

# Investor update Q1 2020

April 22, 2020

# AkzoNobel



## Ultimate rust-busting metal paint launched

A new wave of exterior water-based paint has been launched by AkzoNobel which offers superior metal protection. Hammerite Ultima can be applied directly onto any metal surface – as well as rust – without the need for a primer. Suitable for anything from gates and fences to railings and garden furniture.

## Agenda



Key highlights



Financial review



Concluding remarks

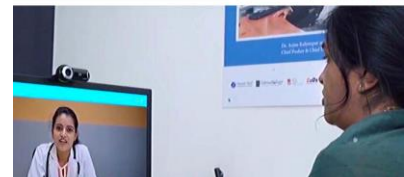


Q&A

# Key highlights

# Q1 2020 showed transformation on track, despite significant market disruption

- Adjusted operating income up 31% at €214 million (2019: €163 million), despite impact from COVID-19
- ROS, excluding unallocated costs, increased to 12.4% (2019: 9.1%) with price/mix up 2%
- Operating income at €187 million (2019: €113 million); OPI margin improved to 9.1% (2019: 5.2%)
- Transformation and other savings delivered €44 million lower costs (compared with the first quarter of 2019)
- In response to significant market disruption resulting from the COVID-19 pandemic, we have paused key parts of our transformation and suspended our 2020 financial ambition
- €408 million of €500 million share buyback program executed during Q1 2020



Villagers living near Bangalore are receiving initial screening for COVID-19 through an existing e-health initiative which had been set up as part of the company's AkzoNobel Cares program. Following the outbreak, the focus of the community healthcare project was changed to help tackle the virus.



# Progress towards 2020 financial ambition, even with initial impact from COVID-19

Q1 2020:

**ROS\***

Increased to **12.4%**  
(2019: 9.1%)

**Price/mix**

Up **2%**

**Adjusted EPS**  
(continuing operations)

**54% higher**

**ROI\*\***

Up at **18.3%**  
(2019:16.2%)

**Adjusted operating income**

**31% higher**

**€500 million share buyback almost complete**

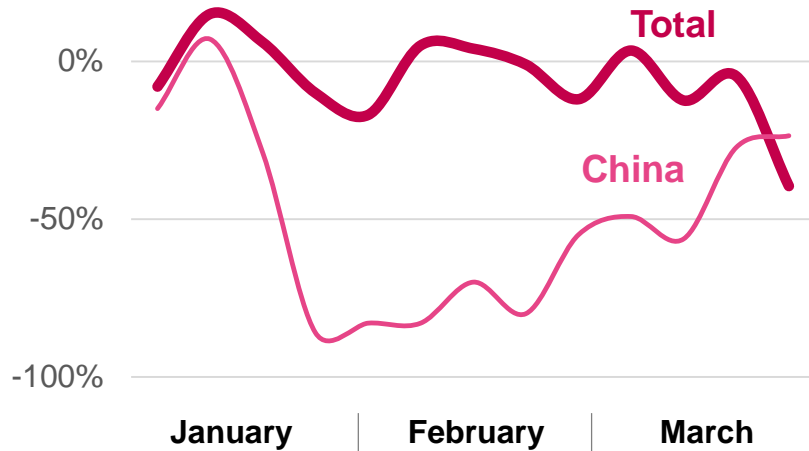
\*ROS = adjusted operating income as percentage of revenue (excluding unallocated cost)

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

# COVID-19 impact significant in China, increasing in other regions and segments

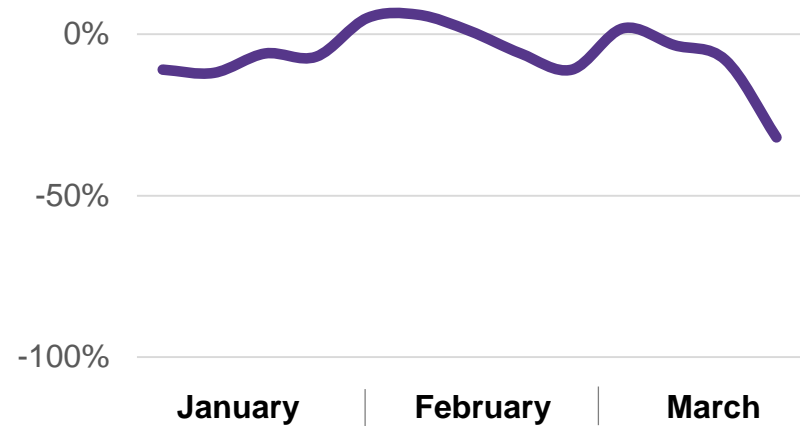
## Decorative Paints

Revenue development Q1 2020 ( $\Delta\%$ )



