

Investor update Q2 2020

July 22, 2020

AkzoNobel



Partnership with SOS Children's Villages extended

Our global partnership with SOS Children's Villages has been extended for another three years. Part of our "Let's Colour" initiative, the collaboration has already benefited more than 20,000 children and young people all over the world.

Agenda



Key highlights



Financial review



Concluding remarks



Q&A

Key highlights

Robust profitability during Q2, despite COVID-19 headwinds

- ↗ ROS, excluding unallocated costs, increased to 14.0% (2019: 13.7%) due to strong margin management and cost savings
- ↗ Headwinds related to COVID-19 eased during the quarter, with revenue almost 30% lower in April and nearly 5% lower in June
- ↗ Total cost savings delivered €116 million, of which €38 million structural savings related to transformation initiatives
- ↗ Net cash from operating activities improved to €308 million (2019: €152 million); maintained a strong balance sheet



The outbreak of COVID-19 has not only seen us continue to supply our products to critical industries around the world. Our businesses and employees have also made every effort to support local projects and community initiatives in an effort to help as many people as possible.



Weathering the COVID-19 storm, ROS* increased to 14%

Q2 2020:

ROS*

Increased to 14%
(2019: 13.7%)

Price/mix

Up 2%

H1 2020:

Adjusted EPS

From continuing operations

Up 8% at €1.51

ROI**

17.4%
(2019: 16.5%)

Free cash flow

147% higher

Leverage

(Net Debt/EBITDA)

1.4x
(Target 1-2x by end 2020)

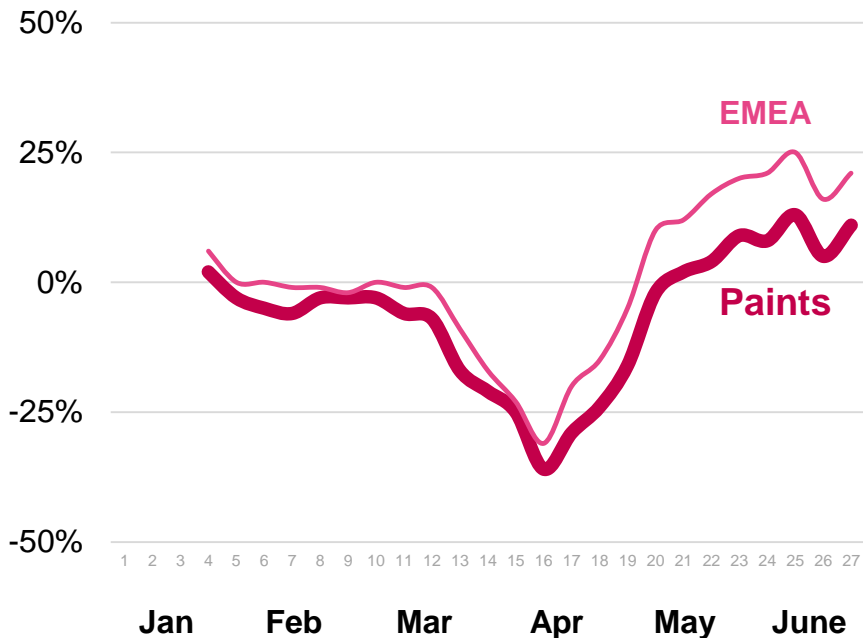
*ROS = adjusted operating income as percentage of revenue (excluding unallocated cost)

**ROI = adjusted operating income of the last 12 months as percentage of average invested capital (excluding unallocated cost and invested capital).

