

# Evonik

# Leading Beyond Chemistry

Q2 2022  
Earnings Conference Call

August 10<sup>th</sup>, 2022

**Christian Kullmann**, Chief Executive Officer

**Ute Wolf**, Chief Financial Officer

# Q2 continues on strong Q1 level – Outlook for adj. EBITDA confirmed

Adj. EBITDA of €728 m in Q2 (+12% yoy) – pricing power intact

Specialty Additives and Smart Materials as basis for strong Q2 with higher earnings both yoy and qoq;  
Performance Materials 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 well underpinned even assuming a successive economic slowdown 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

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# Next Generation Evonik

## Embarking on the next phase of our transformation

Three major strategic levers ...

... with sustainability fully integrated ...

... delivering on ambitious targets

### Next Generation Portfolio

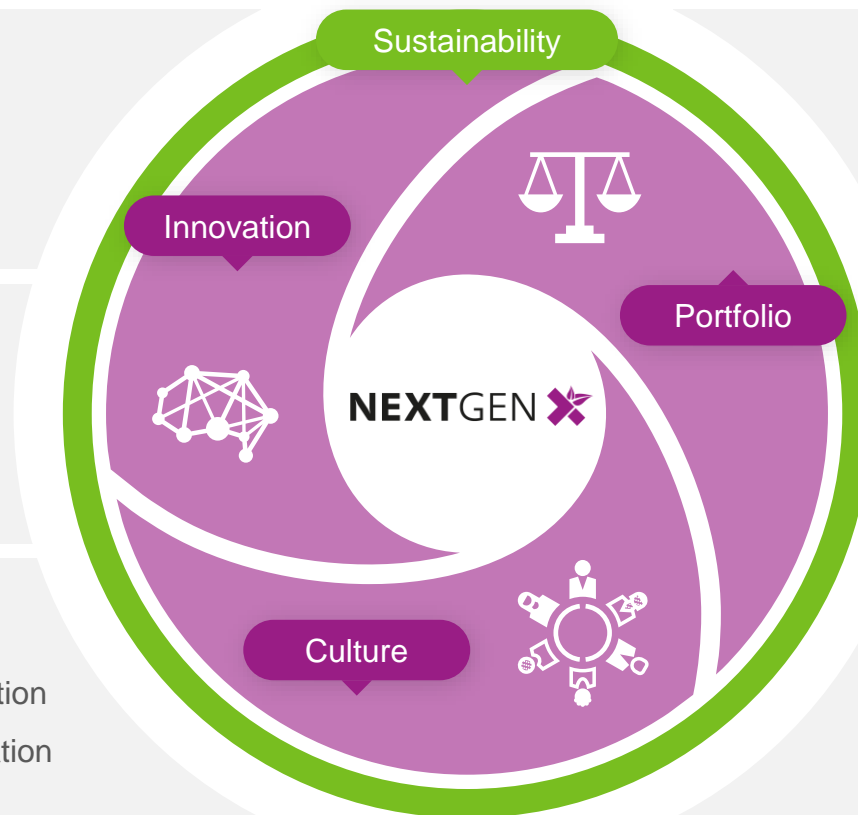
- + Exit Performance Materials
- + Full focus on three attractive growth divisions

### Next Generation Innovation

- + €1 bn new sales well on track
- + Growth areas beyond 2025 launched

### Next Generation Culture

- + Diversity as key to successful strategy execution
- + ESG targets integrated into mgmt. compensation



### ESG Targets<sup>1</sup>

- + >50% sales share of **NEXTGEN Solutions** ✦
- + -25% CO<sub>2</sub> emission reduction, e.g. via **NEXTGEN Technologies** ✦

### Financial Targets

- + Organic growth >4%
- + EBITDA margin 18-20%
- + ROCE ~11%
- + FCF Conversion >40%

1. Until 2030



## Portfolio: Active management continues

### Care Solutions divests betaine operations in Hopewell, Virginia

- Care Solutions with strong track record in portfolio management to shift to sustainable specialties
- Betaines<sup>1</sup> attractive and profitable business, but no longer core for Evonik's Care Solutions strategy
- Divestment of US Betaine operations via asset deal with Kensing LLC drives ...
  - delivery on Specialty Chemicals strategy
  - streamlining of Care Solutions business towards more System Solutions



1. Betaines are amphoteric surfactants that are mainly used in the formulation of products for the personal and household care industry (e.g. shampoos, hair conditioners, skin or fabric care)



# Innovation: New lipid production facility in the US

## Well prepared for novel mRNA-based therapies

- Highly flexible, multi-purpose global-scale production facility for pharmaceutical lipids for ...
  - developing, piloting and producing new lipids
  - developing new mRNA-based drugs right up to commercialization
  - rapid and extensive supply of lipids to produce mRNA vaccines (pandemic preparedness)
- Plant is scheduled to go on stream in 2025, timed for the expected ramp-up of new mRNA-based therapies
- Capex of \$220 m with US Government funding of up to \$150 m
- Strong synergy potential with Health Care operations in Tippecanoe, Evonik's second-largest site in US



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# Decisive steps to reduce gas exposure in Germany

## Energy supply at Marl site to become completely independent from natural gas

### Germany

Measures for up to 40%  
gas substitution (up to 2 TWh)

#### Marl

- Single biggest measure: substitution of natural gas with LPG in new gas power plant
- Runtime extension of coal power plant
- Energy supply at site to become completely independent from natural gas

#### Other German sites

- Partial switch to fuel oil

### Total gas consumption in Europe (TWh)<sup>1</sup>

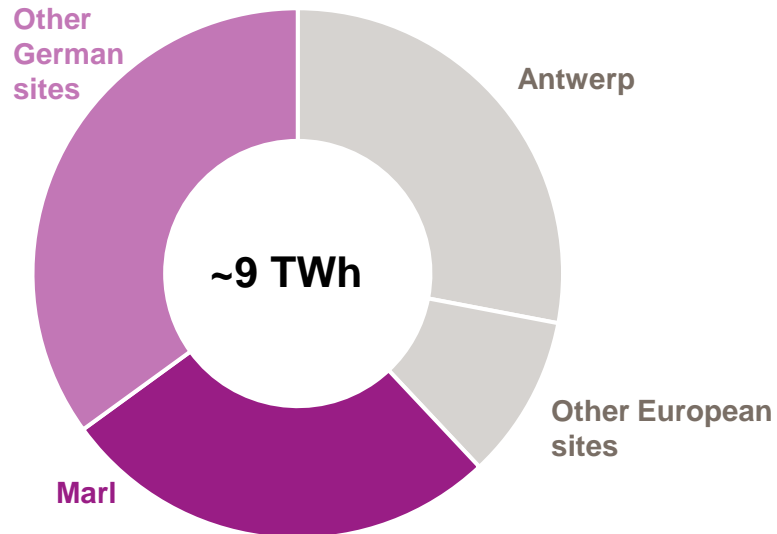
Germany: ~5 TWh in 2021  
→ to be reduced by up to 40%

### Rest of Europe

Less dependency  
on gas from Russia

#### Antwerp

- Biggest gas consuming site of Evonik in Europe (e.g. C4 chain, Animal Nutrition)
- Benefitting from favorable infrastructure, e.g. direct proximity to LNG terminals



1. FY 2021; includes gas as raw material



# Substitution of natural gas with LPG in new gas power plant in Marl as main measure to reduce gas consumption at German sites



BP Cracker (Scholven)

- LPG up to now handed back to BP cracker
- Will be replaced by alternative raw materials



C4 Chain (Marl)

