

# LANXESS – Q1 2018 Roadshow

New LANXESS shows visible organic earnings growth

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# Agenda

## 01. Executive summary Q1 2018

02. Business and financial details Q1 2018

03. Back-up



# Q1 2018: Strong operating performance, but currencies burden

## Highlights

- Successful pass-through of raw material prices
- Overall strong performance. Improvements in Specialty Additives start to materialize
- Despite strong volume base (Q1 2017 pre-buying) New LXS on par with previous year
- Closing of phosphorus additives acquisition from Solvay
- Ongoing debottlenecking investments, new projects initiated



## Lowlights

- Performance Chemicals hit hardest by FX
- Negative sales effect in BU Leather due to chrome ore price decline and closure of Zárate site
- ARLANXEO with EBITDA drop. However, comparing to high previous year level



# Q1 2018 financial highlights: Nice earnings growth of New LANXESS despite FX headwind



## LXS Group figures

[€ m]	Q1 2017	Q1 2018	yoy in %
Sales	2,401	2,565	7%
EBITDA pre	328	375	14%
margin	13.7%	14.6%	
EPS pre*	1.01	1.33	32%
Capex	57	81	42%

[€ m]	31.12.2017	31.03.2018	Δ %
Net financial debt	2,252	2,375	5%
Net working capital	1,905	2,177	14%

## Key subgroup figures (indicative only)

### NEW LANXESS

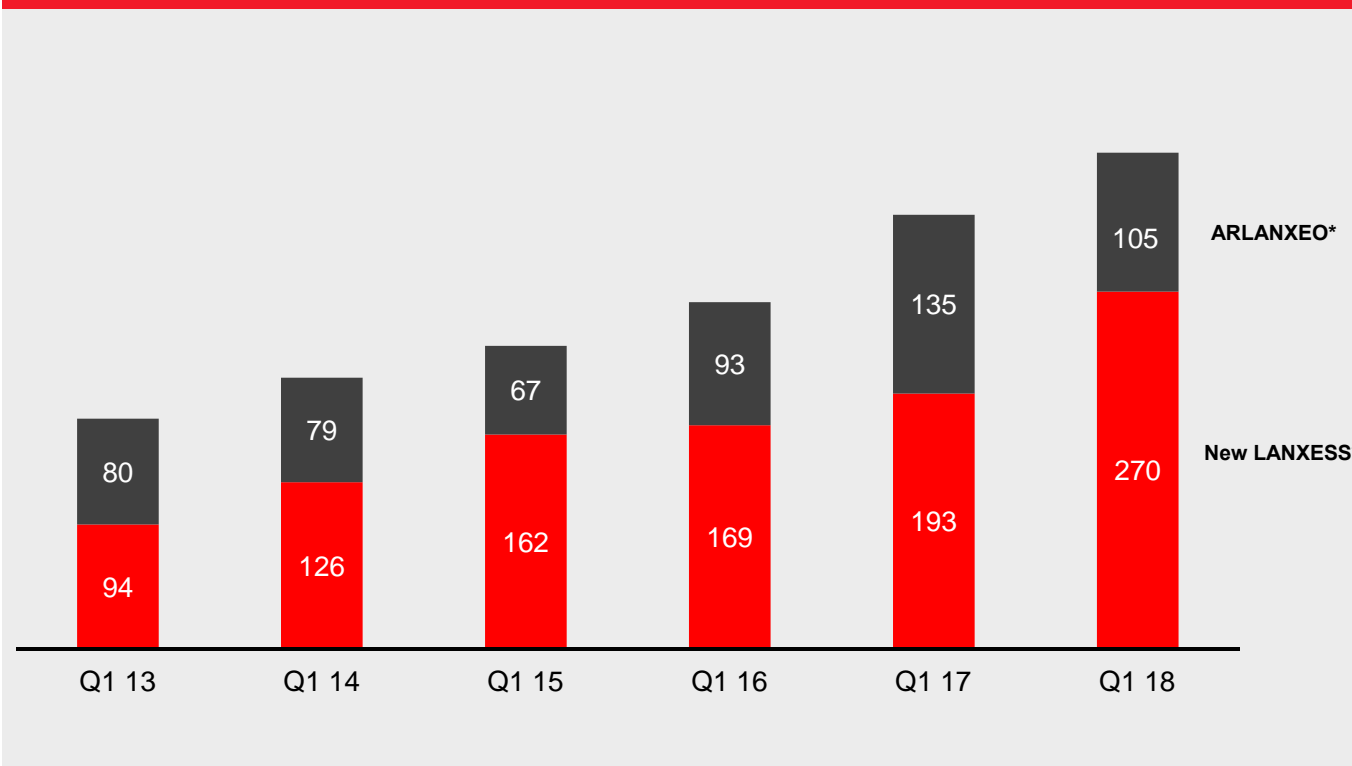
- Sales: 24% increase to €1,804 m
- EBITDA pre: 40% increase to €270 m
- EBITDA pre margin: increase to 15% (+170 bp)