Market headwinds eased in June, with Paints recovering faster than Coatings

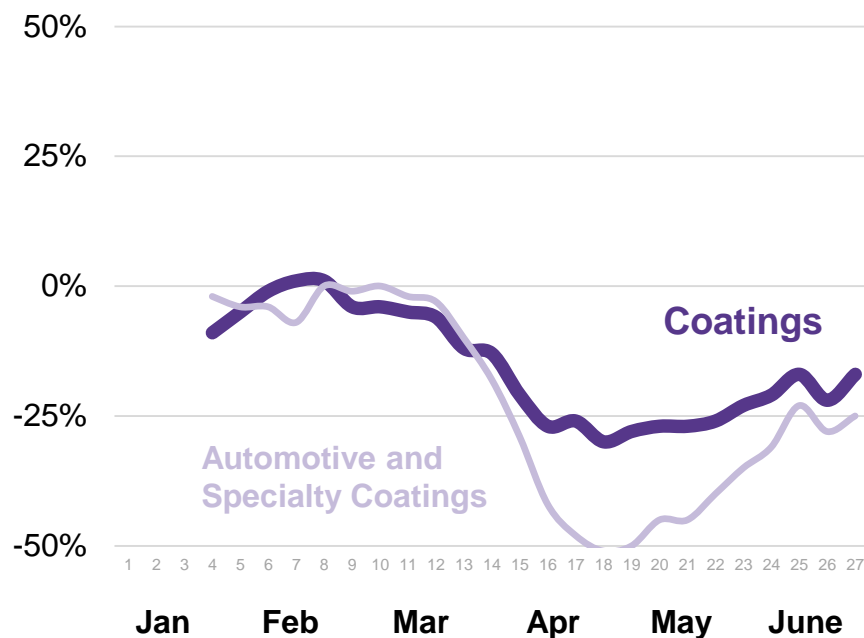
Decorative Paints

Revenue development H1 2020 ($\Delta\%$)*



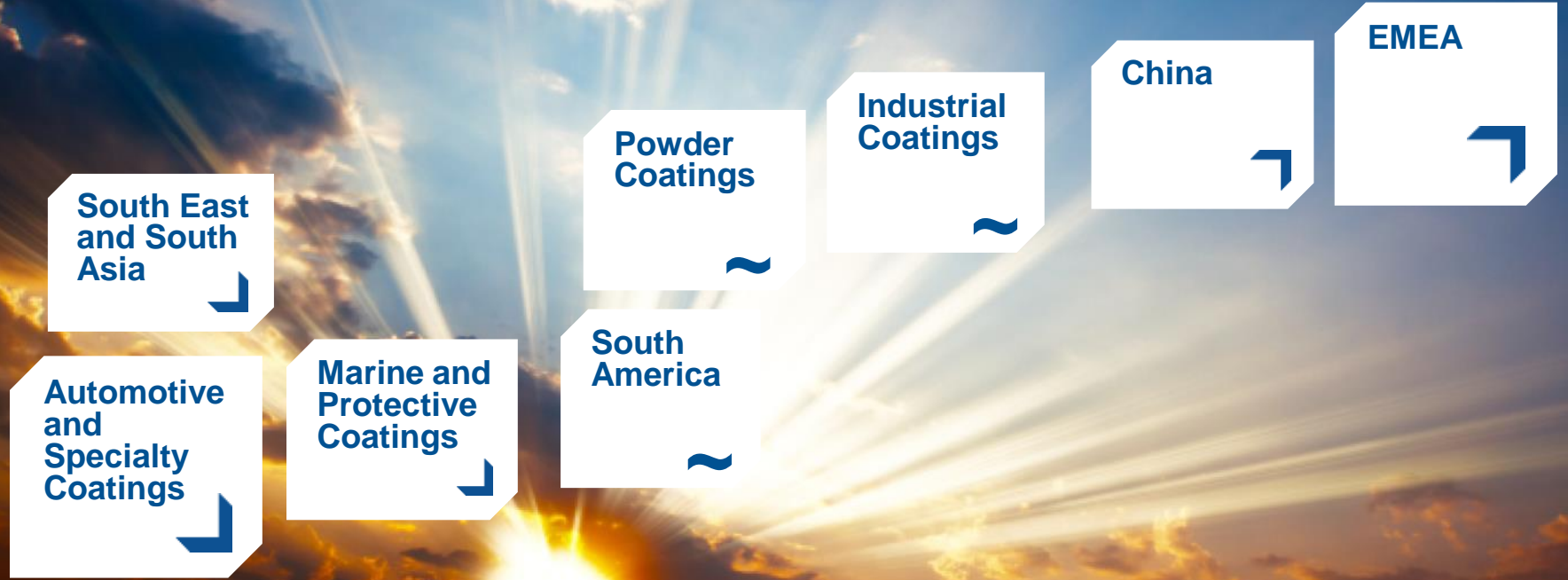
Performance Coatings

Revenue development H1 2020 ($\Delta\%$)*



*Four week moving average

**Market headwinds continue
and differ per region and segment**



Taking steps to rapidly reduce costs, parts of transformation selectively resumed

AkzoNobel



Sales force effectiveness
Margin management
Innovation excellence

Delivering strong margin management

Price/mix up 2%



Global Business Services
Integrated Business Planning
ERP and systems platform

Key parts of transformation selectively restarting

Global weekly demand and supply cycle in place for COVID-19

Up to 14,000 employees (~40% of workforce) working remotely



ALPS continuous improvement
Fit-for-purpose organization
Procurement excellence

€116m cost savings overall in Q2

Successful collaboration with key vendors to secure supply



High performance culture
Career and capability development
Core principles

200 submissions for Paint the Future employee challenge