**LPG (liquified petroleum gas) as by-product in production of Performance Intermediates (C4 chain) in Marl**



New gas power plant (Marl)

- New gas power plant in Marl technically equipped to also use LPG as energy source
- Significant reduction in natural gas consumption without any production limitation
- Enhancing supply security, but also economically viable in current environment

Left picture: BP Europa SE

# Strong track record of passing on higher costs

## Measures in place to limit 2023 energy cost increase

### Raw material costs

- Successfully compensated through own price increases
- Pressure easing as raw material price trends are flattening

~€3 bn

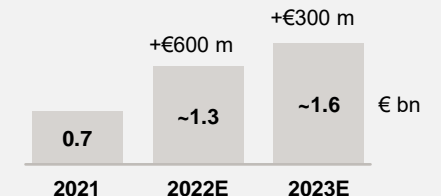
raw material cost increase since the beginning of 2020

### Energy costs

- Compensation measures limiting energy cost increase:
  - Hedging in place
  - 40% gas substitution at German sites
- Targeting pass-on through own price increases

~€300 m

expected energy cost increase yoy for FY 2023<sup>1</sup>



1. Not including potential levy for higher costs from gas imports and gas storage in Germany

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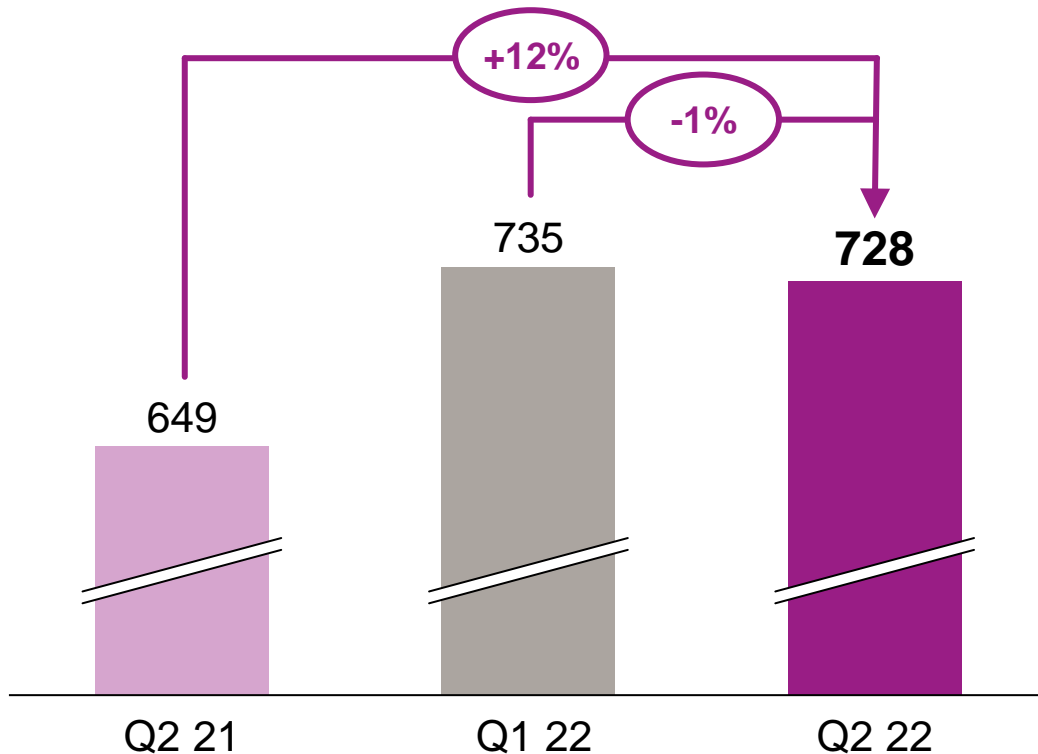
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## Q2 2022 results at a glance

Sales (in € m)	Adj. EBITDA (in € m)	Free cash flow (in € m)	Adj. EPS (in €)
<b>4,772</b> (Q2 2021: 3,636)	<b>728</b> (Q2 2021: €649 m)	<b>-239</b> (Q2 2021: €101 m)	<b>0.75</b> (Q2 2021: 0.54 €)
Strong increase driven by further accelerating prices (+24%) – a clear sign that pricing power is intact	Specialty Additives and Smart Materials as basis for strong Q2; Performance Materials supporting with standout quarter	Significantly higher NWC outflow (yoy) mainly due to higher inventories and receivables	Supported by positive financial result; adj. tax rate of 29%

# Adj. EBITDA Q2 2022

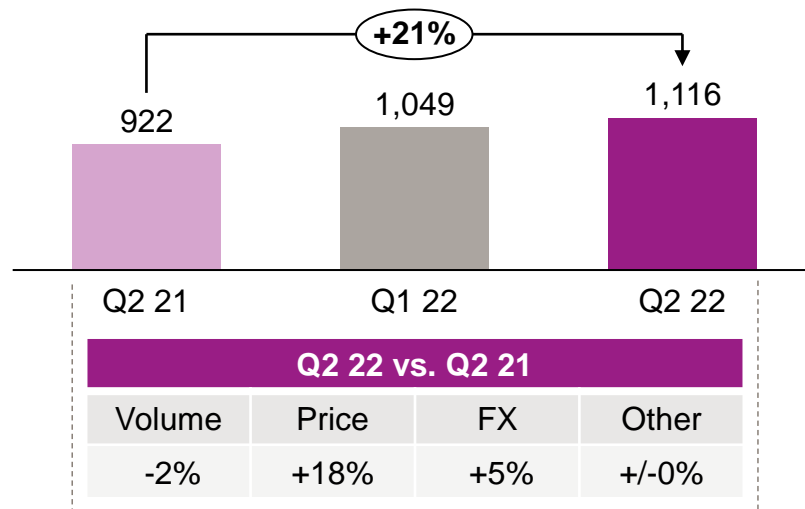
Adj. EBITDA (in € m)



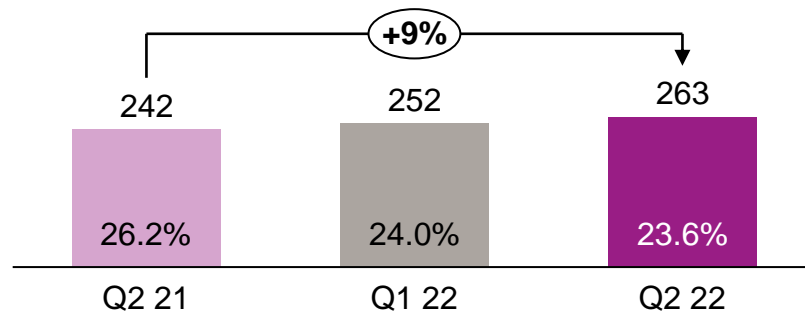
- **Q2 continues on strong Q1 level**
- ... despite **€20 m costs for one-time payment to employees** (mutual tariff agreement)
- **Higher prices** again compensate higher variable costs in all divisions
- **Specialty Additives and Smart Materials as basis for strong Q2** - with higher earnings both yoy and qoq
- **Performance Materials** with exceptionally strong spreads **delivering a standout quarter**
- Earnings **supported by inventory revaluation** effects
  - Similar level as Q1
  - Performance Materials with biggest impact

