# Evonik
# Leading Beyond Chemistry

Q3 2022
Earnings Conference Call

November 8th, 2022

**Christian Kullmann**, Chief Executive Officer
**Ute Wolf**, Chief Financial Officer

# Solid results in an increasingly challenging market environment

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 Performance Materials divestment, high visibility on energy costs & gas supply, contingency measure toolbox in implementation

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# Portfolio: Another step executed with sale of TAA derivatives
## Portfolio pruning also beyond Performance Materials divestment

**Portfolio pruning to optimize growth divisions**

**Divestment of Performance Materials**

July 2022

**October 2022**

2023

**US betaines business**

Successfully divested

**TAA derivatives**

- Portfolio pruning in growth divisions through ongoing sale of non-core activity
- Sale of TAA derivatives[1] (precursors for light stabilizers; ~€100 m sales) to SABO

**Superabsorber**

**Functional Solutions**

**Performance Intermediates**

Divestment projects progressing as planned

Aiming to find new owners/partners in the course of 2023

1. Part of Specialty Additives



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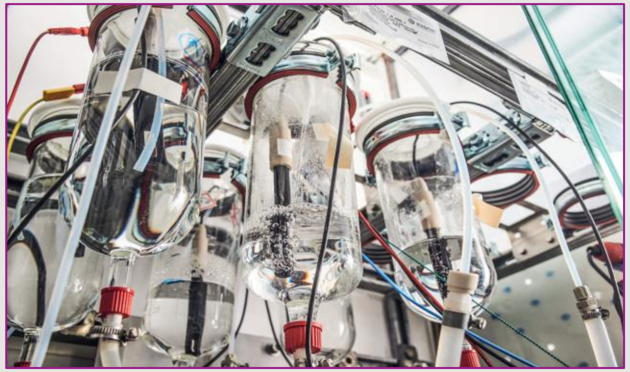
# Innovation: Enabler of sustainable change
## Energy situation as accelerator for footprint reduction

**Green tires even greener: with silica made from rice husk ash**

- Strategic cooperation with two suppliers in Europe and Asia to source “green sodium silicate”
- Main raw material for silica can be derived from rice husk ash, an agricultural waste product
- Resulting in silica for tires with **30% lower $CO_2$ footprint**
- Production starting in 2024

**Enabling better recycling of lithium used in EV batteries**

- Highly-efficient recycling of lithium using an electrochemical process with a ceramic membrane
- Generates high-purity lithium hydroxide, suitable for the manufacture of new batteries
- Technology currently being tested on a pilot scale, **market-ready in three to five years**





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# Sustainability: Long-term PPA signed with EnBW

## Covering 25% of European electricity needs of Evonik with wind energy


- PPA signed with EnBW for a new North Sea offshore wind park starting in 2026
- Delivery of 0.4 TWh to Evonik
- Covering 25% of Evonik's European electricity needs (~100 kt $CO_2$ emission reduction p.a.)
- Fixed conditions over 15 years (duration of contract)

**Significantly reducing dependency on availability and prices of conventional energy sources**



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# Q3 2022 results at a glance

| **Sales** (in € m) | **Adj. EBITDA** (in € m) | **Free cash flow** (in € m) | **Adj. EPS** (in €) |
|---|---|---|---|
| **4,878**<br>(Q3 2021: 3,871) | **615**<br>(Q3 2021: €645 m) | **288**<br>(Q3 2021: €524 m) | **0.54**<br>(Q3 2021: 0.58 €) |
| Volumes decline; another +17% pricing on already elevated prior-year basis | Solid results – Specialty Additives above and Smart Materials on prior-year level | Cash generation picking up thanks to improvement in inventories | Financial result and tax rate in-line with expectations and FY guidance |



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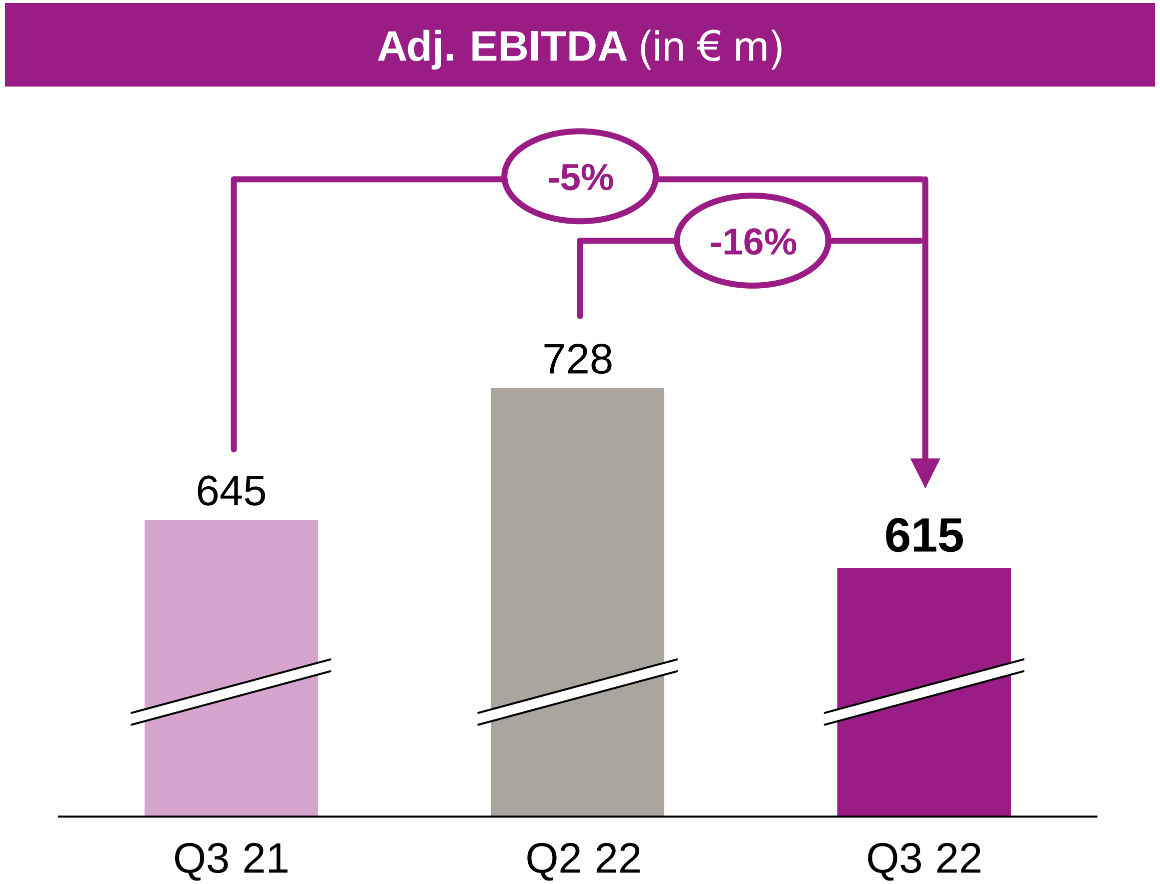
# Adj. EBITDA Q3 2022




- **Solid results** in an increasingly challenging environment
  - **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