Launched first wave of 2030 sustainability ambitions

Industry leading sustainability: MSCI 'AAA' score for fifth year



Financial review

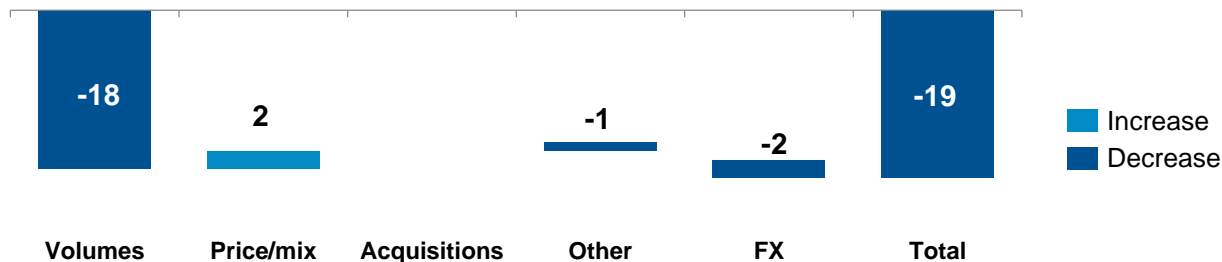
Q2 2020 ROS* increased 30bps to 14%, despite significant market headwinds

€ million	Q2 2019	Q2 2020	Δ%	Δ%CC
Revenue	2,451	1,987	(19%)	(17%)
Adjusted EBITDA	394	321	(19%)	
Adjusted operating income	305	238	(22%)	
Operating income	308	207	(33%)	
ROS* excluding unallocated cost	13.7%	14.0%		
ROS	12.4%	12.0%		
ROI** excluding unallocated cost	16.5%	17.4%		

Revenue was 19% lower, and 17% lower in constant currencies. Price/mix was up 2% overall. Volumes were 18% lower, mainly due to the impact of COVID-19 on end market demand

Operating income at €207 million includes €31 million negative impact from identified items, related to transformation costs (2019: €308 million, including €3 million positive identified items); OPI margin was 10.4% (2019: 12.6%)

Revenue development Q2 2019 (%)



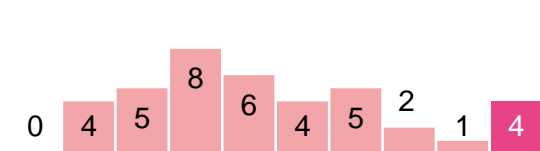
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Strong margin management delivering, volumes lower due to COVID-19