# Specialty Additives

**Sales**  
(in € m)



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



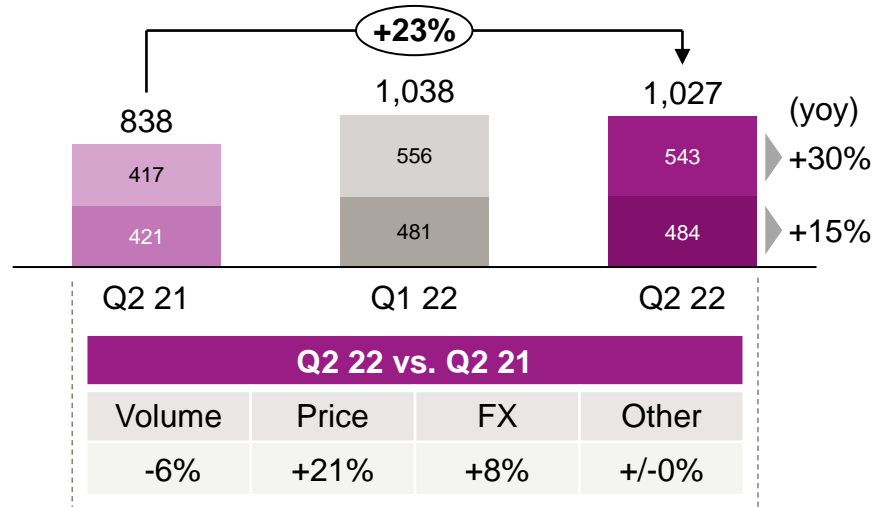
- Continued positive underlying end market dynamics across all businesses in a good pricing environment
  - Crosslinkers with strong earnings momentum as a result of ongoing pricing campaigns to compensate higher raw mat costs
  - Additives businesses with good pricing and solid demand especially in agro and industrial applications
- Volumes down slightly 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



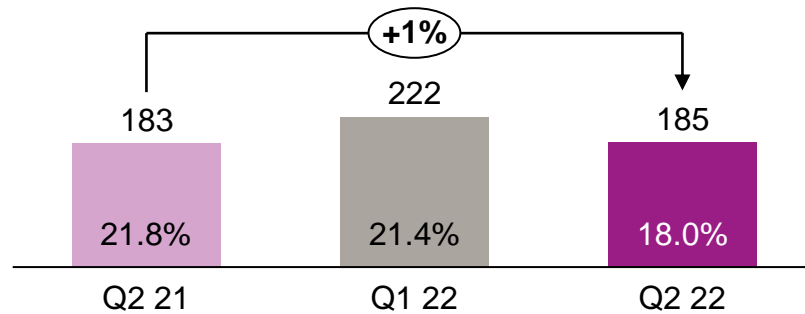
# Nutrition & Care

## Sales (in € m)

Animal  
Nutrition  
---  
Health &  
Care



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



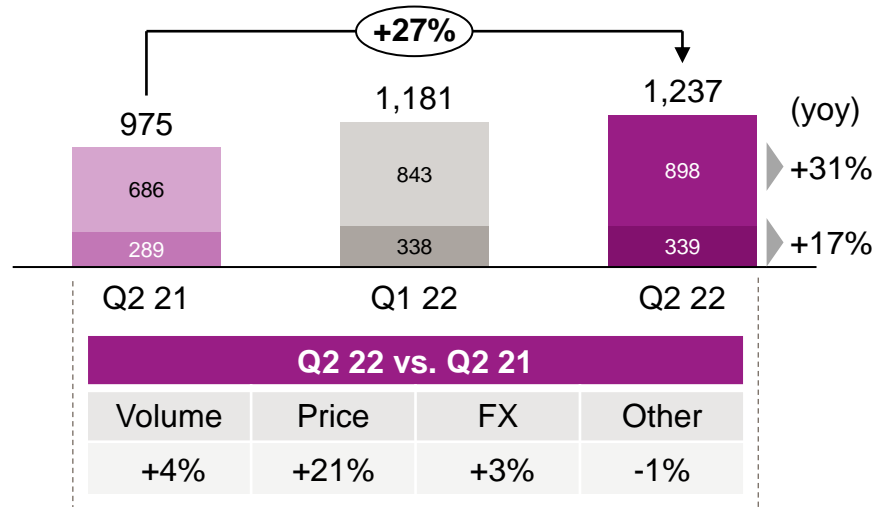
- Health & Care with continued strong growth yoy and stable qoq
  - Care Solutions with continued strong volume growth and accelerating pricing esp. for active cosmetic ingredients and cosmetic solutions
  - Health Care with slightly lower order pattern for drug delivery, catch-up in H2 expected
- Animal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



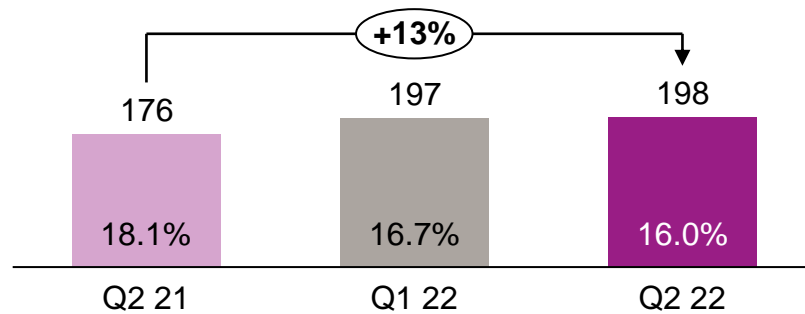
# Smart Materials

## Sales (in € m)

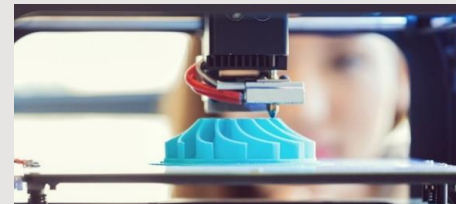
Inorganics  
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Polymers



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



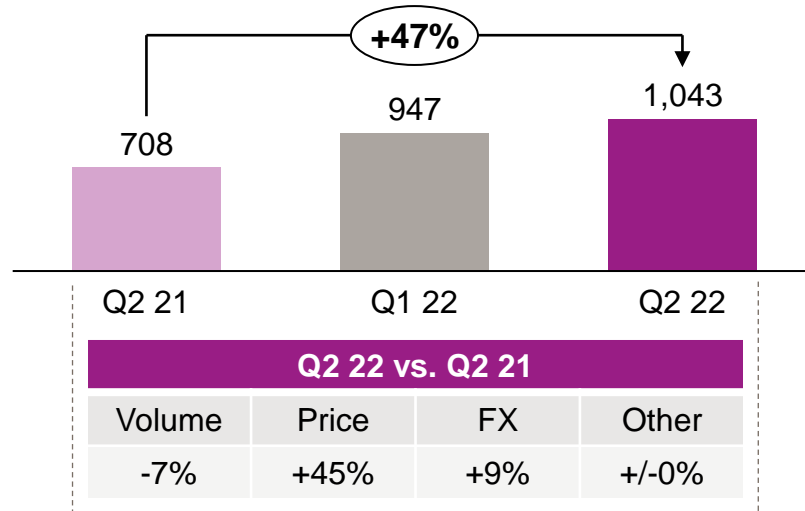
- Double-digit EBITDA growth, driven by strong pricing
- Solid volume growth despite limitations by China lockdown, logistic issues and planned maintenance shutdown in PA12
- Continued strong growth in Silanes and Silica
- Project-based catalyst business supporting growth of the division
- Pricing campaigns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