### ARLANXEO

- Sales: -20% decline to €761 m
- EBITDA pre: -22% decline to €105 m
- EBITDA pre margin: decrease to 13.8% (-40 bp)

# New LANXESS EBITDA pre substantially increased over time

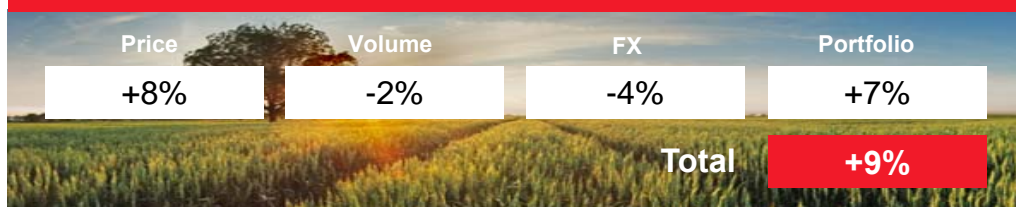
[€ m] EBITDA pre\* development first quarter – indicative only



- Historic performance of New LANXESS Q1 EBITDA pre shows clear growth trend
- Higher earnings volatility in ARL
- Continuous growth and growth stability from New LXS
- Significant increase in Q1 2018 reflects acquisition of Chemtura and synergies

# Q1 2018 segments part I: Positive price development in both segments, currency burdens

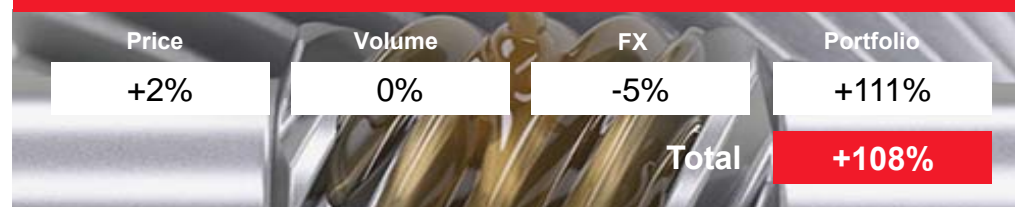
## Advanced Intermediates



- Strong price development in both BUs
- Volume growth in BU All is overcompensated by BU Saltigo
- Portfolio reflects Organometallics
- Despite FX headwind and agro weakness strong operational performance

[€ m]	Q1'17	Q1'18
Sales	518	563
EBITDA pre	91	102
Margin	17.6%	18.1%

## Specialty Additives

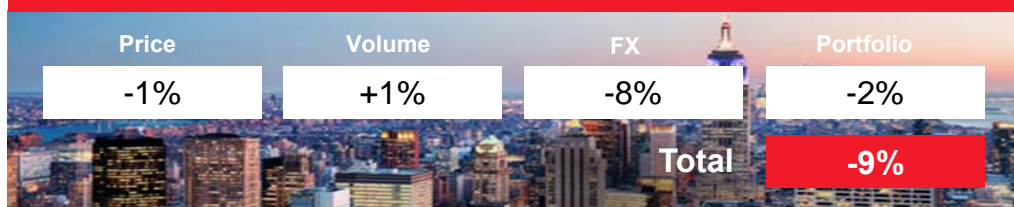


- Portfolio effect (Chemtura and Solvay's phosphorus additives) drives sales
- Positive price development in both BUs
- Volumes on previous year's high level
- EBITDA pre increase driven by portfolio effect and synergies, whilst FX burdens