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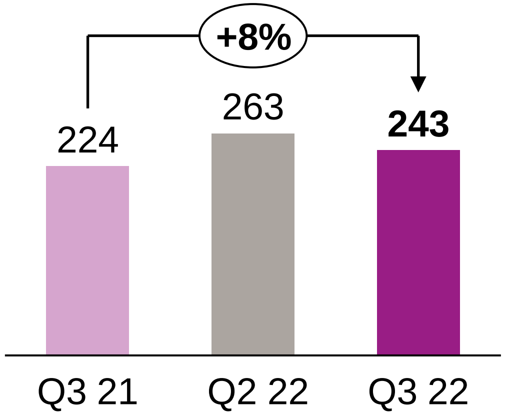
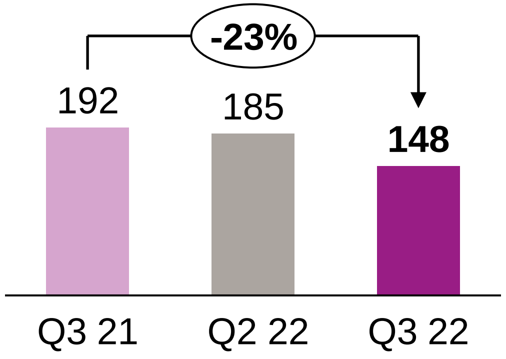
# Adj. EBITDA development by division

## Specialty Additives



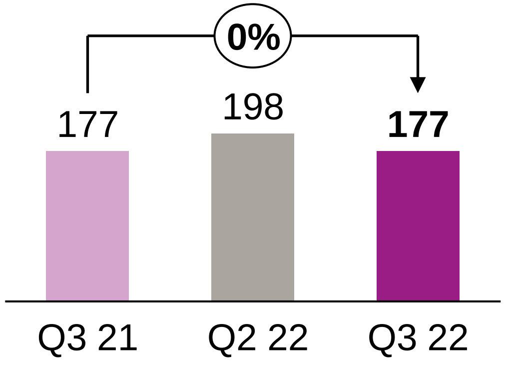

Proving resilience in challenging environment once more

## Nutrition & Care



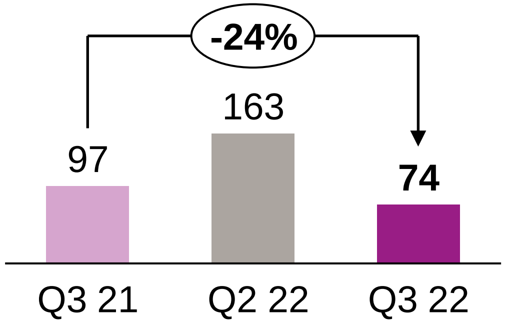

Supply chain issues in Health Care and destocking in Animal Nutrition;
Care Solutions strong

## Smart Materials




Strong silica and silanes business compensate lower PA12 volumes and weaker demand for $H_2O_2$

## Performance Materials




Spread normalization and maintenance in C4 chain after an exceptional Q2



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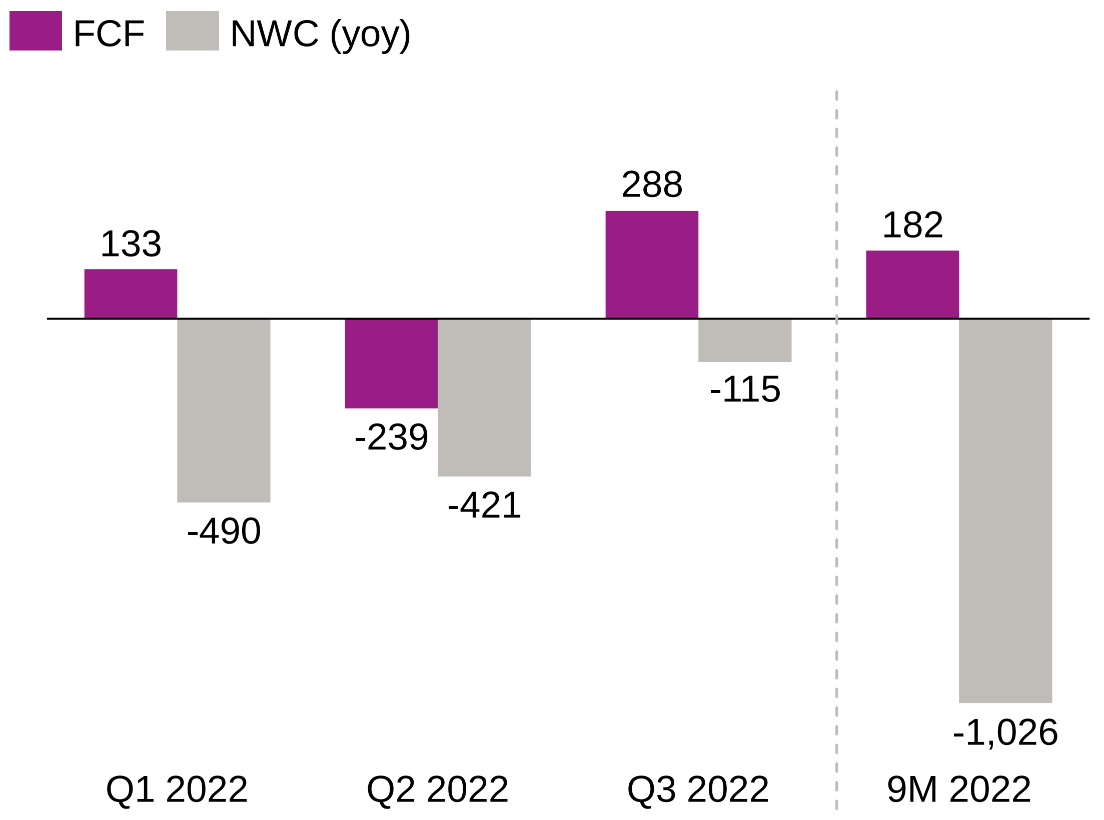
# Improving cash generation despite continued NWC headwinds

**Free Cash Flow** (in € m, continuing operations)




- **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

- After 9M 2022, free cash flow remains heavily impacted by **significantly higher NWC outflow yoy**
- Additionally, yoy higher cash outflow for variable remuneration (in Q2 2022 for FY 2021)

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# Structural support for 2023

## Resilient & regionally balanced portfolio setup

- Support from sustainability focus and defensive end markets
- Contribution from new PA12 plant
- Diversified, global asset footprint
- Competitive European operations

## Progress in Performance Materials divestment

- Divestment projects progressing as planned
- Aiming to find new owners/partners in the course of 2023
- Reducing exposure to Europe

## High visibility on energy costs and gas supply

- Good visibility on energy cost development – independent from political decisions
- Energy supply well secured
- Raw material & logistics costs beyond peak level

## Contingency measure toolbox in implementation

- Triple-digit million € additional cost savings
- Proven cash generation also in tougher times (41% conversion in 2020)
- Strong balance sheet and liquidity position