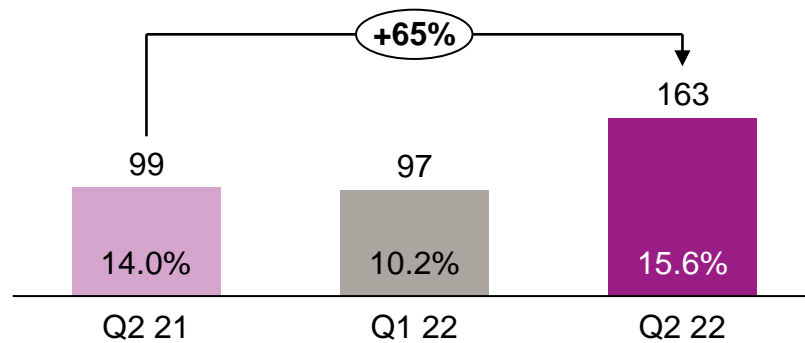


# Performance Materials

**Sales**  
(in € m)



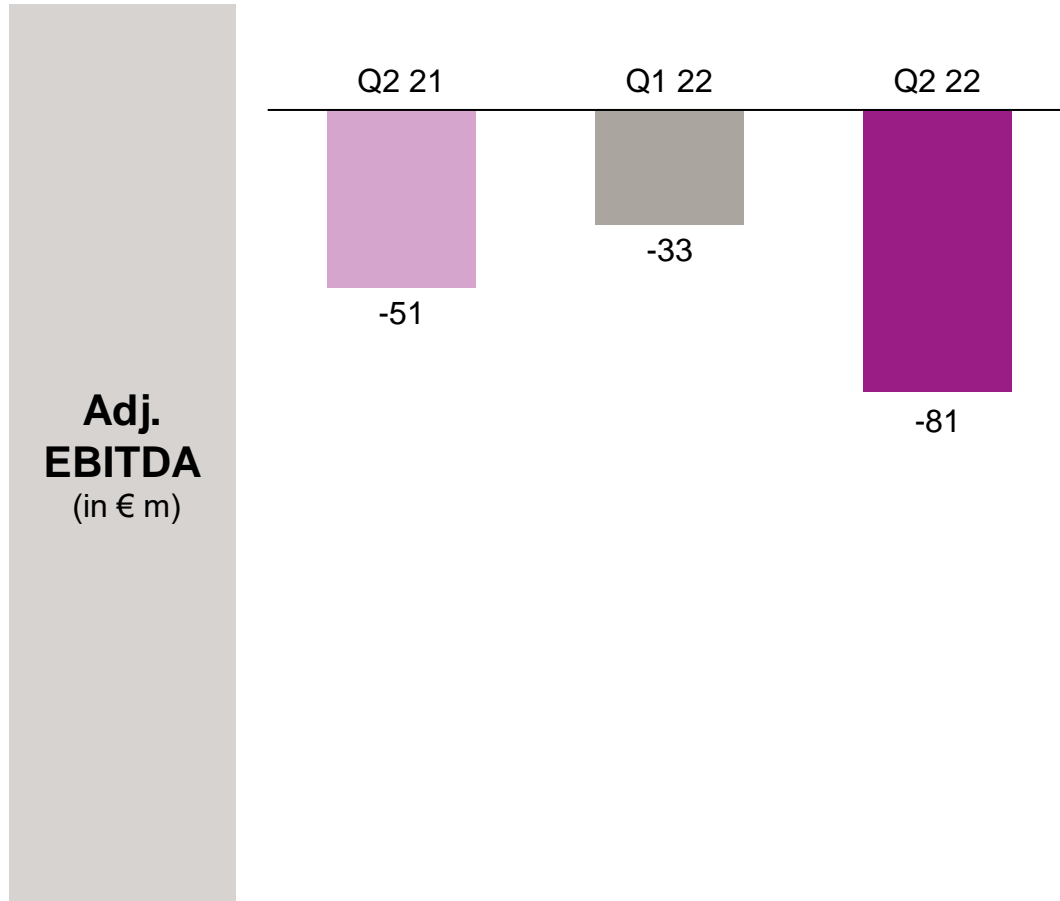
**Adj. EBITDA / margin**  
(in € m)  
(in %)



- 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



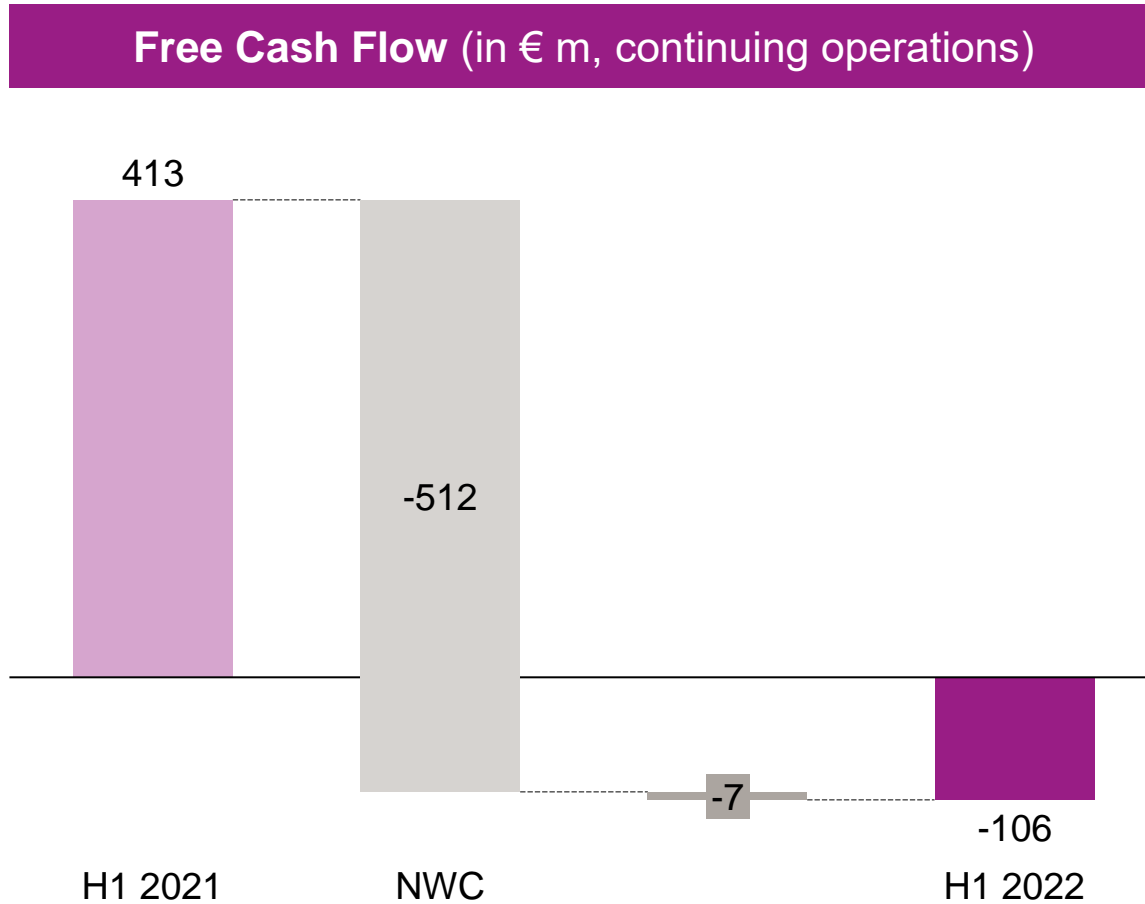
# Technology & Infrastructure (T&I) / Other



- 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
    - preparation of coal power plant for extended run-time
    - ramp-up of gas power plant using LPG
  - higher personnel costs due to 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



