380	421	11%	456	421	-8%	
Adjusted net income	253	351	39%	356	351	-1%	300
Adjusted earnings per share in €	0,54	0,75	39%	0,76	0,75	-1%	0,66
Capex (cash-out)	171	165	-4%	176	165	-6%	
Net financial position (as of March 31)	-3.170	-3.836		-2.794	-3.836		
Cash flow from operating activities, cont. ops.	272	-74	-127%	309	-74	-124%	
Free cash flow, cont. ops.	101	-239	-337%	133	-239	>200%	

Specialty Additives

External sales	922	1.116	21%	1.049	1.116	6%	1.057
<i>Volumes (%)</i>			-2%				
<i>Prices (%)</i>			18%				
<i>Exchange Rates (%)</i>			5%				
<i>Other (incl. M&A; %)</i>			0%				
Adjusted EBITDA	242	263	9%	252	263	4%	247
Adjusted EBITDA Margin (%)	26,2%	23,6%	-2,6 pp	24,0%	23,6%	-0,4 pp	24,0%

Nutrition & Care

External sales	838	1.027	23%	1.038	1.027	-1%	1.002
<i>Volumes (%)</i>			-6%				
<i>Prices (%)</i>			21%				
<i>Exchange Rates (%)</i>			8%				
<i>Other (incl. M&A; %)</i>			0%				
Sales Animal Nutrition	417	543	30%	556	543	-2%	516
Sales Health & Care	421	484	15%	481	484	1%	495
Adjusted EBITDA	183	185	1%	222	185	-17%	200
Adjusted EBITDA Margin (%)	21,8%	18,0%	-3,8 pp	21,4%	18,0%	-3,4 pp	20,0%

Smart Materials

External sales	975	1.237	27%	1.181	1.237	5%	1.182
<i>Volumes (%)</i>			4%				
<i>Prices (%)</i>			21%				
<i>Exchange Rates (%)</i>			3%				
<i>Other (incl. M&A; %)</i>			-1%				
Sales Inorganics	686	898	31%	843	898	7%	807
Sales Polymers	289	339	17%	338	339	0%	342
Adjusted EBITDA	176	198	13%	197	198	1%	199
Adjusted EBITDA Margin (%)	18,1%	16,0%	-2,1 pp	16,7%	16,0%	-0,7 pp	17,0%

Performance Materials

External sales	708	1.043	47%	947	1.043	10%	929
<i>Volumes (%)</i>			-7%				
<i>Prices (%)</i>			45%				
<i>Exchange Rates (%)</i>			9%				
<i>Other (incl. M&A; %)</i>			0%				
Adjusted EBITDA	99	163	65%	97	163	68%	124
Adjusted EBITDA Margin (%)	14,0%	15,6%	1,6 pp	10,2%	15,6%	5,4 pp	12,7%

Technology & Infrastructure / Other

External sales	193	349	81%	283	349	23%	215
Adjusted EBITDA	-51	-81	-59%	-33	-81	-145%	-70

* Vara Consensus July 25, 2022