[€ m]	Q1'17	Q1'18
Sales	239	496
EBITDA pre	44	81
Margin	18.4%	16.3%

# Q1 2018 segments part II: Engineering Materials with strong EBITDA growth, both segments impacted by FX

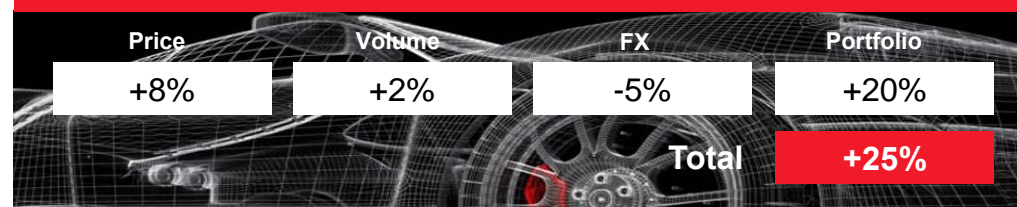
## Performance Chemicals



- Price mainly reflects chrome price decline (BU LEA)
- Further volume growth driven by BU LPT and MPP offset by BU IPG (weather) and BU LEA (Zárate closure)
- Portfolio reflects disposal of chlorine dioxide business (BU MPP)
- EBITDA and margin mainly impacted by negative FX effects and chrome ore price decline

[€ m]	Q1'17	Q1'18
Sales	368	336
EBITDA pre	59	52
Margin	16.0%	15.5%

## Engineering Materials



- Successful pass-on of raw material price increases
- Increased volumes reflect mix effect of strong compound demand
- Portfolio contribution from acquired Urethane Systems
- Improved EBITDA and margin due to acquisition of BU URE, good utilization and strong lightweight compound demand, partly offset by negative currency effects

[€ m]	Q1'17	Q1'18
Sales	315	393
EBITDA pre	48	73
Margin	15.2%	18.6%



# Core macro trends are intact, but weak U.S. dollar might weigh on EBITDA growth

## Macro economic trends

- Ongoing growth in all regions expected
- After soft first half of 2018 agro business is expected to improve gradually
- Risk from trade tariffs might impact global growth

## New LANXESS FY 2018

- Raw material price trend expected to continue upward
- Ongoing FX headwind
- Higher volumes expected even comparing to strong prior year base
- **FY 2018 EBITDA pre expected to increase 5 – 10% yoy (FY 2017: ~€925 m)**



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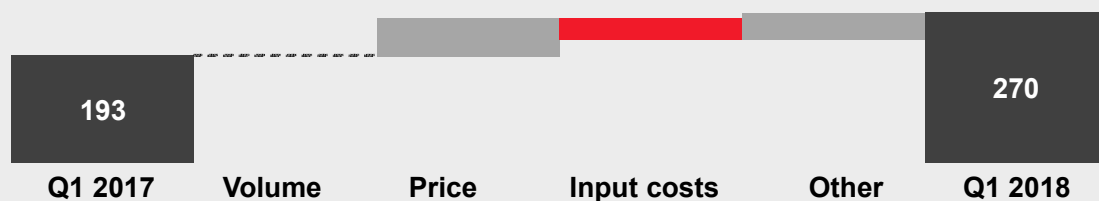


# Q1 2018: Strong pricing and portfolio effect while volumes are stable versus a strong prior year base

Q1 yoy sales variances	Price	Volume	FX	Portfolio	Total
Advanced Intermediates	+8%	-2%	-4%	+7%	+9%
Specialty Additives	+2%	+0%	-5%	+111%	+108%
Performance Chemicals	-1%	+1%	-8%	-2%	-9%
Engineering Materials	+8%	+2%	-5%	+20%	+25%
<b>New LANXESS*</b>	<b>+5%</b>	<b>+1%</b>	<b>-5%</b>	<b>+24%</b>	<b>+24%</b>
LANXESS as reported	0%	-1%	-7%	+15%	+7%

- Sales increase driven by Chemtura acquisition and successful raw material price pass-through (esp. BUs All and HPM)
- Weak volumes in BU SGO and FX headwind with offsetting effect on sales development; tough comparable volumes in previous year

## Q1 yoy New LANXESS EBITDA pre bridge [€ m]\*



- EBITDA pre increase driven by price and portfolio effect
- “Other” includes the portfolio effect and a significant FX burden