# Free Cash Flow H1 2022



- H1 FCF impacted by **significantly higher NWC outflow** yoy (-€911 m vs -€399 m in H1 2021)
- Increased raw material prices resulting in
  - Higher inventories (valuation)
  - Higher receivables (increased sales base)
- Additionally higher inventory levels due to
  - more goods in transit
  - higher level of safety stocks
- Higher EBIT(DA) compensated by higher cash outflow for variable remuneration (for FY 2021)

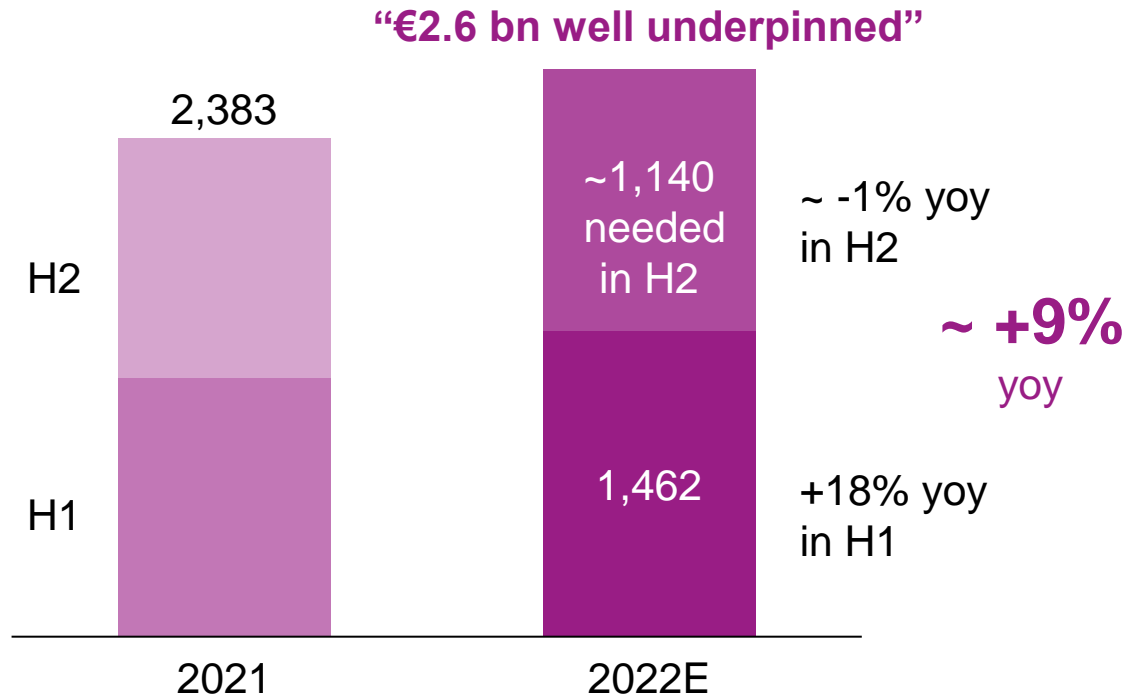
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# FY 2022 outlook for adj. EBITDA confirmed

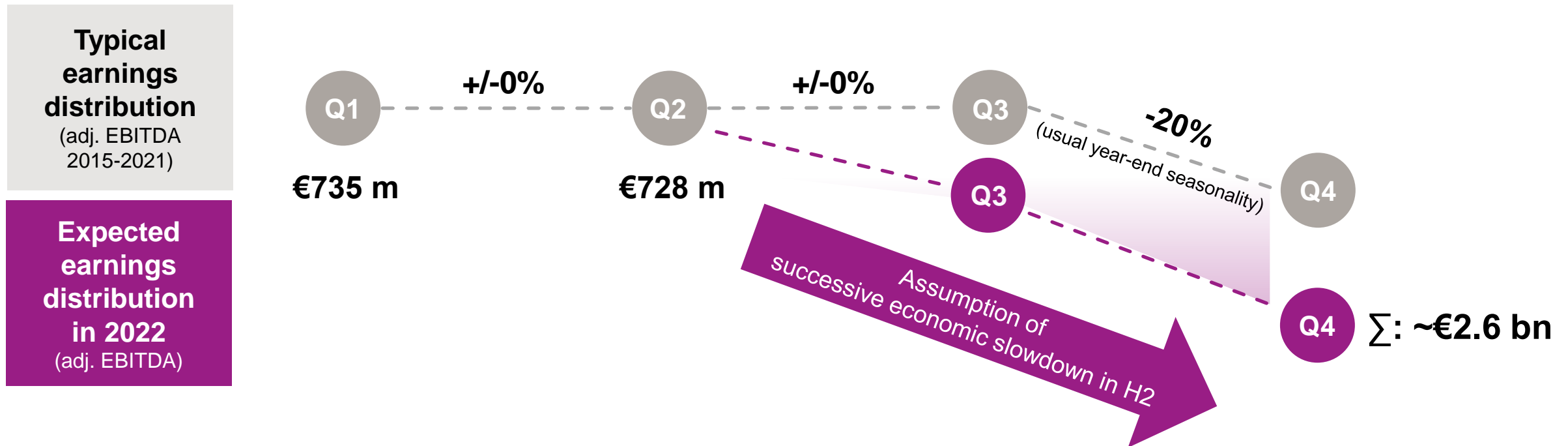
“Adj. EBITDA between €2.5 and 2.6 bn”