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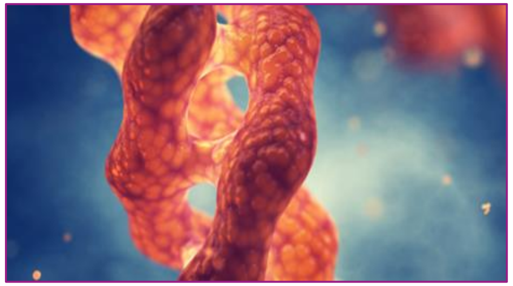
# Support from sustainability focus & defensive end markets

## Also in 2023 – largely independent of general macro trends

Additives
that make the
sustainable difference

**Renewable energy production**

- Growth driver: Increasing number of wind farms
  e.g. Crosslinkers for composite materials in wind turbine blades
  e.g. Oil Additives for wind turbine gear oils



Resilience & growth in
Health & Care

**Defensive end markets**

- Earnings growth 2023 expected for both Care Solutions and Health Care

**Strong growth from biotech platform**

- Ceramides, cell culture and CDMO projects as growth drivers

PA12:
New capacities into
favorable end markets

**New capacities**

- >50% capacity increase in attractive market
  creating the world's largest fully integrated PA12 network in Marl

**Various applications**

- >400 specific compounds and tailor-made formulations



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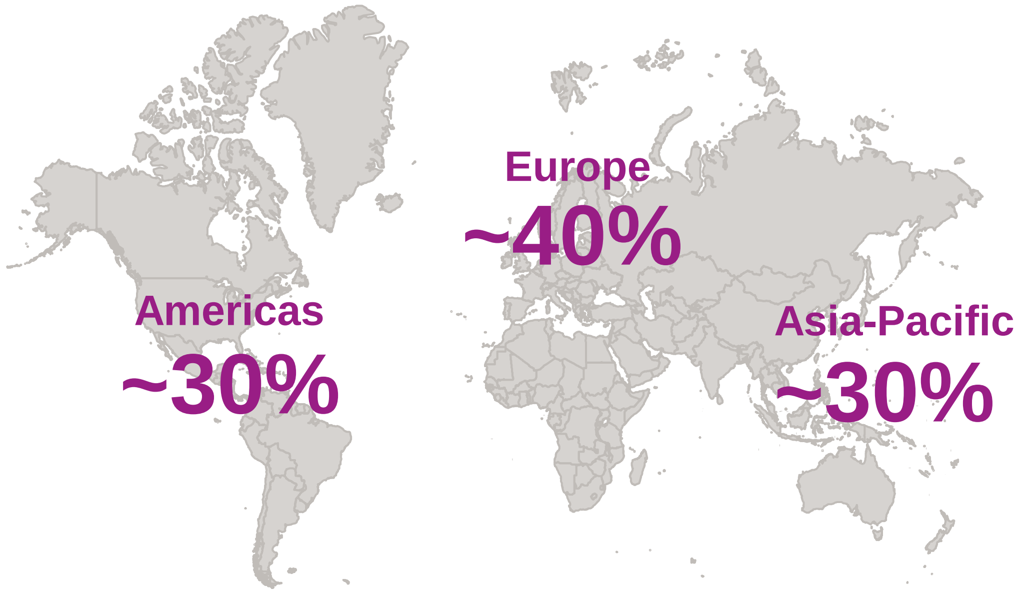
# Balanced global footprint – Clearly profitable in all regions

## Europe as profitable core region for Evonik

**Share of production volumes** (in kt, FY 2021)[1]




All major value chains with production hubs in all three key regions

**European business with high competitiveness**

**Portfolio**

- Focus on less energy-intensive businesses
- Frontrunner in sustainability

**Innovation**

- Innovation-driven, customer-centric solutions
- Value-based pricing

Clearly profitable across all value chains in Europe – now and in the future

1. Excl. Performance Materials



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# High visibility on energy costs and gas supply
## Independent from political decisions

**Evonik-specific advantages**

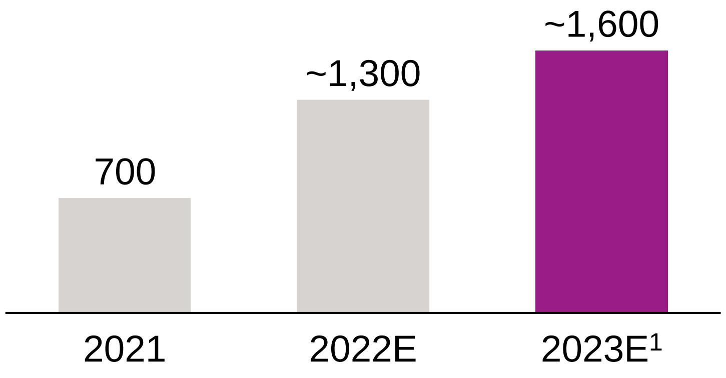
**Long-term hedging strategy**

**Gas substitution measures**
(up to 40% natural gas in Germany)

### We are in control:

- Cost increase 2023 will be below the increase of 2022
- Security on energy supply and costs largely independent from political decisions

**Energy costs** (in € m)




1. Excluding potential impact from gas price cap in Germany

# Contingency measure toolbox in implementation

## Triple-digit million € additional cost savings in 2023

**Learnings from 2020:**

- Contingency measure toolbox ready
- Will be executed immediately

### 1 Operations

- Reduce fixed cost base
- Capex discipline
- Strict NWC management
- Optimized maintenance schedules
- Discipline on projects with no immediate business impacts

### 2 Personnel

- Discipline on hiring & secondments
- Less business travel
- Discipline on wage increases and promotions

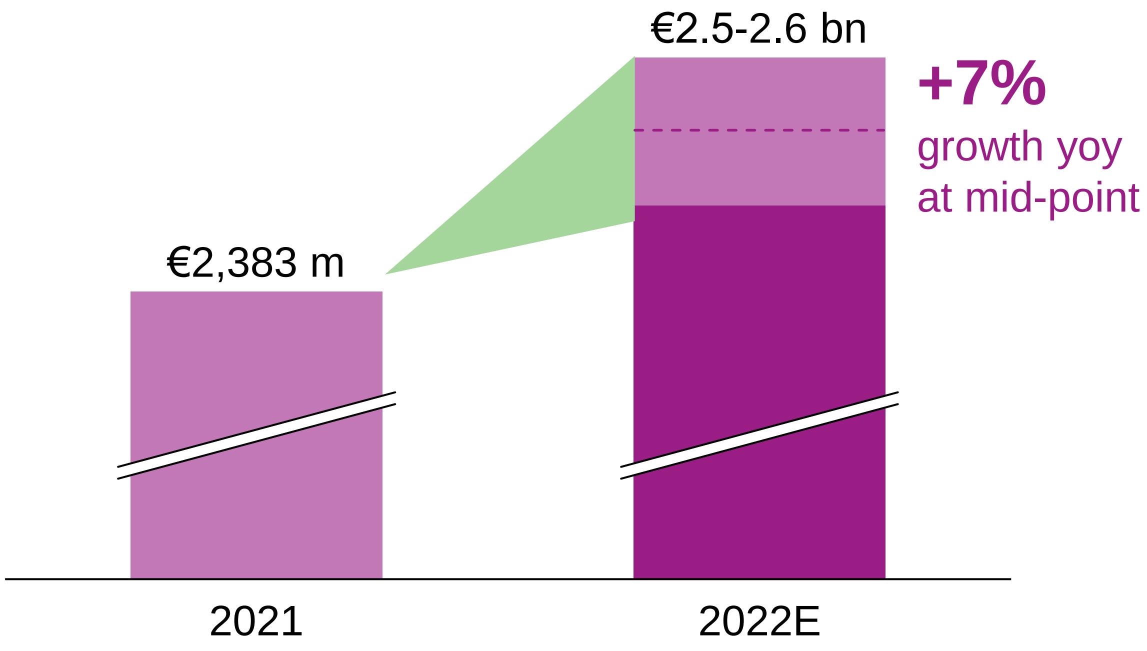
### 3 Other

- Less use of consultants
- Reduced fair and event participation
- Review of non-contracted sponsoring