# Q1 2018: Substantial earnings improvement

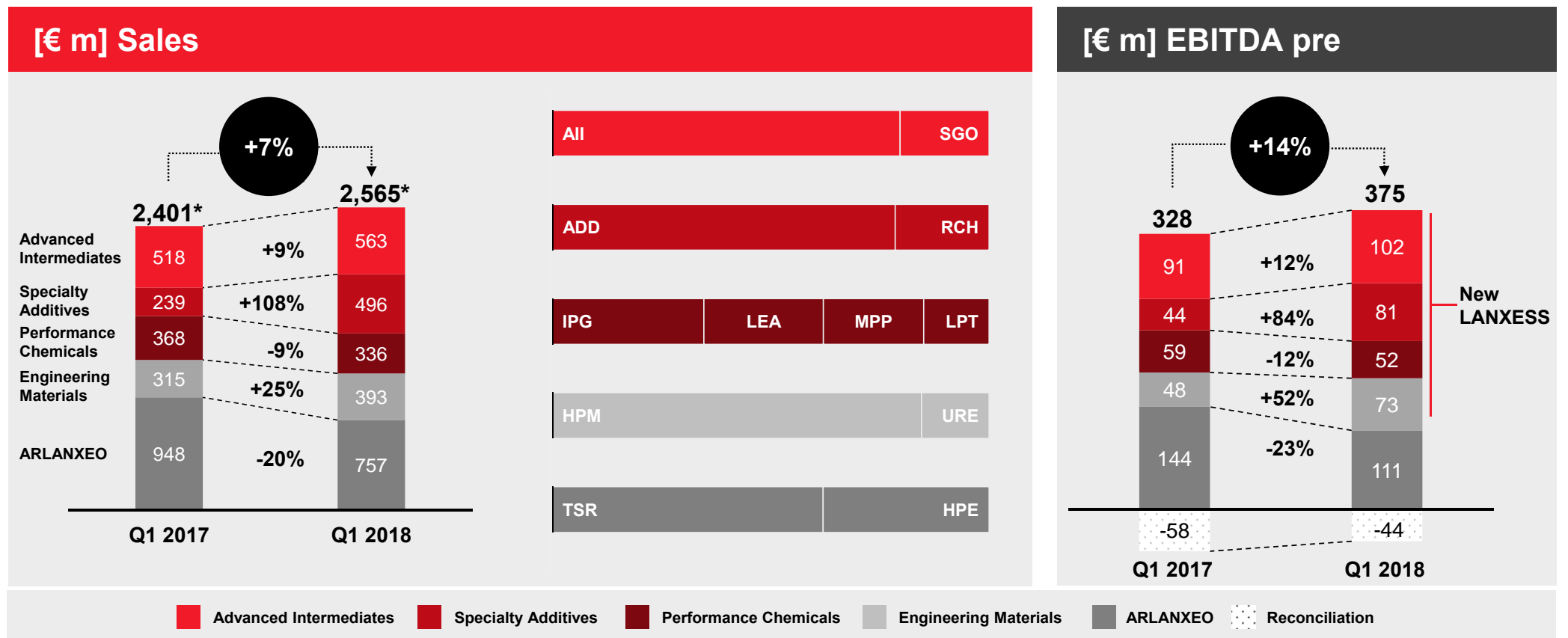


[€ m]	Q1 2017		Q1 2018		yoy in %
Sales	2,401	(100%)	2,565	(100%)	7%
Cost of sales	-1,855	(-77%)	-1,966	(-77%)	-6%
Selling	-218	(-9%)	-248	(-10%)	-14%
G&A	-72	(-3%)	-98	(-4%)	-36%
R&D	-34	(-1%)	-39	(-2%)	-15%
<b>EBIT</b>	<b>192</b>	<b>(8%)</b>	<b>204</b>	<b>(8%)</b>	<b>6%</b>
Non-controlling interests	25	(1%)	13	(1%)	-48%
<b>Net Income</b>	<b>78</b>	<b>(3%)</b>	<b>96</b>	<b>(4%)</b>	<b>23%</b>
<b>EPS pre*</b>	<b>1.01</b>		<b>1.33</b>		<b>32%</b>
EBITDA	316	(13%)	358	(14%)	13%
thereof exceptionals	-12	(0%)	-17	(-1%)	42%
<b>EBITDA pre exceptionals</b>	<b>328</b>	<b>(13.7%)</b>	<b>375</b>	<b>(14.6%)</b>	<b>14%</b>

- Sales benefit from price increase and Chemtura consolidation, FX burdens
- SG&A increase mainly due to portfolio effect
- Net income benefits from a more favorable tax rate and lower deductions for minorities (ARLANXEO)
- Exceptionals mainly driven by restructuring and Chemtura synergies