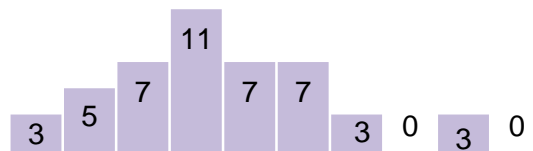
Decorative Paints

Quarterly price/mix development in % year-on-year



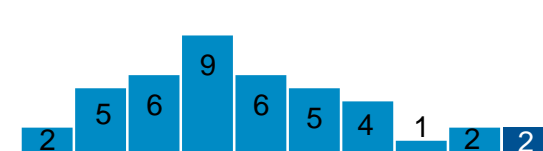
Q1 18 Q2 18 Q3 18 Q4 18 Q1 19 Q2 19 Q3 19 Q4 19 Q1 20 Q2 20

Performance Coatings



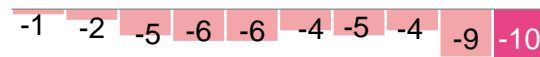
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Total

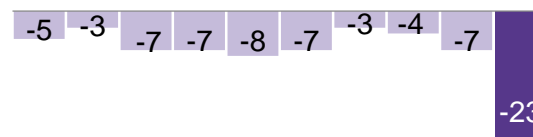


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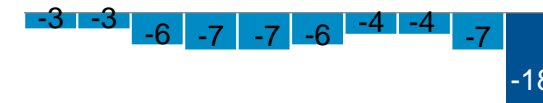
Quarterly volume* development in % year-on-year



Q1 18 Q2 18 Q3 18 Q4 18 Q1 19 Q2 19 Q3 19 Q4 19 Q1 20 Q2 20



Q1 18 Q2 18 Q3 18 Q4 18 Q1 19 Q2 19 Q3 19 Q4 19 Q1 20 Q2 20



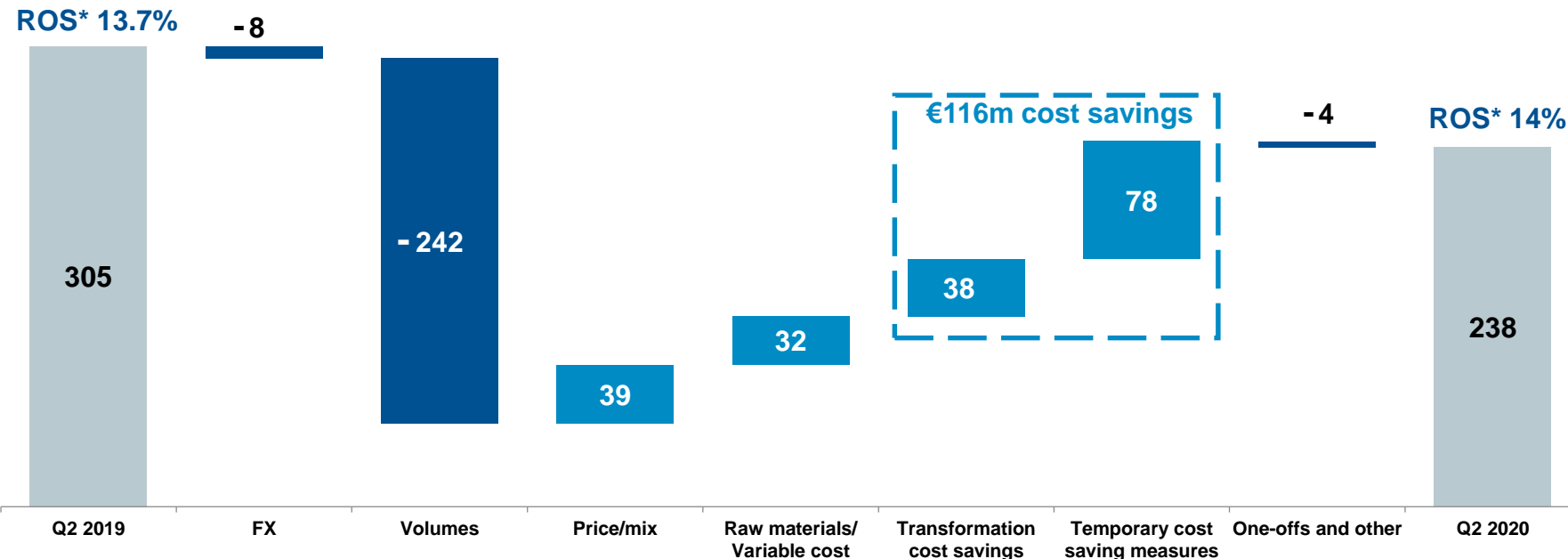
Q1 18 Q2 18 Q3 18 Q4 18 Q1 19 Q2 19 Q3 19 Q4 19 Q1 20 Q2 20