**Triple-digit million € additional cost savings in 2023**

# FY 2022 outlook for adj. EBITDA "between €2.5 and 2.6 bn" confirmed

**"Adj. EBITDA between €2.5 and 2.6 bn"**

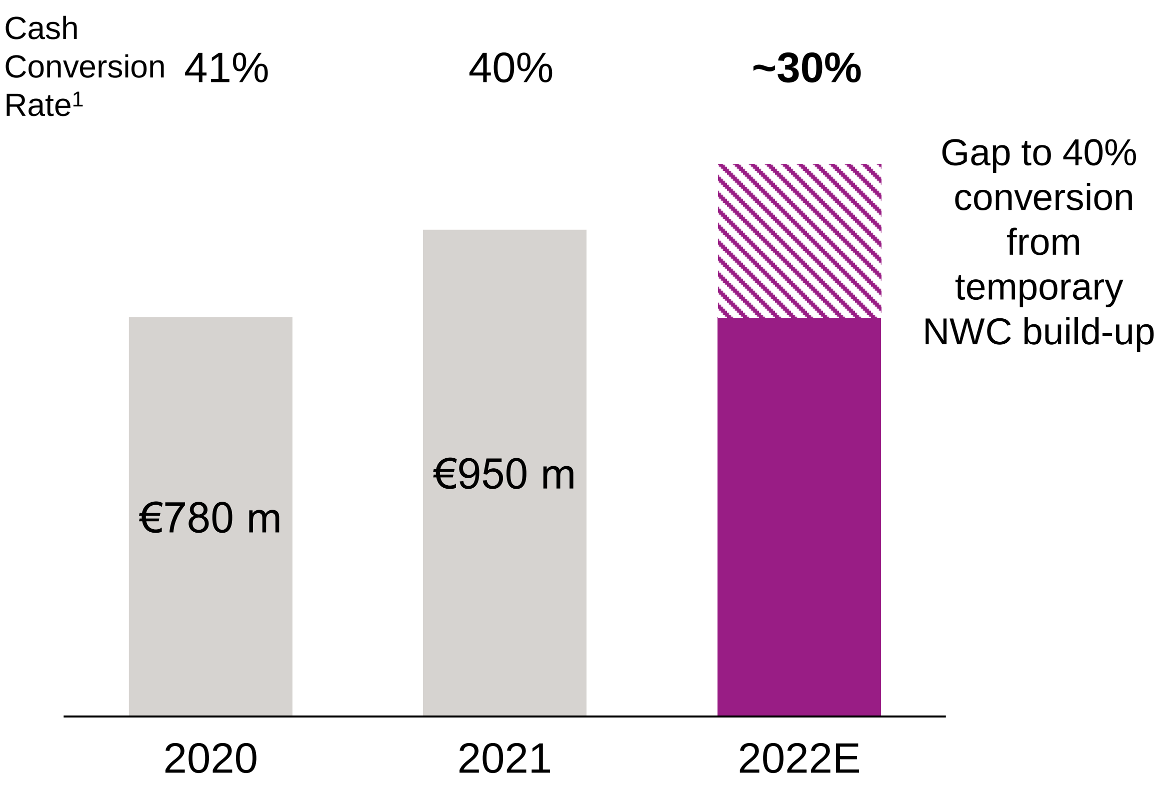



## Basis for the outlook

- 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

# FCF conversion “around 30%” confirmed

**“FCF conversion around 30%”**




1. Free cash flow conversion (FCF/adj. EBITDA)

## NWC impact in 2022 so far

- **~€1 bn NWC outflow in 9M** (yoy delta of ~€500 m) driven mainly by inventories and payables
- **Inventory optimization measures** started to take effect in Q3 and will continue in Q4

## Outlook

- **Significant NWC improvement** expected in Q4
- Leaving additional NWC reversal potential in 2023 to **return to 40% cash conversion**



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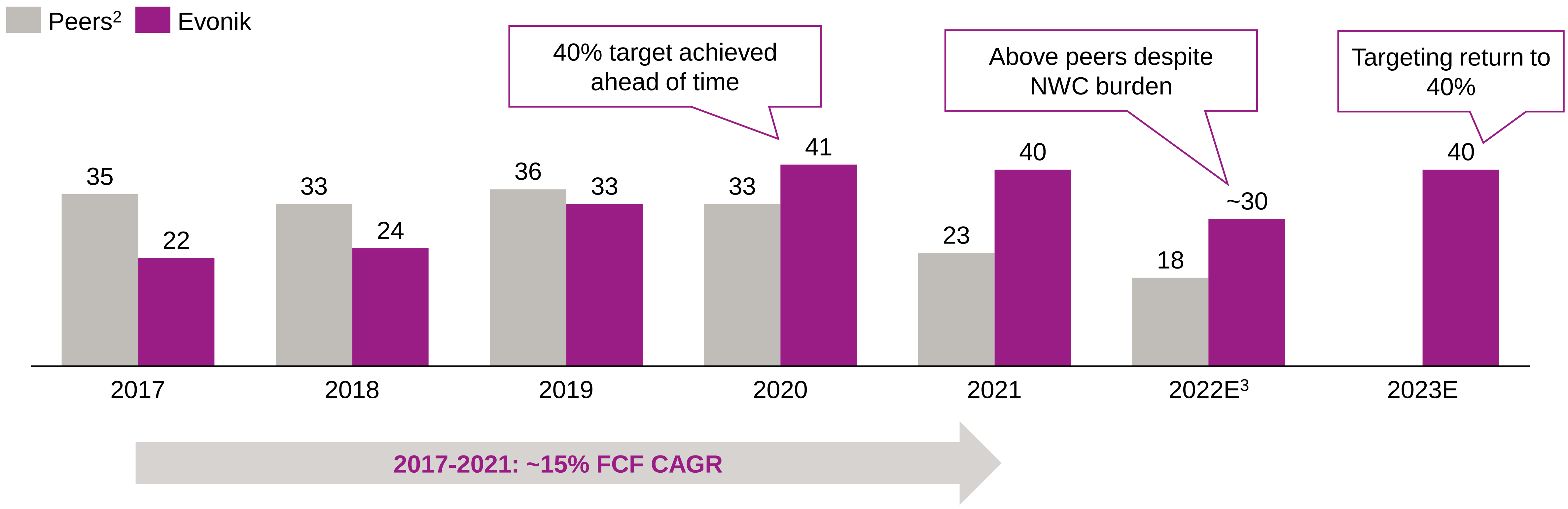
# Evonik with structural cash generation improvement – above peers