**Q1 provides a solid foundation for 2018**

# Q1 2018: Strong sales and EBITDA pre development in most New LANXESS segments



# Cash Flow Q1 2018 improved

[€ m]	Q1 2017	Q1 2018
<b>Profit before tax</b>	<b>162</b>	<b>163</b>
Depreciation & amortization	124	154
Financial (gain) losses	20	19
Income taxes paid	-65	-37
Changes in other assets and liabilities	42	41
<b>Operating cash flow before changes in WC</b>	<b>283</b>	<b>340</b>
Changes in working capital	-273	-318
<b>Operating cash flow</b>	<b>10</b>	<b>22</b>
<b>Investing cash flow</b>	<b>-15</b>	<b>-133</b>
Thereof capex	-57	-81
<b>Financing cash flow</b>	<b>52</b>	<b>13</b>

- Depreciation & amortization increase due to Chemtura acquisition
- Payment of income taxes influenced by timing effects
- Higher seasonal working capital build-up
- Investing cash flow contains the acquisition of Solvay's phosphorus additives business
- Capex increases due to Chemtura acquisition and additional growth capex

# Balance sheet with stable equity ratio

[€ m]	31.12.2017	31.03.2018
<b>Total assets</b>	<b>10,396</b>	<b>10,420</b>
Equity (incl. non-controlling interest)	3,413	3,425
<b>Equity ratio</b>	<b>33%</b>	<b>33%</b>
<b>Net financial debt</b> (after deduction of current financial assets)	<b>2,252</b>	<b>2,375</b>
Near cash, cash & cash equivalents	588	488
<b>Pension provisions</b>	<b>1,490</b>	<b>1,502</b>
<b>Net working capital</b>	<b>1,905</b>	<b>2,177</b>
DSI (in days)*	65	65
DSO (in days)**	51	45

- Net financial debt increases due to seasonal working capital build-up and cash out for Solvay acquisition
- Net working capital rise driven by seasonal increase
- Technical DSO decline due to IFRS 15 adjustment

# Stable and solid balance sheet with only minor variation post the Chemtura consolidation

[€ m]	Dec 2017	Mar 2018		Dec 2017	Mar 2018
<b>Non-current assets</b>	<b>6.439</b>	<b>6.357</b>	<b>Stockholders' equity</b>	<b>3,413</b>	<b>3,425</b>
Intangible assets	1.769	1.761	attrib. to non-contr. interests	1,126	1,115
Property, plant & equipment	4.059	3.977	<b>Non-current liabilities</b>	<b>4,525</b>	<b>4,510</b>
Equity investments	0	0	Pension & post empl. provis.	1,490	1,502
Other investments	9	9	Other provisions	460	437
Other financial assets	20	39	Other financial liabilities	2,242	2,231
Tax receivables	20	12	Tax liabilities	119	125
Other non-current assets	562	559	Other liabilities	101	102
<b>Current assets</b>	<b>3.957</b>	<b>4.063</b>	Deferred taxes	113	113
Inventories	1.680	1.843	<b>Current liabilities</b>	<b>2,458</b>	<b>2,485</b>
Trade account receivables	1.316	1.292	Other provisions	525	587
Other current financial assets	7	50	Other financial liabilities	633	683
Other current assets	366	390	Trade accounts payable	1,048	958
Near cash assets	50	50	Tax liabilities	61	62
Cash and cash equivalents	538	438	Other liabilities	191	195
<b>Total assets</b>	<b>10.396</b>	<b>10.420</b>	<b>Total equity &amp; liabilities</b>	<b>10,396</b>	<b>10,420</b>

IFRS 15 effects mainly reflected in receivables and inventories



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# Housekeeping items – New LANXESS (excluding ARLANXEO)