*Organic volume development, does not include acquisition impact

Margin management and cost-savings, helped to offset lower end market demand

Adjusted operating income

- Positive impact
- Negative impact



*ROS = adjusted operating income as percentage of revenue (excluding unallocated cost)

Decorative Paints ROS up 590bps at 19.5%, AkzoNobel driven by strong performance in EMEA

€ million	Q2 2019	Q2 2020	Δ%	Δ%CC
Revenue	997	899	(10%)	(6%)
Adjusted EBITDA	177	211	19%	
Adjusted operating income	136	175	29%	
Operating income	166	169	2%	
ROS*	13.6%	19.5%		
ROI**	12.2%	15.5%		

Revenue development Q2 2020 (%)



The battle to keep interior walls stain-free has escalated following the launch of Dulux EasyCare+. Reinforced with Scuff Resist technology, the paint forms a durable matt coating, providing extraordinary mechanical strength. So it prevents those familiar battle scars you often get when plastic, rubber or wood is knocked against a wall.

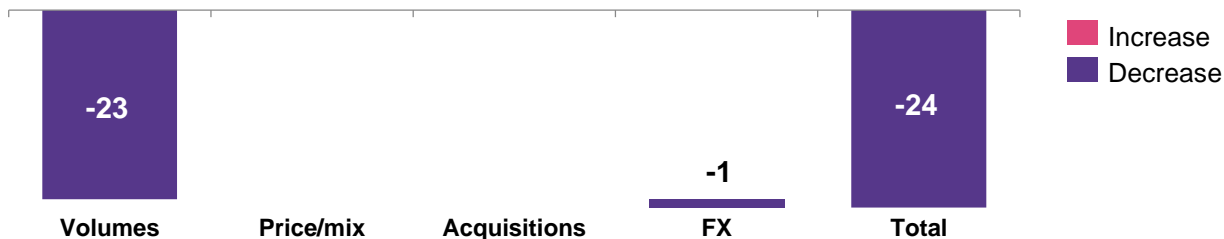
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Performance Coatings revenue 24% lower, AkzoNobel due to weak end market demand

€ million	Q2 2019	Q2 2020	Δ%	Δ%CC
Revenue	1,438	1,086	(24%)	(23%)
Adjusted EBITDA	241	139	(42%)	
Adjusted operating income	197	103	(48%)	
Operating income	174	89	(49%)	
ROS*	13.7%	9.5%		
ROI**	20.6%	19.0%		

Revenue development Q2 2020 (%)



Our Interpon powder coatings continue to make an important contribution to critical industries around the world. We recently expanded our antimicrobial offering (which already includes products for hygiene sensitive environments such as hospitals) by enhancing the functionality of our Interpon D1000 and 2000 range of architectural powder coatings.