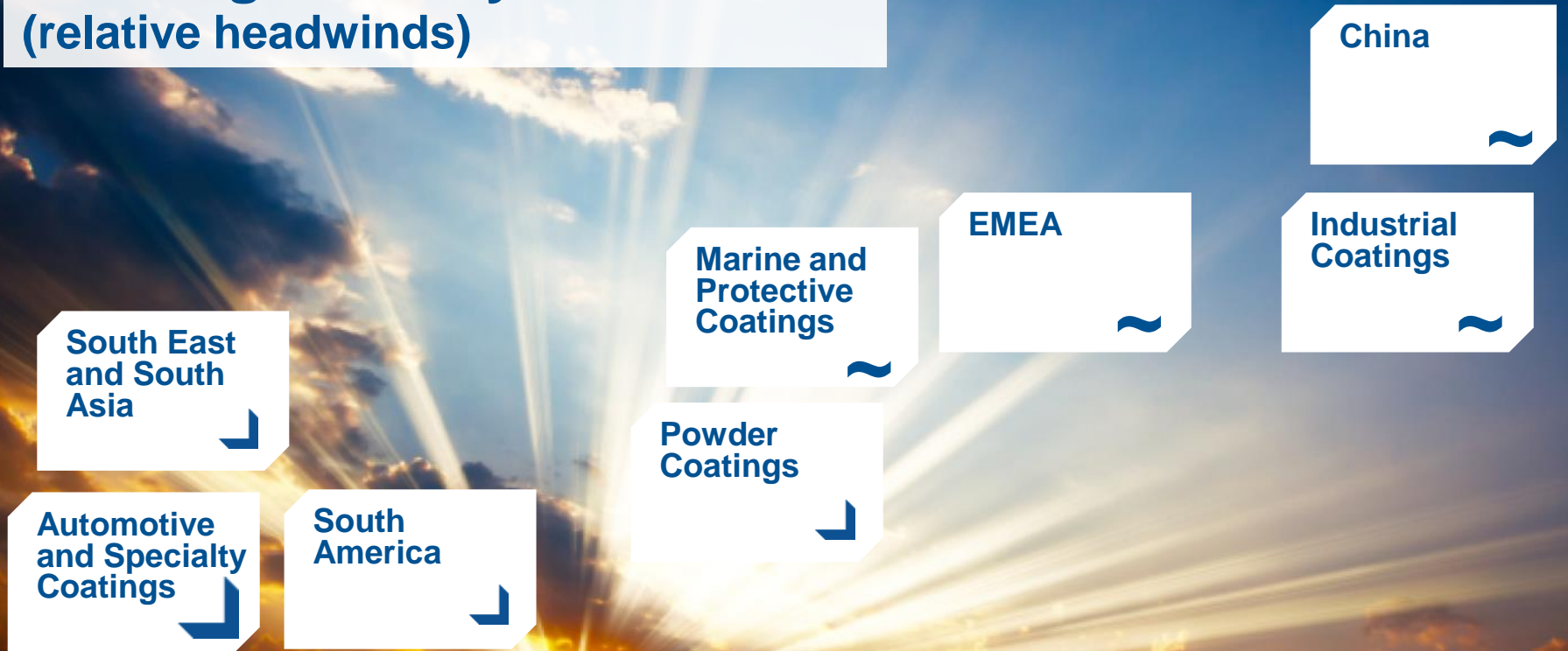
## Performance Coatings

Revenue development Q1 2020 ( $\Delta\%$ )



**End market demand expected to be significantly lower in Q2 (relative headwinds)**

**AkzoNobel**



# Key parts of transformation paused, taking steps to rapidly reduce costs



Sales force effectiveness  
**Margin management**  
Innovation excellence

**Price/mix up 2%**

Ongoing margin management in place



**Global Business Services**  
**Integrated Business Planning**  
**ERP and systems platform**

GBS transitions: 8 completed, 18 remain in progress

ERP integration in Middle East successful, Q2 integrations paused

Moved from monthly to weekly demand and supply cycle



ALPS continuous improvement  
**Fit-for-purpose organization**  
**Procurement excellence**