**FCF conversion** (in %)[1]




1. Free cash flow conversion (FCF/adj. EBITDA) | 2. Average of peer group: Arkema, BASF, Clariant, Covestro, DSM, Lanxess, Solvay | 3. Visible Alpha Consensus for peers, outlook for Evonik

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# Additional indications for FY 2022

| | |
|---|---|
| **Sales** | **around €18.5 bn** (previously: between €17 and 18 bn ; 2021: €15.0 bn) |
| **ROCE** | **slightly above the level of 2021** (unchanged; 2021: 9.0%) |
| **Capex**[1] | **around €900 m** (unchanged; 2021: €865 m) |
| **EUR/USD sensitivity**[2] | +/-1 USD cent = **-/+ ~€6 m** adj. EBITDA (FY basis) |
| **Adj. EBITDA T&I/Other** | **considerably less negative than prior year level** (unchanged; 2021: -€221 m) |
| **Adj. D&A** | **slightly above the level of 2021** (unchanged; 2021: €1,045 m) |
| **Adj. net financial result** | **slightly less negative than 2021** (unchanged; 2021: -€97 m) |
| **Adj. tax rate** | **around** long-term sustainable level of **~30%** (unchanged; FY 2021: 28%);<br>higher compared to previous years, amongst others due to changes in international tax legislation |

1. Cash outflow for investment in intangible assets, pp&e | 2. Including transaction effects (after hedging) and translation effects; before secondary / market effects

# Indications for adj. EBITDA FY 2022 on division level

## Specialty Additives

- Mission-critical solutions with superior sustainability profile supporting broad-based growth across additives portfolio
- Pricing initiatives continue to compensate higher input costs

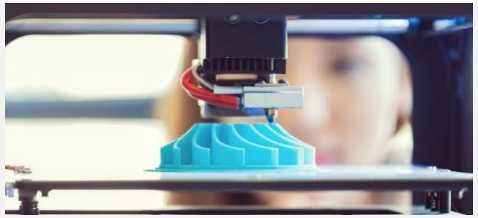
**“slightly above prior year level”**
(unchanged)

## Nutrition & Care

- Increasing share of “System Solutions” with above-average margin profile
- Positive price trend in Animal Nutrition
- Continued active cost & portfolio management

**“on prior year level”**
(previously: considerably above PY)

## Smart Materials



- Ongoing positive development in “Eco Solutions”
- Inorganics as key driver of positive earnings trajectory
- Pricing initiatives continue to compensate higher input costs

**“considerably above prior year level”**
(unchanged)

## Performance Materials

- Product spreads in C4 chain with clearly positive trends
- Superabsorber to benefit from improving market environment and long-term customer relationships

**“significantly above prior year level”**
(unchanged)



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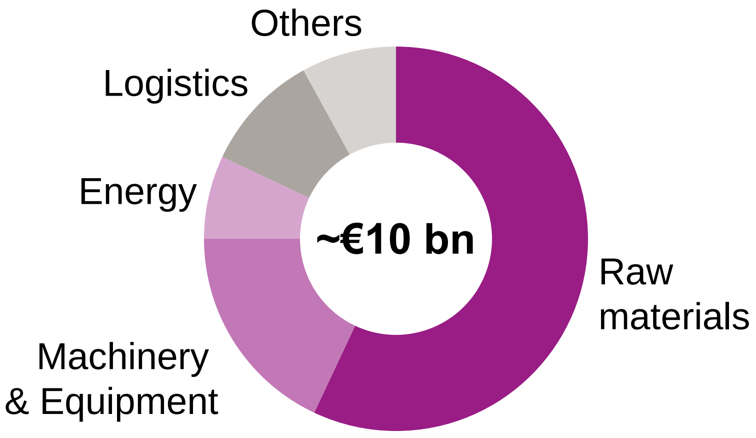
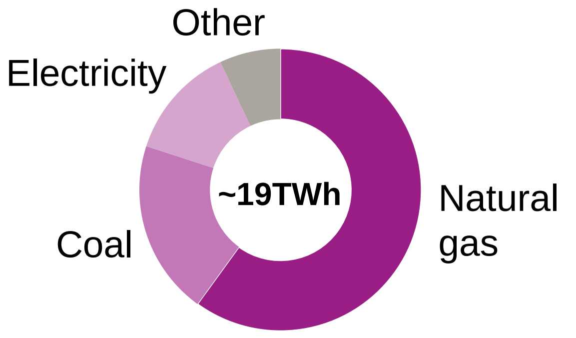
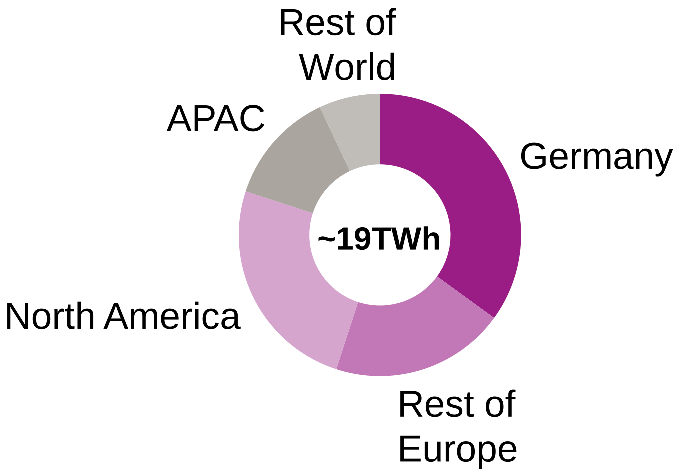
# Evonik energy and gas consumption

**Total procurement volume[1]**

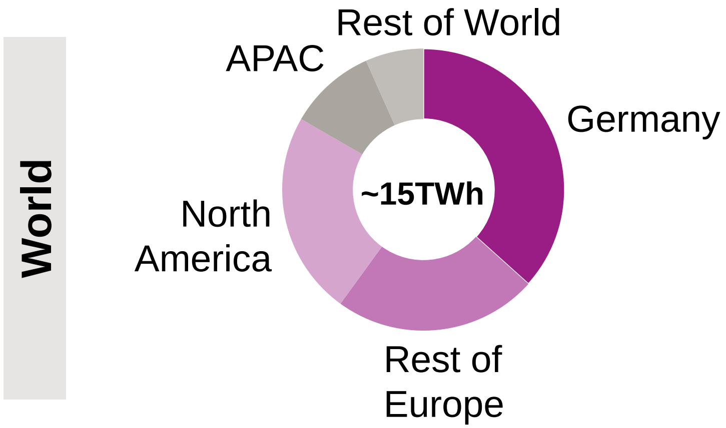


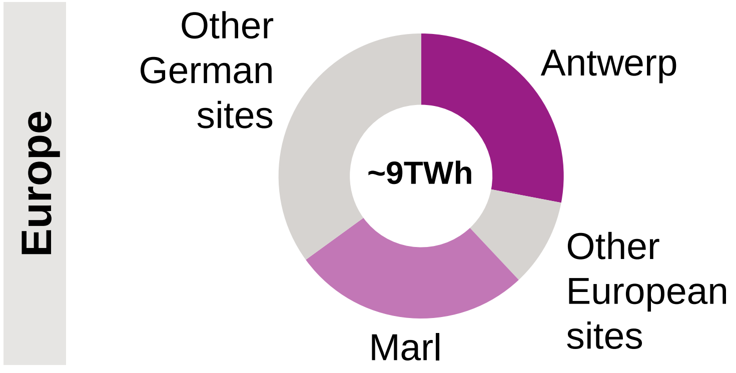

**Thereof: Energy[1, 2]**




**Total gas consumption[1, 3]**




1. FY 2021; gross energy bill, not considering the selling to external parties | 2. Does not include gas as raw material (~4 TWh globally) | 3. Includes gas as raw material



