

EVONIK GROUP DEVELOPMENT

Highlights

- Solid results in an increasingly challenging market environment:
Adj. EBITDA of €615 m in Q3 – supported by a strong Specialty Additives performance (+8% yoy)
- Volumes decline, pricing holding up: Double-digit price increases across all growth divisions resulting in ongoing successful pass-on of higher variable costs
- Cash generation picking up with FCF of €288 m in Q3; further significant NWC improvement expected in Q4 to achieve ~30% cash conversion for the full year
- Outlook for FY 2022 confirmed: Adj. EBITDA between €2.5 and 2.6 bn
- Structural support for 2023: Resilient & regionally balanced portfolio setup, progress in Perf. Materials divestment, high visibility on energy costs & gas supply, contingency measure toolbox in implementation

Income Statement

- **Sales** increased by 26% to €4,878 m (Q3 2021: €3,871 m)
 - Another +17% pricing on already elevated prior-year basis; all divisions posting double-digit price increases
 - Revenues in T&I/Other +146% yoy (to €541 m vs €220 m prior-year quarter) due to energy purchasing for third parties
 - Volumes declining (-7%)
 - Performance Materials (-16%) negatively impacted by planned maintenance shutdown in Marl followed by force majeure of a supplier
 - Nutrition & Care (-10%) held back by ongoing customer destocking in Animal Nutrition and supply chain issues at several sites in Health Care
- **Adj. EBITDA** down 5% to €615 m (Q3 2021: €645 m)
 - Higher prices again compensate higher variable costs in all divisions
 - Lower volumes across majority of businesses impacting earnings
 - No impact from inventory revaluation in Q3
 - Specialty Additives proving resilience in challenging environment once more
 - Nutrition & Care facing supply chain issues in Health Care and destocking in Animal Nutrition; Care Solutions strong
 - Smart Materials with strong silica and silanes business, compensating lower PA12 volumes (limitations in raw materials) and weaker demand for H₂O₂
 - Performance Materials affected by spread normalization and maintenance in C4 chain after an exceptional Q2
- **Adj. EBITDA margin** declined to 12.6% (Q3 2021: 16.7%)
- **Adj. EBIT** of €342 m (Q3 2021: €387 m)
- **Adj. EPS** declining 6% to €0.54 (Q3 2021: €0.58)
 - Less negative adj. net financial result mainly due to higher interest income (higher discount rate on other provisions)

Cash Flow Statement

- **Free cash flow** positive in Q3 at €288 m (Q3 2021: €524 m)
 - Cash generation picking up in Q3 and pointing into the right direction – despite significant NWC headwind
 - Implemented inventory optimization measures starting to take effect and set to continue in Q4
- Free cash flow 9M 2022 at €182 m (9M 2021: €937 m)
 - Free cash flow remains heavily impacted by significantly higher NWC outflow yoy (delta ~€500 m yoy) driven mainly by inventories and payables
 - Additionally, yoy higher cash outflow for variable remuneration (in Q2 2022 for FY 2021)

Balance Sheet

- **Net financial debt** of €3,807 m; basically unchanged vs. end of Q2 2022 (€3,836 m)
- **Pension provisions** lower at €1,655 m (Q2 2022: €1,780 m) due to further slight decline in Q3 after another increase of pension discount rates (German pension discount rate increased from 3.3% to 3.9%)
- **Leverage** (adj. net debt / adj. EBITDA) of 2.0x (Q2 2022: 2.1x); net financial debt leverage of 1.4x

DIVISIONAL BUSINESS DEVELOPMENT

Specialty Additives (SP)

- Overall strong performance across all businesses – demonstrating resilience in tougher environment
- Price increases continue on similar strong level as Q2 (+18% yoy) and compensate for higher variable costs
- Volume declines in Europe and Asia, volume expansion in Americas
 - Good demand in agro, energy storage and release coatings
 - Weaker demand and destocking esp. from coatings and construction
 - Unplanned downtime in Crosslinkers

Nutrition & Care (NC)

- Care Solutions: Strong volumes and pricing esp. for cosmetic solutions and active cosmetic ingredients
- Health Care: weak quarter with supply chain issues at several sites resulting in lower deliveries to customers, catch-up in Q4
- Animal Nutrition: Only slow demand recovery in Q3 (qoq); ongoing customer destocking across all regions and impact of global inflation on meat consumption in low-income countries

Smart Materials (SM)

- Stable volumes despite weaker demand in construction and limitations in raw materials for PA12 (C4 maintenance)
- Continued strong growth in Silanes and Silica, driven by automotive demand, oral care, electronics and special oxides
- Active Oxygen's base business affected by current gas price
- High demand for "Eco-Solutions" like active oxygen specialties and gas separation membranes
- Price increases in same magnitude as previous quarter, continue to compensate higher variable costs

Performance Materials (PM)

- Lower earnings after exceptional Q2 driven by lower volumes in C4 business: Planned maintenance shutdown in Marl followed by force majeure of a supplier
- Weaker development across all C4 market segments, most pronounced in INA and plasticizers (lower demand from construction and automotive)
- C4 spreads down from peak levels, additional margin impact from lower Naphtha price and increased energy costs