Central procurement team ensured continuity of supply

**Delivered €44m cost savings overall**



**High performance culture**  
Career and capability development  
**Core principles**

Global and regional COVID-19 response teams in place

**Focused AkzoNobel Cares program on COVID-19 response**

Highest employee engagement (OHI score)



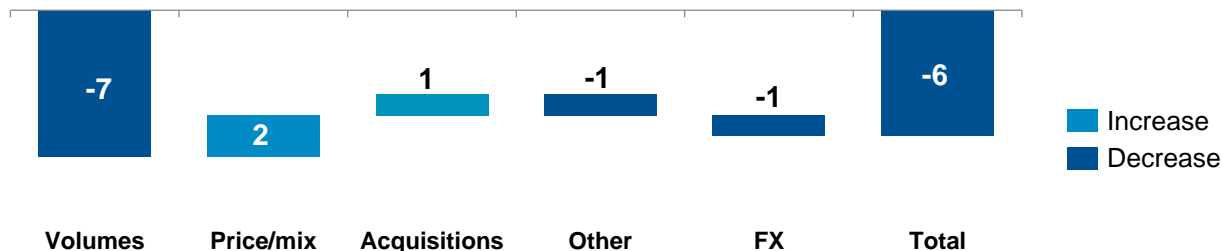
# Financial review

# Q1 2020 ROS\* increased 330bps to 12.4%, despite softer end market demand

€ million	Q1 2019	Q1 2020	Δ%	Δ%CC
Revenue	2,185	2,058	(6%)	(5%)
Adjusted EBITDA	248	302	22%	
<b>Adjusted operating income</b>	<b>163</b>	<b>214</b>	<b>31%</b>	
Operating income	113	187	65%	
<b>ROS<sup>1</sup> excluding unallocated cost</b>	<b>9.1%</b>	<b>12.4%</b>		
<b>ROS</b>	<b>7.5%</b>	<b>10.4%</b>		
ROI% <sup>2</sup> excluding unallocated cost	16.2%	18.3%		

- ↗ We estimate that the COVID-19 crisis has negatively impacted Q1 revenue by around 5%
- ↗ Revenue was 6% lower, and 5% lower in constant currencies. Price/mix was up 2% overall. Volumes were 7% lower, mainly due to impact of COVID-19 on end market demand
- ↗ Operating income increased to €187 million (2019: €113 million) and included negative identified items of €27 million, mainly related to transformation costs

## Revenue development Q1 2020 (%)



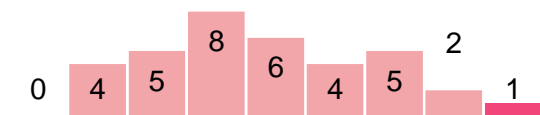
<sup>1</sup>ROS = adjusted operating income as percentage of revenue (excluding unallocated cost)

<sup>2</sup>ROI = adjusted operating income of the last 12 months as percentage of average invested capital (excluding unallocated cost and invested capital).

# Price/mix continued positive trend, volumes lower mainly due to COVID-19

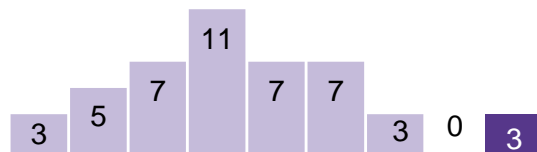
## Decorative Paints

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



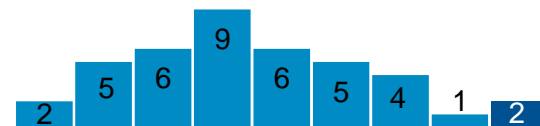
Q1 18 Q2 18 Q3 18 Q4 18 Q1 19 Q2 19 Q3 19 Q4 19 Q1 20

## Performance Coatings



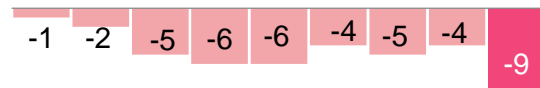
Q1 18 Q2 18 Q3 18 Q4 18 Q1 19 Q2 19 Q3 19 Q4 19 Q1 20