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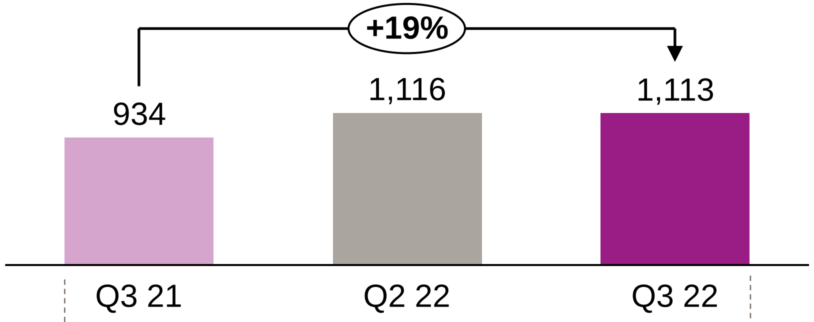
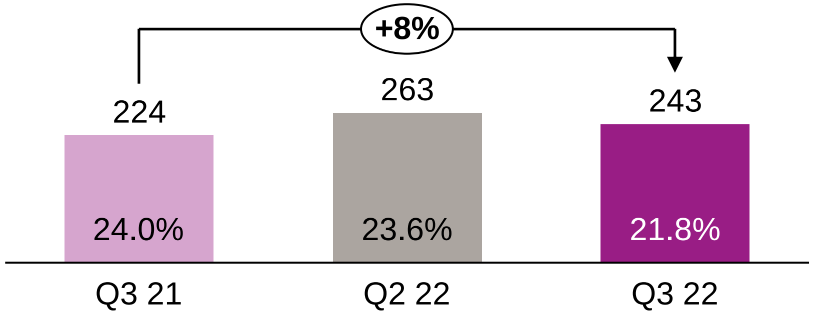
# Specialty Additives

**Sales**
(in € m)




| Q3 22 vs. Q3 21 | | | |
|---|---|---|---|
| Volume | Price | FX | Other |
| -6% | +18% | +6% | +1% |

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




- 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

**Sales**
(in € m)

Animal Nutrition
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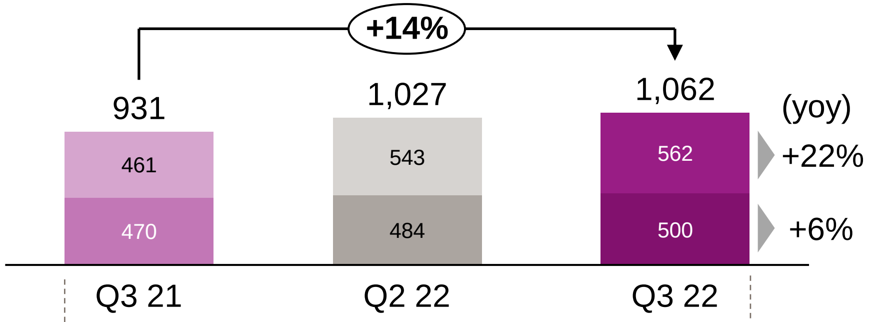
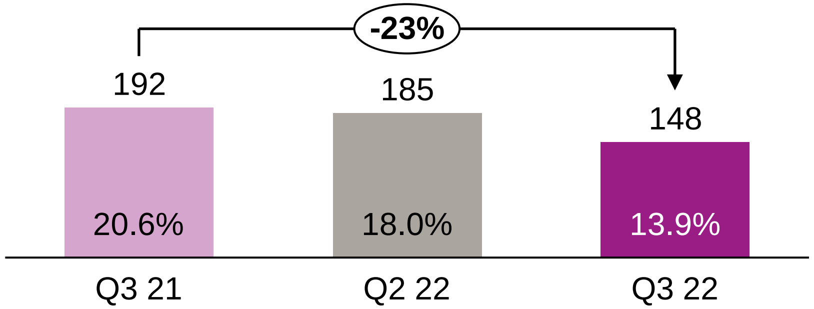
Health & Care




| Q3 22 vs. Q3 21 | | | |
|---|---|---|---|
| Volume | Price | FX | Other |
| -10% | +14% | +9% | +1% |

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




- **Health & Care:**
  - 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



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# Smart Materials

**Sales**
(in € m)

Inorganics
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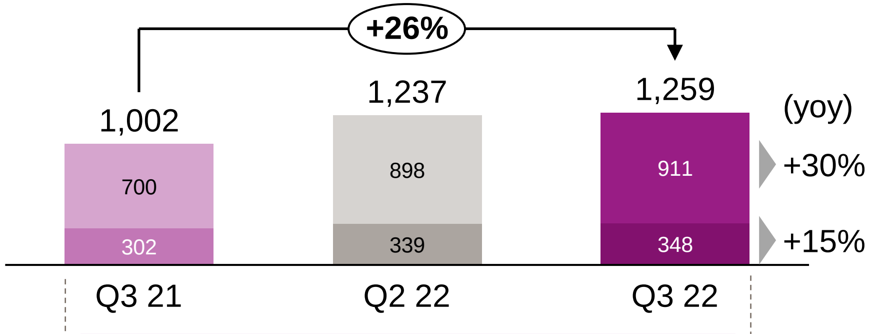
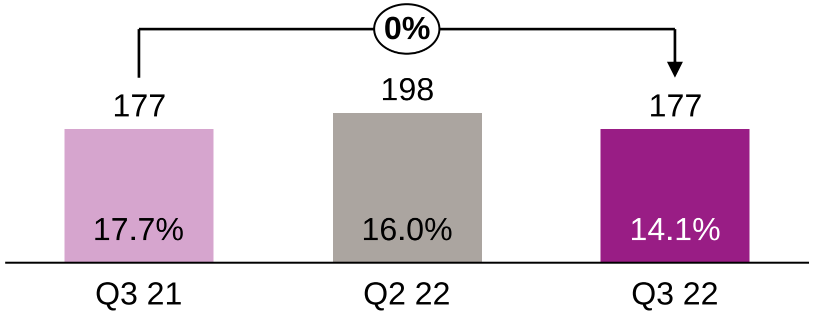
Polymers

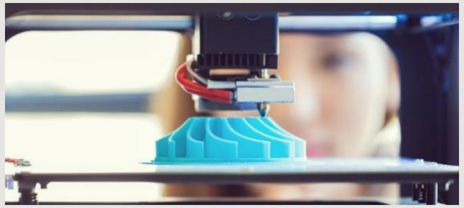



| Q3 22 vs. Q3 21 | | | |
|---|---|---|---|
| Volume | Price | FX | Other |
| -1% | +20% | +6% | +1% |