## New LANXESS financial expectations

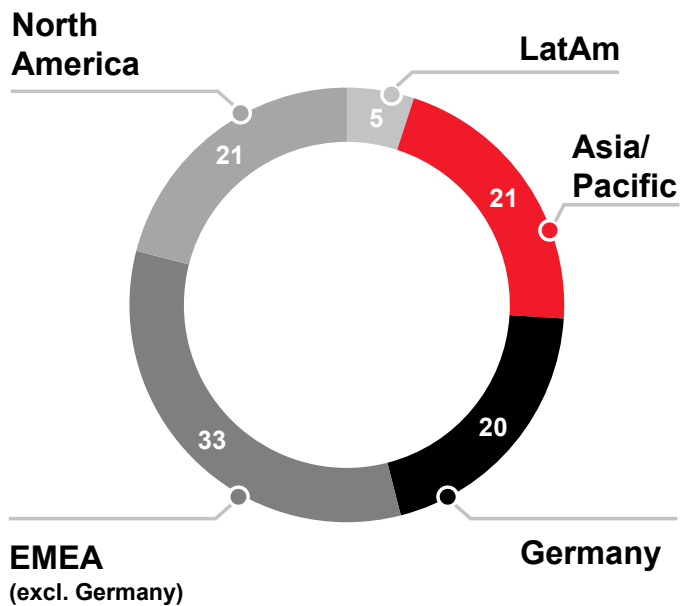
- **Capex 2018:** €450 m-€500 m
- **Operational D&A 2018:** ~€400 m
- **Reconciliation 2018:** around previous year level (~€150 m)
- **Tax rate:** lower end of 30%-35%
- **FX sensitivity:** one cent change of USD/EUR ~€7 m EBITDA pre impact before hedging



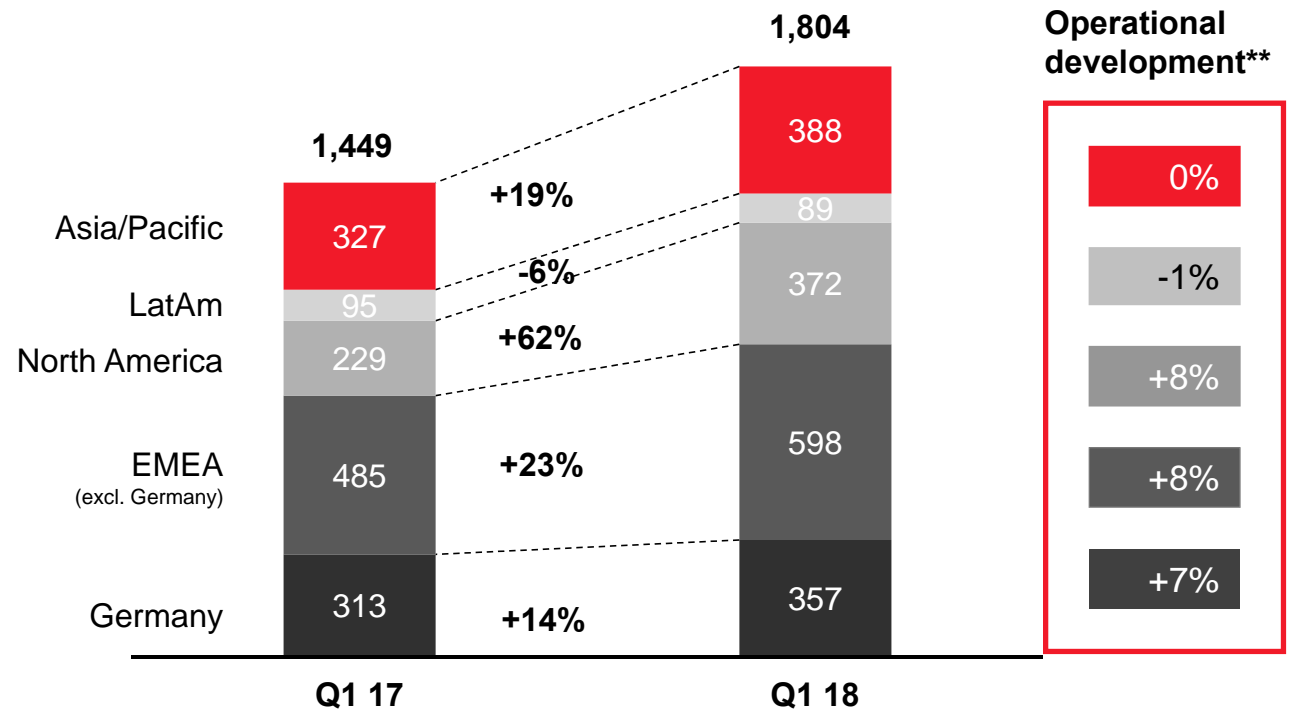
- **As of Q2 2018:** ARLANXEO as “discontinued operations” with a restatement of 2017 and 2018 YTD figures (P&L)
- **As of Q2 2019:** ARLANXEO accounted for “at equity”
- **IFRS 15** has been applied since January 1, 2018; no material impact on result

# Q1 2018: New LANXESS with strong operational development in EMEA and North America

Q1 2018 sales by region\* [%]