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Adjusted EPS for continuing operations €0.80 for Q2 and increased to €1.51 for H1

Q2 2019	Q2 2020	€ million	H1 2019	H1 2020
308	207	Operating income	421	394
(18)	(25)	Net financing expenses	(31)	(38)
5	5	Results from associates and joint ventures	10	12
295	187	Profit before tax	400	368
(69)	(53)	Income tax	(100)	(107)
226	134	Profit from continuing operations	300	261
16	-	Profit from discontinued operations	16	(1)
242	134	Profit for the period	316	260
(11)	(5)	Non-controlling interests	(20)	(17)
231	129	Net income from total operations	296	243

Q2 2019	Q2 2020	Earnings per share (in €)	H1 2019	H1 2020
1.07	0.68	Total operations	1.32	1.26

Q2 2019	Q2 2020	Adjusted earnings per share (in €)	H1 2019	H1 2020
0.96	0.80	Continuing operations	1.40	1.51

- ↗ The outstanding share capital was 193.3 million common shares at the end of June 2020. This included 2.7 million shares acquired in the share buyback program, which have not yet been cancelled
- ↗ The weighted average number of shares in Q2 2020 was 190.7 million shares. The weighted average number of shares in the first half-year of 2020 was 192.3 million. These weighted average numbers of shares exclude shares not yet cancelled and were the basis for the calculation of earnings per share



Free cash flow improved by 147%; maintained strong balance sheet

Q2 2019	Q2 2020	€ million	H1 2019	H1 2020
397	297	EBITDA	595	574
-	-	Impairment losses	33	-
(66)	-	Pre-tax result on acquisitions and divestments	(66)	-
(116)	70	Changes in working capital	(537)	(283)
-	-	Pension pre-funding	(161)	-
(1)	(1)	Pension top-up payments	(479)	(6)
6	(20)	Other changes in provisions	(13)	(52)
(15)	(10)	Interest paid	(21)	(15)
(57)	(27)	Income tax paid	(87)	(61)
4	(1)	Other changes	3	(9)
152	308	Net cash from operating activities	(733)	148
(46)	(46)	Capital expenditures	(83)	(92)
106	262	Free cash flow	(816)	56

Net Debt	62	1,683
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Leverage (Net Debt/EBITDA*)

0.1x

1.4x

*Last twelve months.

Concluding remarks

Robust profitability during Q2, despite COVID-19 headwinds

- ↗ ROS, excluding unallocated costs, increased to 14.0% (2019: 13.7%) due to strong margin management and cost savings
- ↗ Headwinds related to COVID-19 eased during the quarter, with revenue almost 30% lower in April and nearly 5% lower in June
- ↗ Total cost savings delivered €116 million, of which €38 million structural savings related to transformation initiatives
- ↗ Net cash from operating activities improved to €308 million (2019: €152 million); maintained a strong balance sheet



We received nearly 200 entries for our internal Paint the Future innovation challenge. It aimed to capture some of the creative thinking which emerged over the last few months following the COVID-19 outbreak, as employees improvised and learned to adapt to new and challenging situations. A group of 500 employees from across the company was invited to rate the ideas and drew up the shortlist which was used to determine the winners.

AkzoNobel has suspended its 2020 financial ambition in response to the significant market disruption resulting from the pandemic.

COVID-19 will continue to impact the second half of 2020, although demand trends differ per region and segment in an uncertain macro-economic environment.

Raw material costs are expected to have a favorable impact for the second half of 2020.

Continued margin management and cost-saving programs are in place to address the current challenges.

The company targets a leverage ratio of 1-2 times net debt/EBITDA by the end of 2020 and commits to retain a strong investment grade credit rating.