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




- 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





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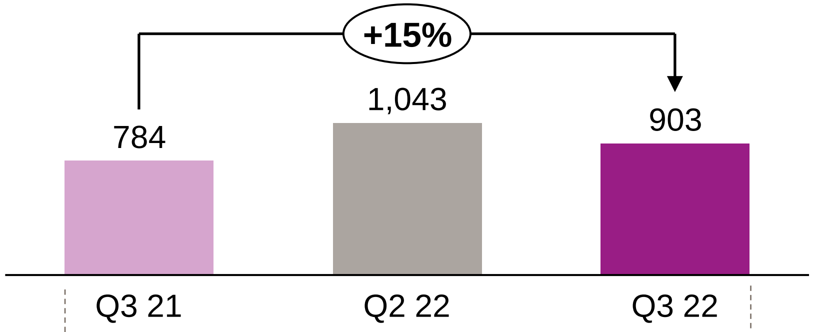
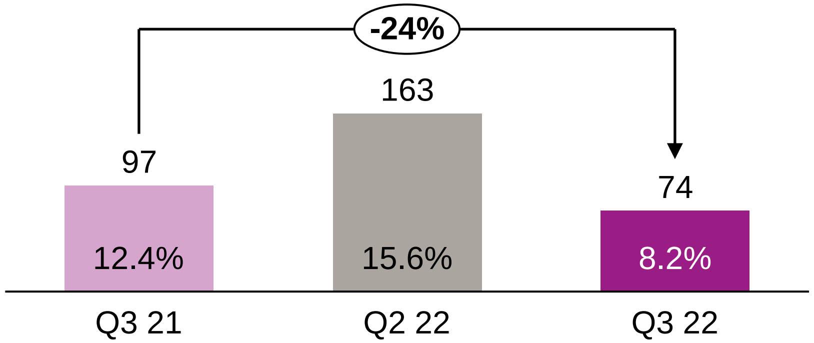
# Performance Materials

**Sales**
(in € m)




| Q3 22 vs. Q3 21 | | | |
|---|---|---|---|
| Volume | Price | FX | Other |
| -16% | +23% | +8% | +/-0% |

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




- 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



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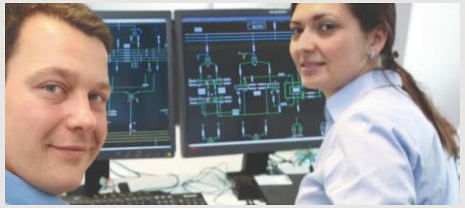
# Technology & Infrastructure (T&I) / Other

**Adj. EBITDA**
(in € m)


- 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



# Adjusted income statement Q3 2022

| in € m | Q3 2021 | Q3 2022 | ∆ in % |
|---|---|---|---|
| **Sales** | **3,871** | **4,878** | **+26** |
| **Adj. EBITDA** | **645** | **615** | **-5** |
| Depreciation & amortization | -258 | -273 | |
| **Adj. EBIT** | **387** | **342** | **-12** |
| Adj. net financial result | -37 | -21 | |
| D&A on intangible assets | 37 | 39 | |
| **Adj. income before income taxes** | **387** | **360** | **-7** |
| Adj. income tax | -113 | -106 | |
| **Adj. income after taxes** | **274** | **254** | **-7** |
| Adj. non-controlling interests | -5 | -1 | |
| **Adj. net income** | **269** | **253** | **-6** |
| **Adj. earnings per share** | **0.58** | **0.54** | |
| Adjustments | -14 | -16 | |

**Adj. net financial result** (-€21 m)

- Higher interest income, mainly due to higher discount rate on other provisions

**Adj. tax rate** (29%)

- Slightly below FY guidance of 30%

**Adjustments** (-€16 m)

- Restructuring: mainly charges related to the intended divestment of Performance Materials
- M&A: Integration of previous acquisitions



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# Cash flow statement Q3 2022

| in € m | Q3 2021 | Q3 2022 |
|---|---|---|
| Income before financial result and income taxes (EBIT) | 373 | 326 |
| Depreciation and amortization | 260 | 275 |
| ∆ Net working capital | -159 | -115 |
| Change in provisions for pensions & other post-employment benefits | 10 | -5 |
| Change in other provisions | 163 | 85 |
| Change in miscellaneous assets/liabilities | 40 | 12 |
| Cash in- and outflows from income taxes | 15 | -59 |
| Others | -1 | -2 |
| **Cash flow from operating activities** (continuing ops.) | **701** | **517** |
| Cash outflows for investment in intangible assets, pp&e | -177 | -229 |
| **FCF** | **524** | **288** |
| **Cash flow from investing activities** (continuing ops.) | **-315** | **-188** |
| **Cash flow from financing activities** (continuing ops.) | **-83** | **27** |

**CF from operating activities** (€517 m)

- Lower NWC outflow yoy, following substantially higher yoy outflow in Q1 & Q2 (>-€400 m each)
- Other provisions: yoy lower contribution to bonus provisions
- Normalized tax payment after inflow in last year

**CF from investing activities** (-€188 m)

- Capex catching-up after yoy lower outflows in Q1 and Q2
- Inflow from sale of securities

**CF from financing activities** (€27 m)

- Inflow from Schuldschein largely compensated by outflow for other financing activities



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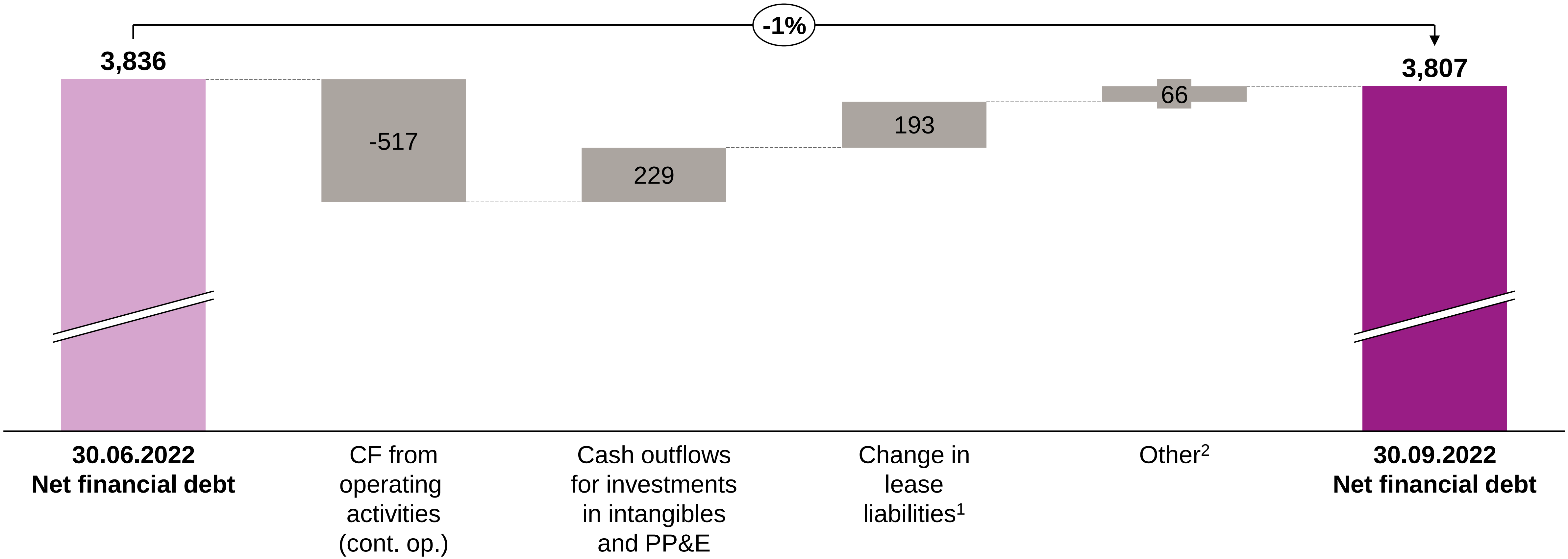
# Net financial debt development Q3 2022