## Total

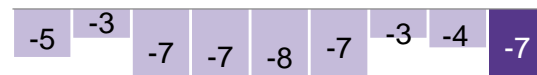


Q1 18 Q2 18 Q3 18 Q4 18 Q1 19 Q2 19 Q3 19 Q4 19 Q1 20

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



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



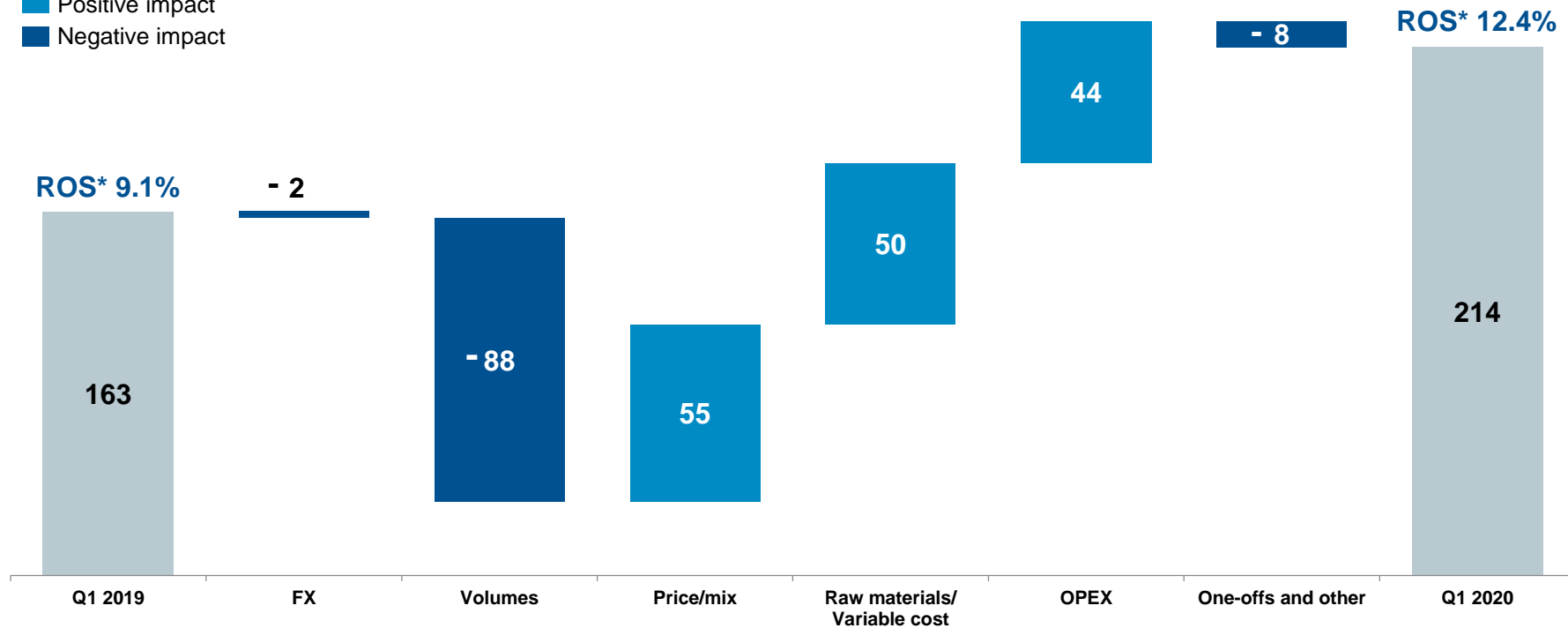
Q1 18 Q2 18 Q3 18 Q4 18 Q1 19 Q2 19 Q3 19 Q4 19 Q1 20