Technology & Infrastructure (T&I)/Other

- Revenue up +146% yoy (to €541 m) due to energy purchasing for third parties (pass-through to customers, no effect on earnings)
- Adj. EBITDA clearly better yoy and qoq due to re-distribution of negative effects (esp. higher costs for power plants and energy purchasing) in Q2 to operating businesses

OUTLOOK FY 2022

Basis for the outlook

- GDP growth expectation lowered to 2.6% (previously (with Q2 reporting): 2.7%)
- Internal raw material cost index significantly higher than in FY 2021 (unchanged)

Group outlook

- EBITDA outlook for the year confirmed
 - Adj. EBITDA between €2.5 and 2.6 bn
 - Implying +7% growth yoy at mid-point
 - Strong 9M performance as basis (+10% yoy)
 - Assuming similar pace of macro slowdown for Q4 like in Q3
- Energy supply:
 - Outlook based on sufficient gas supply to maintain production on necessary scale
 - Extensive measures implemented to make energy production at European sites largely independent from Russian gas
- **Sales:** around €18.5 bn (previously: between €17 and 18 bn; FY 2021: €15.0 bn)
- **Adj. EBITDA:** between €2.5 and 2.6 bn (unchanged; FY 2021: €2,383 m)
- **FCF:** FCF conversion of around 30%, leading to yoy lower absolute FCF (unchanged; 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:** “on prior year level” (previously: considerably above prior year level; FY 2021: €717 m)
- **Smart Materials:** “considerably above prior year level” (unchanged; FY 2021: €650 m)
- **Performance Materials:** “significantly above prior year level” (unchanged; 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 Q3 2022

Evonik Group

in € million	Q3 2021	Q3 2022	yoy Δ%	Q2 2022	Q3 2022	qoq Δ%	Q3 2022 Consensus*
External sales	3,871	4,878	26%	4,772	4,878	2%	4,386
<i>Volumes (%)</i>			-7%				-5%
<i>Prices (%)</i>			17%				12%
<i>Exchange Rates (%)</i>			7%				5%
<i>Other (incl. M&A; %)</i>			9%				0%
Adjusted EBITDA	645	615	-5%	728	615	-16%	608
Adjusted EBITDA Margin (%)	16.7%	12.6%	-4.1 pp	15.2%	12.6%	-2.6 pp	14.0%
Adjusted EBIT	387	342	-12%	456	342	-25%	343
Adjustments	-14	-16		-35	-16		
EBIT	373	326	-13%	421	326	-23%	
Adjusted net income	269	253	-6%	351	253	-28%	238
Adjusted earnings per share in €	0.58	0.54	-6%	0.75	0.54	-28%	0.51
Capex (cash-out)	177	229	29%	165	229	39%	
Net financial position (as of March 31)	-2,741	-3,807		-3,836	-3,807		
Cash flow from operating activities, cont. ops.	701	517	-26%	-74	517	>200%	
Free cash flow, cont. ops.	524	288	-45%	-239	288	>200%	

Specialty Additives

External sales	934	1,113	19%	1,116	1,113	0%	1,037
<i>Volumes (%)</i>			-6%				
<i>Prices (%)</i>			18%				
<i>Exchange Rates (%)</i>			6%				
<i>Other (incl. M&A; %)</i>			1%				
Adjusted EBITDA	224	243	8%	263	243	-8%	227
Adjusted EBITDA Margin (%)	24.0%	21.8%	-2.2 pp	23.6%	21.8%	-1.8 pp	21.8%

Nutrition & Care

External sales	931	1,062	14%	1,027	1,062	3%	1,015
<i>Volumes (%)</i>			-10%				
<i>Prices (%)</i>			14%				
<i>Exchange Rates (%)</i>			9%				
<i>Other (incl. M&A; %)</i>			1%				
Sales Animal Nutrition	461	562	22%	543	562	3%	501
Sales Health & Care	470	500	6%	484	500	3%	507
Adjusted EBITDA	192	148	-23%	185	148	-20%	170
Adjusted EBITDA Margin (%)	20.6%	13.9%	-6.7 pp	18.0%	13.9%	-4.1 pp	16.8%

Smart Materials

External sales	1,002	1,259	26%	1,237	1,259	2%	1,132
<i>Volumes (%)</i>			-1%				
<i>Prices (%)</i>			20%				
<i>Exchange Rates (%)</i>			6%				
<i>Other (incl. M&A; %)</i>			1%				
Sales Inorganics	700	911	30%	898	911	1%	799
Sales Polymers	302	348	15%	339	348	3%	340
Adjusted EBITDA	177	177	0%	198	177	-11%	170
Adjusted EBITDA Margin (%)	17.7%	14.1%	-3.6 pp	16.0%	14.1%	-1.9 pp	15.0%

Performance Materials

External sales	784	903	15%	1,043	903	-13%	933
<i>Volumes (%)</i>			-16%				
<i>Prices (%)</i>			23%				
<i>Exchange Rates (%)</i>			8%				
<i>Other (incl. M&A; %)</i>			0%				
Adjusted EBITDA	97	74	-24%	163	74	-55%	83
Adjusted EBITDA Margin (%)	12.4%	8.2%	-4.2 pp	15.6%	8.2%	-7.4 pp	9.0%

Technology & Infrastructure / Other

External sales	220	541	146%	349	541	55%	275
Adjusted EBITDA	-45	-27	40%	-81	-27	67%	-33

* Vara Consensus October 17, 2022