Upcoming events

AkzoNobel



Report for the third quarter

October 21, 2020

A focused, high performing, paints and coatings company

AkzoNobel

- ↗ Strong global brands
- ↗ Leading positions in large and attractive markets
- ↗ Balanced geographic exposure: 50% revenue from emerging markets
- ↗ Well positioned to accelerate growth and enhance profitability
- ↗ Transformation plans in place and clear path to deliver
- ↗ Significant returns to shareholders



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This report contains statements which address such key issues as AkzoNobel's growth strategy, future financial results, market positions, product development, products in the pipeline and product approvals. Such statements should be carefully considered, and it should be understood that many factors could cause forecast and actual results to differ from these statements. These factors include, but are not limited to, price fluctuations, currency fluctuations, developments in raw material and personnel costs, pensions, physical and environmental risks, legal issues, and legislative, fiscal, and other regulatory measures, as well as significant market disruptions such as the impact of pandemics. Stated competitive positions are based on management estimates supported by information provided by specialized external agencies. For a more comprehensive discussion of the risk factors affecting our business, please see our latest annual report, a copy of which can be found on the company's corporate website www.akzonobel.com



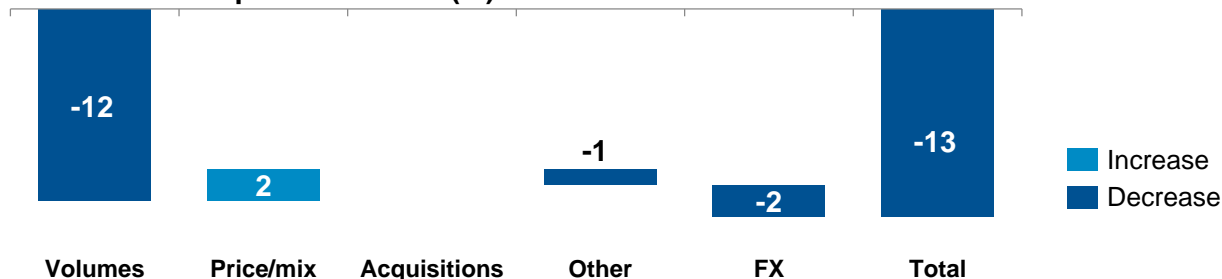
Appendix

Half-year 2020

€ million	H1 2019	H1 2020	Δ%	Δ%CC
Revenue	4,636	4,045	(13%)	(11%)
Adjusted EBITDA	642	623	(3%)	
Adjusted operating income	468	452	(3%)	
Operating income	421	394	(6%)	
<i>ROS% excluding unallocated costs</i>	11.5%	13.2%		
<i>ROS%*</i>	10.1%	11.2%		
<i>ROI%** excluding unallocated costs</i>	16.5%	17.4%		

- Revenue 13% lower and 11% lower in constant currencies, with 2% positive price/mix and 12% lower volumes, mainly due to the impact of COVID-19
- Adjusted operating income was €452 million (2019: €468 million). Margin management and cost-saving programs helped to compensate for the impact of COVID-19
- Operating income at €394 million includes €58 million negative impact from identified items, related to transformation costs (2019: €421 million, including €47 million negative identified items); OPI margin increased to 9.7% (2019: 9.1%)

Revenue development H1 2020 (%)



*ROS = adjusted operating income as percentage of revenue (excluding unallocated cost)

**ROI = adjusted operating income of the last 12 months as percentage of average invested capital (excluding unallocated cost and invested capital)

Half-year 2020: Decorative Paints

€ million	H1 2019	H1 2020	Δ%	Δ%CC
Revenue	1,833	1,653	(10%)	(7%)
Adjusted EBITDA	272	311	14%	
Adjusted operating income	196	239	22%	
Operating income	220	227	3%	
ROS%*	10.7%	14.5%		
ROI%**	12.2%	15.5%		

- Revenue was 10% lower and 7% lower in constant currencies; positive price/mix of 3% was more than offset by 10% lower volumes, mainly due to the impact of COVID-19
- Adjusted operating income increased to €239 million (2019: €196 million), driven by margin management and cost savings more than compensating for lower volumes
- Operating income increased to €227 million (2019: €220 million)