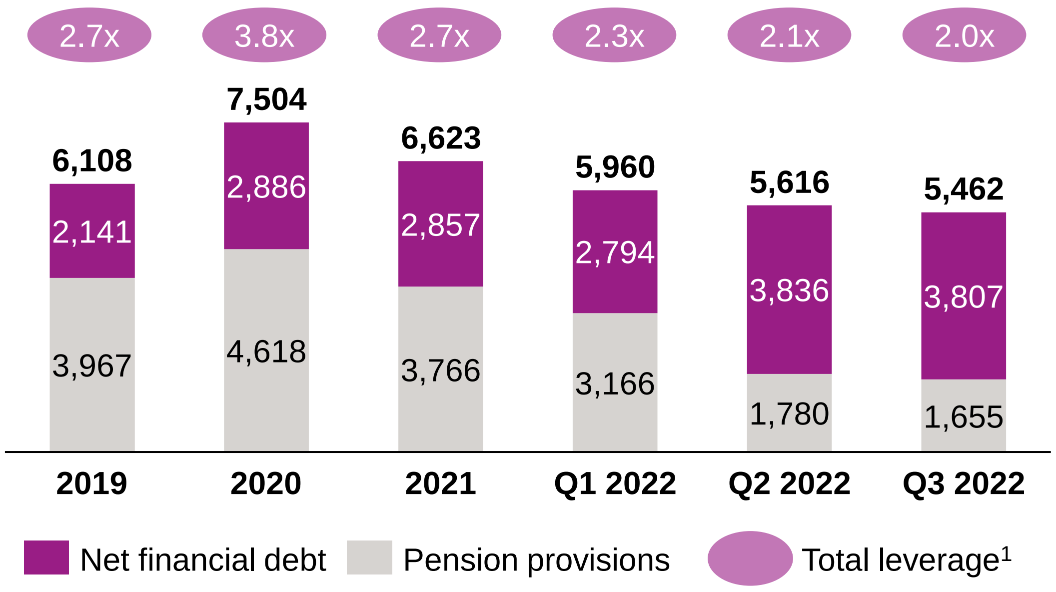
(in € m)




1. Attributable to the new gas power plant in Marl | 2. Incl. outflows for financial transactions and interest payments

# Development of net debt and leverage over time

(in € m)




| | 2019 | 2020 | 2021 | Q1 2022 | Q2 2022 | Q3 2022 |
|---|---|---|---|---|---|---|
| **Adj. net debt[2]** | 5,858 | 7,254 | 6,373 | 5,710 | 5,365 | 5,211 |
| **Adj. EBITDA (last 12 months)** | 2,153 | 1,906 | 2,383 | 2,530 | 2,609 | 2,579 |
| **German pension discount rate (%)** | 1.30 | 0.90 | 1.30 | 1.90 | 3.30 | 3.90 |

## Net financial debt (€3,807 m)

- Basically unchanged vs. last quarter-end
- Still low net financial debt leverage at 1.4x[3]

## Pension provisions (€1,655 m)

- Long-dated pension obligations with >18 years duration
- Further slight decline in Q3 due to another increase of pension discount rates (German pension discount rate increase from 3.3% to 3.9%)
- Pension provisions partly balanced by corresponding deferred tax assets of ~€0.7 bn

1. Adj. net debt / adj. EBITDA | 2. Net financial debt – 50% hybrid bond + pension provisions | 3. (Net financial debt – 50% hybrid bond) / adj. EBITDA

# Divisional overview by quarter

| **Sales** (in € m) | Q1/21 | Q2/21 | **Q3/21** | Q4/21 | FY 2021 | Q1/22 | Q2/22 | **Q3/22** |
|---|---|---|---|---|---|---|---|---|
| Specialty Additives | 907 | 922 | **934** | 947 | 3,710 | 1,049 | 1,116 | **1,113** |
| Nutrition & Care | 780 | 838 | **931** | 1,008 | 3,557 | 1,038 | 1,027 | **1,062** |
| Smart Materials | 909 | 975 | **1,002** | 1,032 | 3,918 | 1,181 | 1,237 | **1,259** |
| Performance Materials | 580 | 708 | **784** | 840 | 2,911 | 947 | 1,043 | **903** |
| Technology & Infrastructure (T&I) / Other | 182 | 193 | **220** | 264 | 859 | 283 | 349 | **541** |
| **Evonik Group** | 3,358 | 3,636 | **3,871** | 4,091 | 14,955 | 4,498 | 4,772 | **4,878** |

| **Adj. EBITDA** (in € m) | Q1/21 | Q2/21 | **Q3/21** | Q4/21 | FY 2021 | Q1/22 | Q2/22 | **Q3/22** |
|---|---|---|---|---|---|---|---|---|
| Specialty Additives | 273 | 242 | **224** | 181 | 920 | 252 | 263 | **243** |
| Nutrition & Care | 143 | 183 | **192** | 200 | 717 | 222 | 185 | **148** |
| Smart Materials | 173 | 176 | **177** | 123 | 650 | 197 | 198 | **177** |
| Performance Materials | 42 | 99 | **97** | 80 | 317 | 97 | 163 | **74** |
| Technology & Infrastructure (T&I) / Other | -43 | -51 | **-45** | -82 | -221 | -33 | -81 | **-27** |
| **Evonik Group** | 588 | 649 | **645** | 502 | 2,383 | 735 | 728 | **615** |

# Upcoming IR events

| Conferences & roadshows | |
|---|---|
| **November 15, 2022** | Roadshow London (KeplerCheuvreux) |
| **November 23, 2022** | Roadshow Frankfurt (MainFirst) |
| **November 30, 2022** | BofA Materials & Infrastructure Conference, London |
| **December 1, 2022** | Societe Generale The Premium Review Conference, Paris |
| **January 6, 2023** | Oddo BHF Forum, Lyon |

| Upcoming reporting dates | |
|---|---|
| **March 2, 2023** | Q4 / FY 2022 Reporting |
| **May 9, 2023** | Q1 2023 Reporting |
| **May 31, 2023** | Annual General Meeting |
| **August 4, 2023** | Q2 2023 Reporting |
| **November 7, 2023** | Q3 2023 Reporting |

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