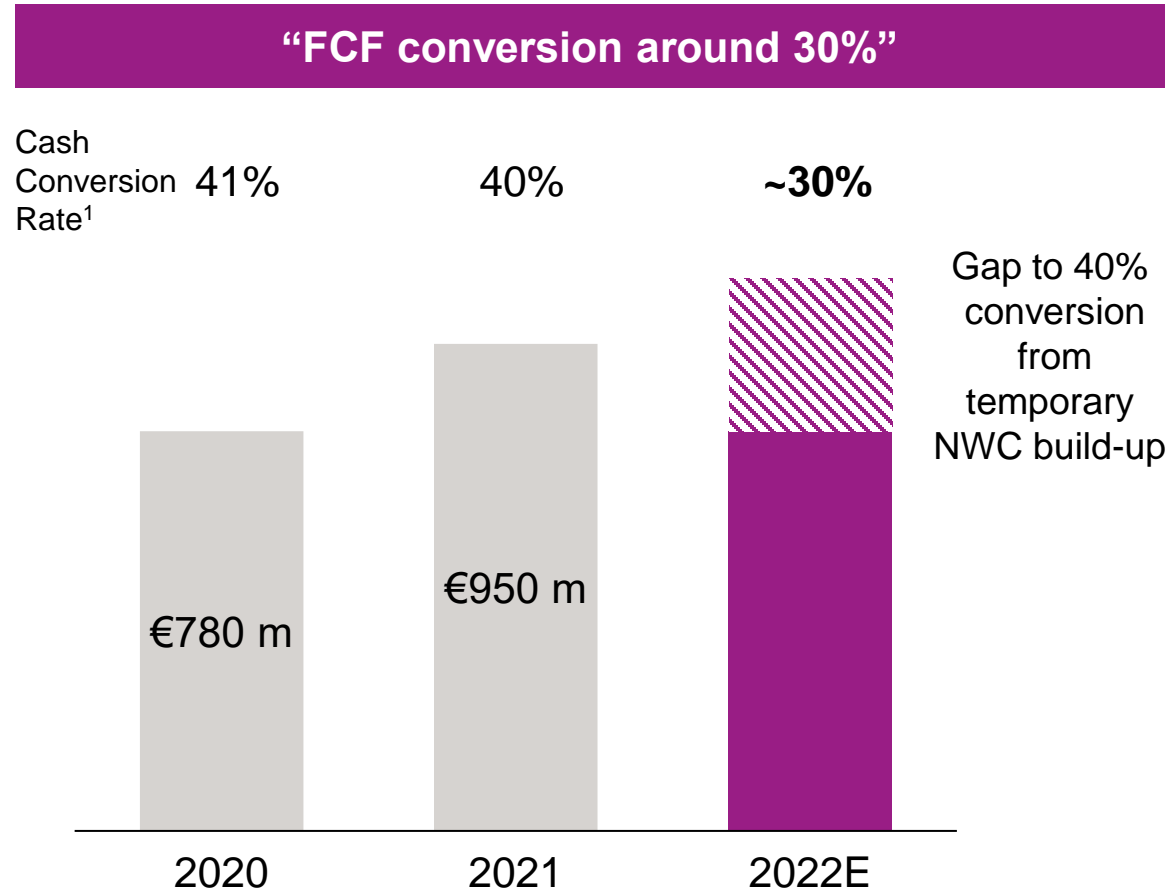
## Basis for the outlook

- Strong H1 performance as basis
- Assuming a successive macro slowdown in H2
- Energy supply:
  - Outlook based on sufficient gas supply to maintain production on necessary scale
  - Implementation of extensive measures to make energy production at European sites largely independent from further gas cuts
  - Levy for higher costs from gas imports and gas storage in Germany included

# Macroeconomic slowdown in H2 factored into adj. EBITDA outlook for 2022



# FCF conversion expected lower in FY 2022 due to NWC outflow



## NWC impact in 2022 so far

- **~€900 m NWC outflow in H1** (yoy delta of ~€500 m) due to both higher inventories and receivables

## Outlook

- Partly NWC reversal expected in H2 with **~€400-500 m inflow**
- Further NWC reversal potential in 2023

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



**EVONIK**

**Leading Beyond Chemistry**



## Additional indications for FY 2022

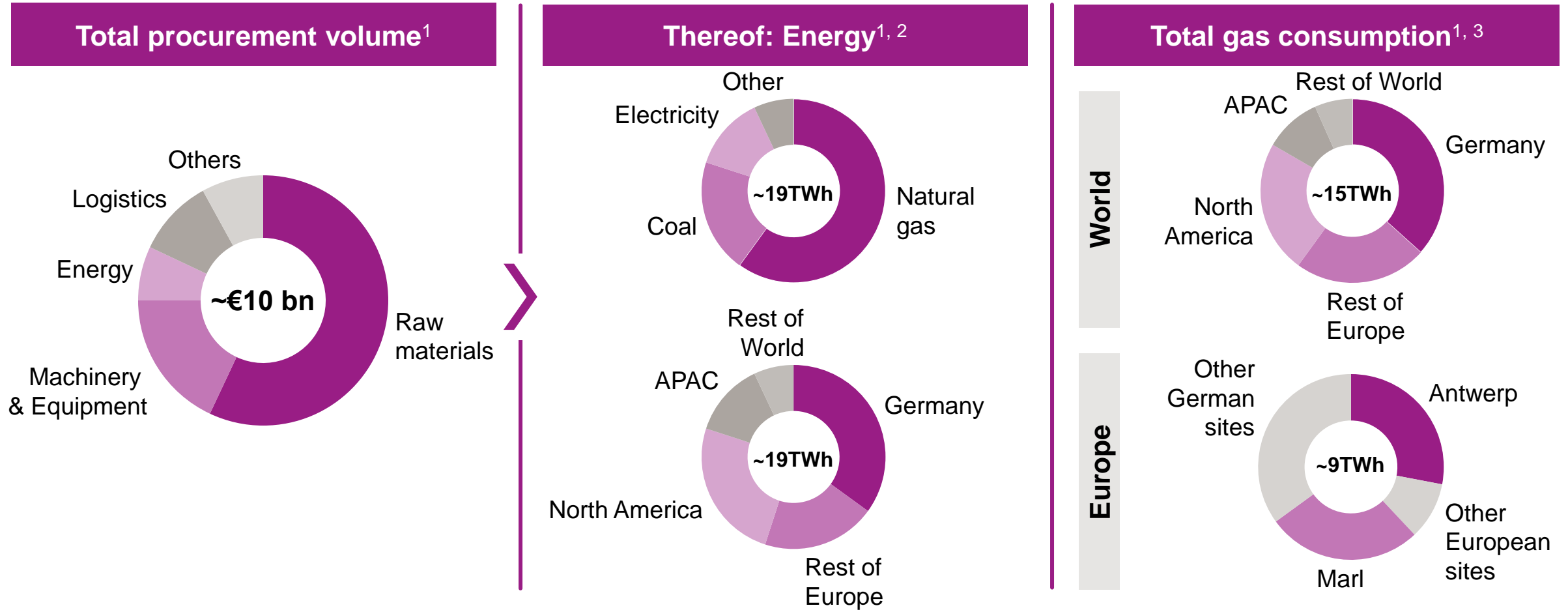
<b>Sales</b>	<b>between €17 and 18 bn</b> (previously: between €15.5 and 16.5 bn; 2021: €15.0 bn)
<b>ROCE</b>	<b>slightly above the level of 2021</b> (unchanged; 2021: 9.0%)
<b>Capex<sup>1</sup></b>	<b>around €900 m</b> (unchanged; 2021: €865 m)
<b>EUR/USD sensitivity<sup>2</sup></b>	+/-1 USD cent = -/+ ~€6 m adj. EBITDA (FY basis)
<b>Adj. EBITDA T&amp;I/Other</b>	<b>considerably less negative than prior year level</b> (unchanged; 2021: -€221 m)
<b>Adj. D&amp;A</b>	<b>slightly above the level of 2021</b> (unchanged; 2021: €1,045 m)
<b>Adj. net financial result</b>	<b>slightly less negative than 2021</b> (unchanged; 2021: -€97 m)
<b>Adj. tax rate</b>	<b>around</b> long-term sustainable level of <b>~30%</b> (unchanged; FY 2021: 28%); 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	Nutrition & Care	Smart Materials	Performance Materials
 <ul style="list-style-type: none"> <li>▪ Mission-critical solutions with superior sustainability profile supporting broad-based growth across additives portfolio</li> <li>▪ Pricing initiatives continue to compensate higher input costs</li> </ul>	 <ul style="list-style-type: none"> <li>▪ Increasing share of “System Solutions” with above-average margin profile</li> <li>▪ Positive price trend in Animal Nutrition</li> <li>▪ Continued active cost &amp; portfolio management</li> </ul>	 <ul style="list-style-type: none"> <li>▪ Ongoing positive development in “Eco Solutions”</li> <li>▪ “Future Mobility”: New PA12 capacities into tight market</li> <li>▪ Pricing initiatives continue to compensate higher input costs</li> </ul>	 <ul style="list-style-type: none"> <li>▪ Product spreads in C4 chain with clearly positive trends</li> <li>▪ Superabsorber to benefit from improving market environment and long-term customer relationships</li> </ul>
<p><b>“slightly above prior year level”</b> (unchanged)</p>	<p><b>“considerably above prior year level”</b> (unchanged)</p>	<p><b>“considerably above prior year level”</b> (previously: significantly above PY)</p>	<p><b>“significantly above prior year level”</b> (previously: below PY)</p>