Revenue development H1 2020 (%)



*ROS% = Adjusted operating income/revenue

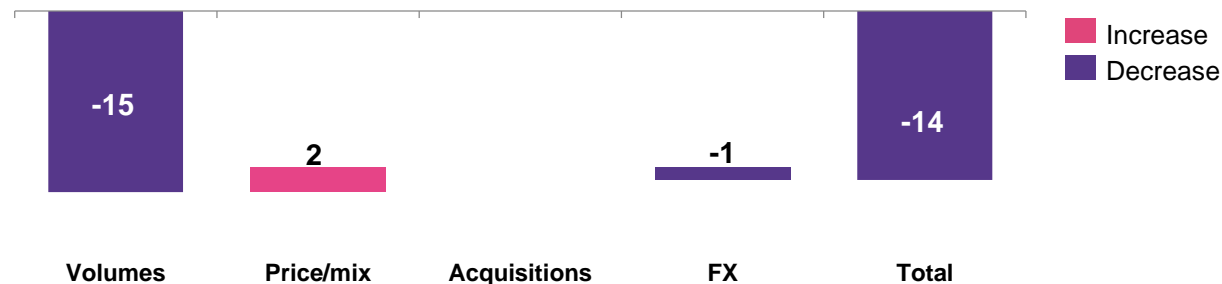
**ROI% = 12 months adjusted operating income/12 months average invested capital.

Half-year 2020: Performance Coatings

€ million	H1 2019	H1 2020	Δ%	Δ%CC
Revenue	2,771	2,381	(14%)	(13%)
Adjusted EBITDA	423	369	(13%)	
Adjusted operating income	335	293	(13%)	
Operating income	271	271	-	
ROS%*	12.1%	12.3%		
ROI%**	20.6%	19.0%		

- Revenue was 14% lower and 13% lower in constant currencies, with 2% positive price/mix, more than offset by 15% lower volumes, mainly due to the impact of COVID-19 on end market demand
- Adjusted operating income was €293 million (2019: €335 million) with margin management and cost savings more than offset by lower volumes, mainly due to the impact of COVID-19
- Operating income was flat at €271 million

Revenue development H1 2020 (%)



*ROS% = Adjusted operating income/revenue

**ROI% = 12 months adjusted operating income/12 months average invested capital.

Representation of revenue 2019

€ million	Q1 2019		Q2 2019		Q3 2019		Q4 2019	
	Reported	Represented	Reported	Represented	Reported	Represented	Reported	Represented
Decorative Paints EMEA	506	498	620	611	573	565	462	454
Decorative paints South America	99	98	103	102	121	120	139	137
Decorative Paints Asia	240	240	284	284	283	283	277	277
Other/eliminations	(1)	-	(2)	0	0	0	(1)	0
Decorative Paints total	844	836	1,005	997	977	968	877	868
Powder Coatings	298	298	317	316	314	313	305	302
Marine and Protective Coatings	300	295	341	338	335	331	330	326
Automotive and Specialty Coatings	336	319	364	345	344	326	344	328
Industrial Coatings	424	420	445	439	451	441	411	407
Other/eliminations	(19)	1	(22)	0	(26)	2	(29)	3
Performance Coatings total	1,339	1,333	1,445	1,438	1,418	1,413	1,361	1,366
Other/eliminations	2	16	1	16	3	17	4	8
Total	2,185	2,185	2,451	2,451	2,398	2,398	2,242	2,242

Assumptions 2020

- ↯ ROS = adjusted operating income as percentage of revenue (excluding unallocated cost)
- ↯ ROI = adjusted operating income of the last 12 months as percentage of average invested capital (excluding unallocated cost and invested capital)
- ↯ Other activities/eliminations €140-180m
- ↯ Leverage 1-2x net debt/EBITDA by end 2020
- ↯ CapEx €200-250m
- ↯ Effective tax rate 27%
- ↯ Dividend policy “stable to rising”