\*Organic volume development, does not include acquisition impact

# Adjusted operating income 31% higher, with lower volumes offset by cost savings

Adjusted operating income

- Positive impact
- Negative impact

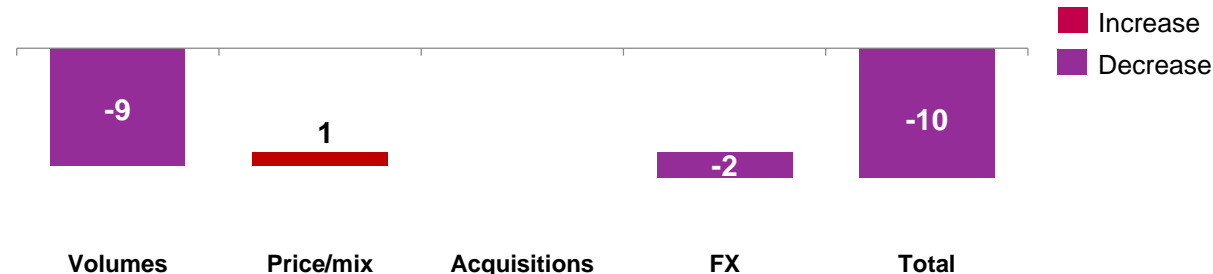


# Decorative Paints ROS up 130bps at 8.5%, despite COVID-19 impact mainly in Asia

# AkzoNobel

€ million	Q1 2019	Q1 2020	Δ%	Δ%CC
Revenue	836	754	(10%)	(8%)
Adjusted EBITDA	95	100	5%	
<b>Adjusted operating income</b>	<b>60</b>	<b>64</b>	<b>7%</b>	
Operating income	54	58	7%	
<b>ROS<sup>1</sup></b>	<b>7.2%</b>	<b>8.5%</b>		
RO <sub>IC</sub> <sup>2</sup>	12.0%	14.1%		

Revenue development Q1 2020 (%)



When Chinese authorities announced they were about to rapidly construct a hospital in Yinchuan the local AkzoNobel organization sprang into action. AkzoNobel moved quickly to donate 450 tins of Dulux Pro interior emulsion during the early days of the project. It helped to ensure that the new buildings could be completed on time (in just 15 days) as part of an urgent local response to the COVID-19 outbreak.

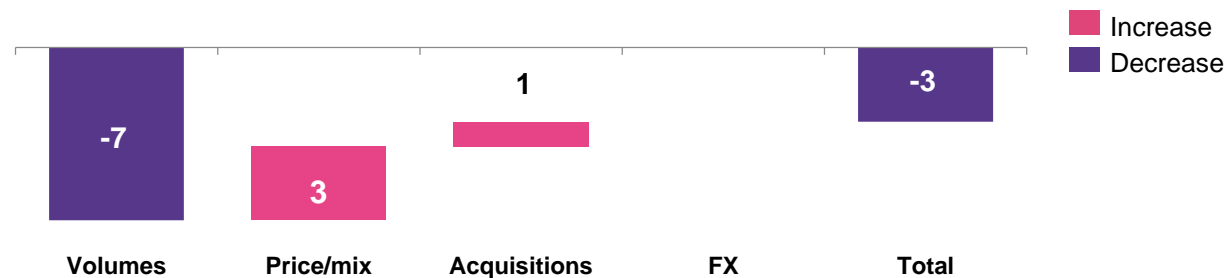
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# Performance Coatings ROS 330bps higher, AkzoNobel while end market demand lower

€ million	Q1 2019	Q1 2020	Δ%	Δ%CC
Revenue	1,333	1,295	(3%)	(3%)
Adjusted EBITDA	182	230	26%	
<b>Adjusted operating income</b>	<b>138</b>	<b>190</b>	<b>38%</b>	
Operating income	97	182		
<b>ROS<sup>1</sup></b>	<b>10.4</b>	<b>14.7</b>		
ROIC <sup>2</sup>	20.1	22.0		

Revenue development Q1 2020 (%)



The BMW Group has chosen AkzoNobel to be a trusted supplier of vehicle refinish products and services to a large part of its distribution network around the world. The deal came into effect on February 1, 2020. Covering 44 locations, the agreement means that the company's premium Sikkens and Lesonal brands are now approved for paint repairs of BMW and Mini passenger cars.

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# Q1 adjusted EPS up 54% at €0.71 mainly due to higher operating income

€ million	Q1 2019	Q1 2020
<b>Operating income</b>	<b>113</b>	<b>187</b>
Net financing expenses	(13)	(13)
Results from associates and joint ventures	5	7
<b>Profit before tax</b>	<b>105</b>	<b>181</b>
Income tax	(31)	(54)
<b>Profit from continuing operations</b>	<b>74</b>	<b>127</b>
Profit from discontinued operations	-	(1)
<b>Profit for the period</b>	<b>74</b>	<b>126</b>
Non-controlling interests	(9)	(12)
<b>Net income from total operations</b>	<b>65</b>	<b>114</b>