# Evonik energy and gas consumption

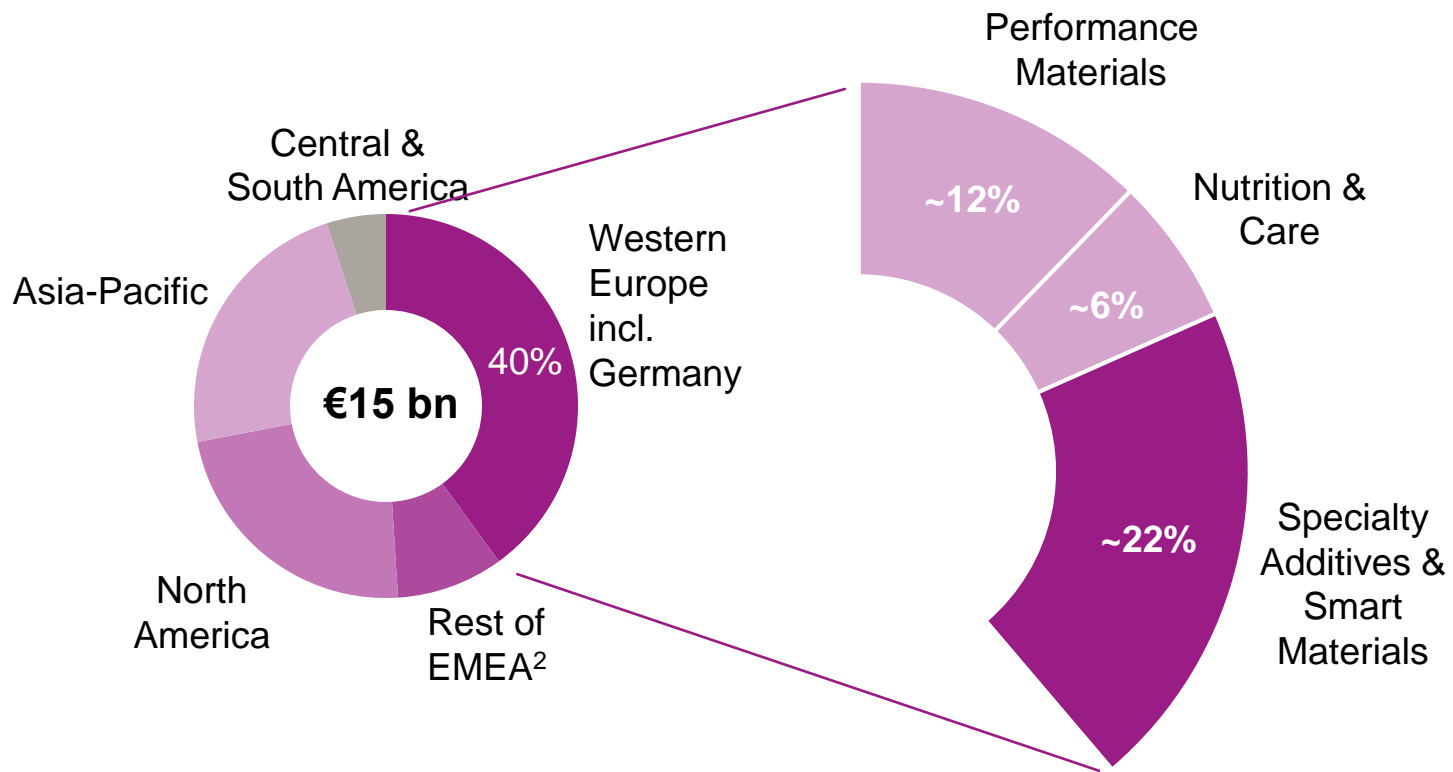


1. FY 2021; gross energy bill, not considering the selling to external parties | 2. Does not include gas as raw material (~4 TWh globally) | 3. Includes gas as raw material

# Regional sales split

Only 20% exposure to Europe excluding non-core PM and resilient NC

## Evonik Group sales by region<sup>1</sup>



### Performance Materials

- Divestment in execution

### Nutrition & Care

- Resilient end markets in Health, Care and Animal Nutrition

### Specialty Additives & Smart Materials<sup>3</sup>

- Europe exposure to benefit from
  - Innovation power, e.g. for hydrogen economy
  - Accelerated transformation into low-carbon economy with higher share of renewable energy

1. FY 2021; by location of customer | 2. Middle East and Africa; CEE | 3. Also including TI/Others

# Adjusted income statement Q2 2022

in € m	Q2 2021	Q2 2022	Δ in %
<b>Sales</b>	<b>3.636</b>	<b>4.772</b>	<b>+31</b>
<b>Adj. EBITDA</b>	<b>649</b>	<b>728</b>	<b>+12</b>
Depreciation & amortization	-251	-272	
<b>Adj. EBIT</b>	<b>398</b>	<b>456</b>	<b>+15</b>
Adj. net financial result	-50	4	
D&A on intangible assets	35	41	
<b>Adj. income before income taxes</b>	<b>383</b>	<b>501</b>	<b>+31</b>
Adj. income tax	-124	-145	
<b>Adj. income after taxes</b>	<b>259</b>	<b>356</b>	<b>+37</b>
Adj. non-controlling interests	-6	-5	
<b>Adj. net income</b>	<b>253</b>	<b>351</b>	<b>+39</b>
<b>Adj. earnings per share</b>	<b>0,54</b>	<b>0,75</b>	
Adjustments	-18	-35	

## Adj. net financial result (€ 4m)

- Higher interest income, mainly due to higher discount rate on other provisions
- Includes one-time benefit from provision release for tax interest due to lower interest rate (legislation change)

## Adj. tax rate (29%)

- Slightly below FY guidance of 30%

## Adjustments (-€35 m)

- Restructuring: mainly charges related to continuous optimization of administration functions
- M&A: Integration of previous acquisitions

# Cash flow statement Q2 2022

in € m	Q2 2021	Q2 2022
Income before financial result and income taxes (EBIT)	380	421
Depreciation and amortization	250	274
Δ Net working capital	-222	-421
Change in provisions for pensions & other post-employment benefits	17	9
Change in other provisions	-103	-289
Change in miscellaneous assets/liabilities	-18	7
Cash in- and outflows from income taxes	-58	-77
Others	26	2
<b>Cash flow from operating activities</b> (continuing ops.)	<b>272</b>	<b>-74</b>
Cash outflows for investment in intangible assets, pp&e	-171	-165
<b>FCF</b>	<b>101</b>	<b>-239</b>
<b>Cash flow from investing activities</b> (continuing ops.)	<b>-158</b>	<b>-71</b>
<b>Cash flow from financing activities</b> (continuing ops.)	<b>-532</b>	<b>230</b>

## CF from operating activities (-€74 m)

- Higher inventories (higher raw material prices, but also goods in transit and safety stock) main reason for significantly higher NWC outflow yoy
- Higher receivables (increased sales base)
- Other provisions: Higher cash outflow for variable remuneration (for FY 2021)

## CF from investing activities (-€71 m)

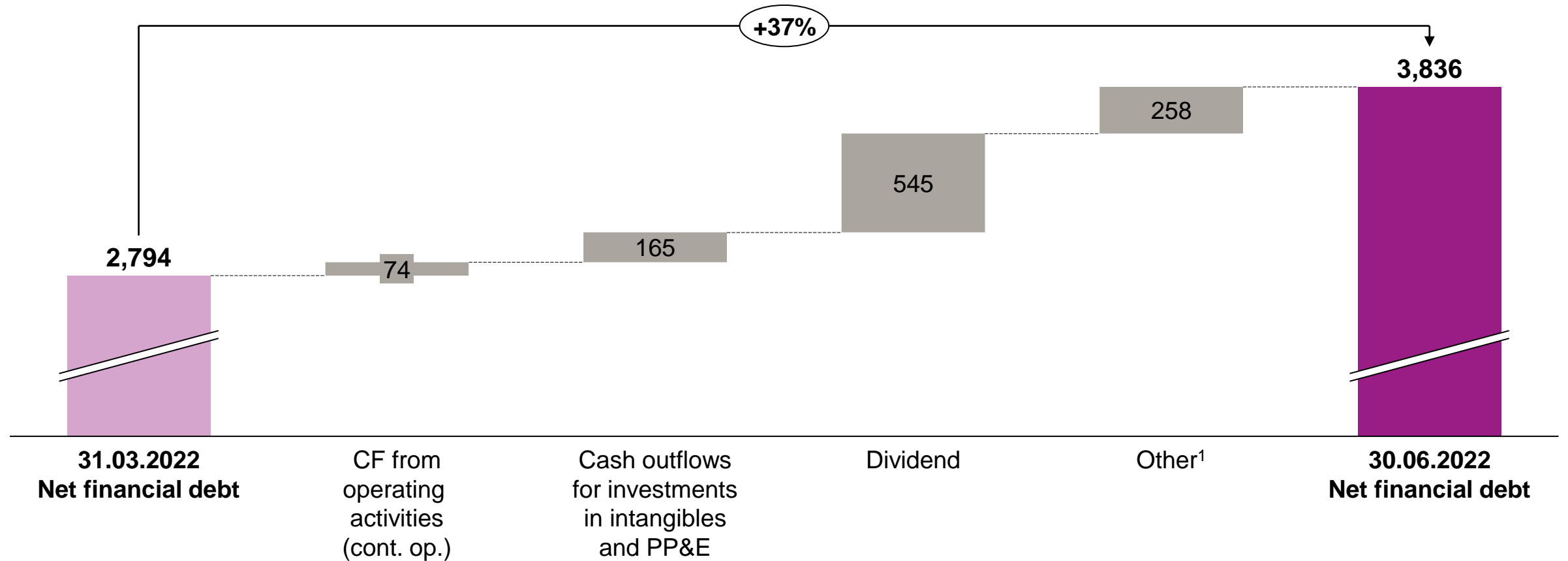
- Capex discipline: slightly below prior year despite cost inflation

## CF from financing activities (€230 m)

- Inflow from new green bond issue (€750 m) to refinance upcoming maturity in January 2023
- Outflow from dividend payment in May (€545 m)

# Net financial debt development Q2 2022

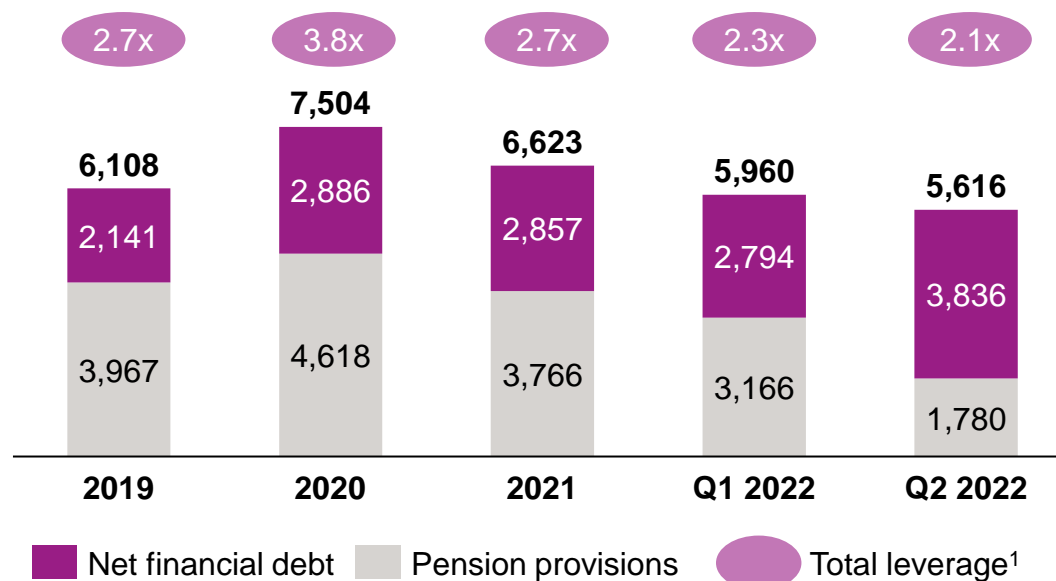
(in € m)



1. Incl. among others increase in lease liabilities

# Development of debt and leverage over time

(in € m)



<b>Adj. net debt<sup>2</sup></b>	5,858	7,254	6,373	5,710	5,365
<b>Adj. EBITDA (last 12 months)</b>	2,153	1,906	2,383	2,530	2,609
<b>German pension discount rate (%)</b>	1.30	0.90	1.30	1.90	3.30

## Net financial debt (€3,836 m)

- Increase in Q2 due to negative free cashflow and dividend payment in May
- Still low net financial debt leverage at 1.4x<sup>3</sup>

## Pension provisions (€1,780 m)

- Long-dated pension obligations with >18 years duration
- Pension provisions almost halved at the end of Q2 2022 following notable increase of pension discount rates (German pension discount rate increase from 1.9% to 3.3%)
- 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
Specialty Additives	907	<b>922</b>	934	947	3,710	1,049	<b>1,116</b>
Nutrition & Care	780	<b>838</b>	931	1,008	3,557	1,038	<b>1,027</b>
Smart Materials	909	<b>975</b>	1,002	1,032	3,918	1,181	<b>1,237</b>
Performance Materials	580	<b>708</b>	784	840	2,911	947	<b>1,043</b>
Technology & Infrastructure (T&I) / Other	182	<b>193</b>	220	264	859	283	<b>349</b>
<b>Evonik Group</b>	3,358	<b>3,636</b>	3,871	4,091	14,955	4,498	<b>4,772</b>
Adj. EBITDA (in € m)	Q1/21	Q2/21	Q3/21	Q4/21	FY 2021	Q1/22	Q2/22
Specialty Additives	273	<b>242</b>	224	181	920	252	<b>263</b>
Nutrition & Care	143	<b>183</b>	192	200	717	222	<b>185</b>
Smart Materials	173	<b>176</b>	177	123	650	197	<b>198</b>
Performance Materials	42	<b>99</b>	97	80	317	97	<b>163</b>
Technology & Infrastructure (T&I) / Other	-43	<b>-51</b>	-45	-82	-221	-33	<b>-81</b>
<b>Evonik Group</b>	588	<b>649</b>	645	502	2,383	735	<b>728</b>

# Upcoming IR events

## Conferences & Roadshows

<b>August 17, 2022</b>	Roadshow Zürich (Baader Bank)
<b>August 23, 2022</b>	Roadshow London (Berenberg)
<b>August 24, 2022</b>	Roadshow Edinburgh (Berenberg)
<b>September 6, 2022</b>	Oddo Corporate Conference, Frankfurt
<b>September 14, 2022</b>	JP Morgan CEO Call Series, virtual
<b>September 19, 2022</b>	Baader Investment Conference, Munich
<b>September 28, 2022</b>	Exane ESG Conference, Paris

## Upcoming Events & Reporting Dates

<b>November 8, 2022</b>	Q3 2022 Reporting
<b>March 2, 2023</b>	Q4 / FY 2022 Reporting

# Evonik Investor Relations team

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