Earnings per share (in €)	Q1 2019	Q1 2020
<b>Total operations</b>	<b>0.28</b>	<b>0.59</b>

Adjusted earnings per share (in €)	Q1 2019	Q1 2020
Continuing operations	0.46	0.71

- ↑ Outstanding share capital was 199.9 million common shares at the end of March 2020
- ↑ The weighted average number of shares in Q1 2020 was 194.0 million (2019: 234.3 million). This number of shares was the basis for the calculation of earnings per share in Q1 2020



# Strong balance sheet and solid cash position

€ million	Q1 2019	Q1 2020
<b>EBITDA</b>	<b>198</b>	<b>277</b>
Impairment losses	33	-
Changes in working capital	(421)	(353)
Pension pre-funding	(161)	-
Pension top-up payments	(478)	(5)
Other changes in provisions	(20)	(33)
Interest paid	(6)	(5)
Income tax paid	(30)	(34)
Other changes	-	(7)
<b>Net cash from operating activities</b>	<b>(885)</b>	<b>(160)</b>
Capital expenditures	(37)	(46)
<b>Free cash flow</b>	<b>(922)</b>	<b>(206)</b>
<b>Net Debt</b>	<b>(1,259)</b>	<b>1,496</b>
<b>Leverage (Net Debt/EBITDA*)</b>	<b>(1.4)</b>	<b>1.2</b>

- Excluding the impact of pension pre-funding and pension top-up payments the cash generation in Q1 2020 improved by €82 million, mainly due to higher EBITDA and lower outflow for working capital
- Issued €750 million bond at attractive terms, with a ten-year maturity and a coupon of 1.625%
- Next bond maturity is €750 million in July 2022



\*Last twelve months.



# Capital allocation priorities unchanged

Pension liabilities de-risked

€500m share buyback almost completed

**Profitable organic growth**

~2.5% capital expenditures/revenue

**Dividend**

Stable to rising

**Acquisitions**

Strategically aligned and value creating

**Shareholder returns**

Modular share buybacks

Leverage ratio  
1-2x  
net debt/EBITDA

Retain strong  
investment  
grade  
credit rating



# Concluding remarks

# Q1 2020 showed transformation on track, despite significant market disruption

- ↗ Adjusted operating income up 31% at €214 million (2019: €163 million), despite impact from COVID-19
- ↗ ROS, excluding unallocated costs, increased to 12.4% (2019: 9.1%) with price/mix up 2%
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- ↗ €408 million of €500 million share buyback program executed during Q1 2020



The first in a series of challenging sustainability ambitions have been announced, designed to accelerate the newly focused paints and coatings company towards zero waste and cut carbon emissions in half by 2030. These two key ambitions – and their related targets – are the first in a wave of measures and focus on the “Planet” element of the company’s new “People. Planet. Paint.” approach to sustainability.



AkzoNobel has paused key parts of the company's transformation and suspended its 2020 financial ambition in response to the significant market disruption resulting from the COVID-19 pandemic. Headwinds related to COVID-19 are increasing for most parts of the world and will have a significant impact during Q2.

Demand trends differ per region and segment in an uncertain macro-economic environment. Raw material costs are expected to have a moderately favorable impact for the first half of 2020. Continued margin management and cost-saving programs are in place to address the current challenges. Once markets normalize, AkzoNobel intends to resume its positive momentum and drive performance in line with industry frontrunners.

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



Annual general meeting of Shareholders  
Report for the second quarter

April 23, 2020  
July 22, 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](http://www.akzonobel.com)



# Appendix



# 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
<b>Decorative Paints total</b>	<b>844</b>	<b>836</b>	<b>1,005</b>	<b>997</b>	<b>977</b>	<b>968</b>	<b>877</b>	<b>868</b>
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
<b>Performance Coatings total</b>	<b>1,339</b>	<b>1,333</b>	<b>1,445</b>	<b>1,438</b>	<b>1,418</b>	<b>1,413</b>	<b>1,361</b>	<b>1,366</b>
Other/eliminations	2	16	1	16	3	17	4	8
<b>Total</b>	<b>2,185</b>	<b>2,185</b>	<b>2,451</b>	<b>2,451</b>	<b>2,398</b>	<b>2,398</b>	<b>2,242</b>	<b>2,242</b>

2019 revenue is represented to present revenue from third parties instead of total revenue.  
This table reflects the reported and the represented revenue for Q1 2019

# 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”