Regional development of sales\* [€ million]



# Transition effects from IFRS 15

Selected Balance Sheet items	31.12.2017	Transition IFRS 15	01.01.2018	31.03.2018
<b>Assets [€ m]</b>				
Inventories	1,680	+124	1,804	1,843
Trade receivables	1,316	-196	1,119	1,292
Deferred taxes	442	+10	452	441
Other current financial assets	7	+36	43	50
Other non-current financial assets	20	+20	40	39
		∑ -7		
<b>Liabilities [€ m]</b>				
Equity	3,413	-14	3,398	3,425
Deferred taxes	113	+5	118	113
Other current liabilities	179	+3	182	186
Other non-current liabilities	99	0	99	101
		∑ -7		

## Negligible P&L impact

- New IFRS 15 first applicable as from 1st of January, 2018
- Minor transition effect on balance sheet total from IFRS 15
- Visible shift between inventories and trade receivables due to different revenue recognition
- No visible impact on income statement, net effect on sales and cogs below ~€1 m

# LANXESS delivers on organic growth

## Organic investment program well on track

## Capex

<b>BU All:</b>	Capacity increase for DCB* initiated, Leverkusen (Germany), finalized beginning 2019	not discl.
	Additional MEA* capacity, Brunsbüttel (Germany), already available	~€15 m
<b>BU SGO:</b>	Successful debottlenecking in Leverkusen (Germany) end of 2017, custom manufacturing focusing on agro	~€60 m
<b>BU RCH:</b>	New production line zinc oxide, Uerdingen (Germany), to be finalized end of 2018	~€10 m
<b>BU IPG:</b>	State of the art facility for iron oxides, Ningbo (China)	~€60 m
	Planned capacity increase for iron oxides, in Germany and Brazil, available in 2019	not discl.
<b>BU HPM:</b>	New compounding facility in Changzhou (China), available Q2 2019, further expansion of engineering plastics capacity	~€20 m

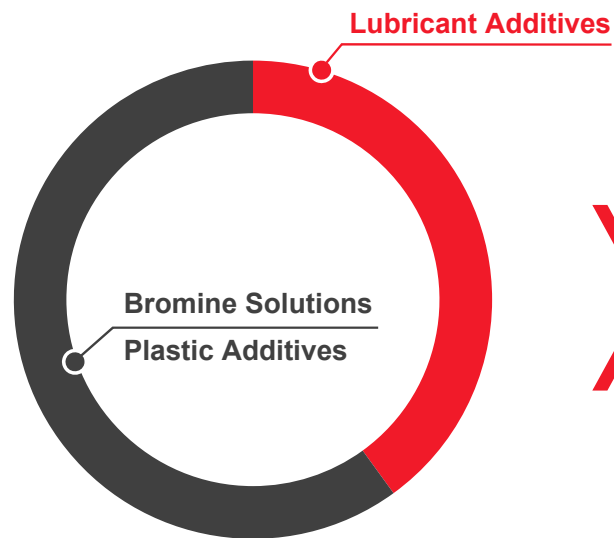
**For New LANXESS: until 2020 ~€400 m capex at ROCE of ~20%**



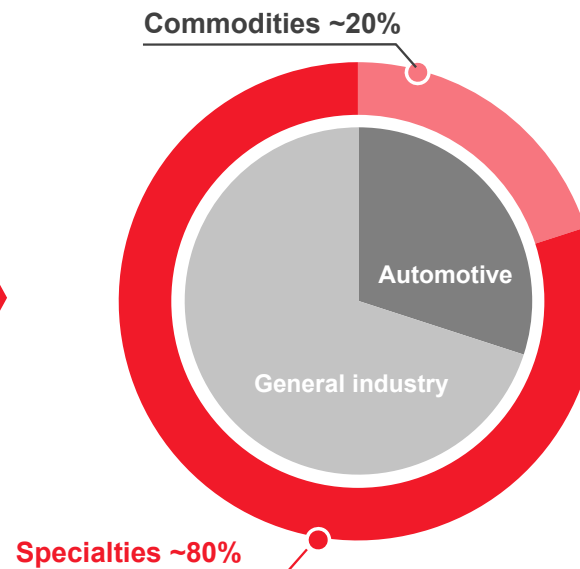
# Business Unit Additives with strong focus on high value-add industrial lubricant solutions

## Well diversified and specialized lubricants portfolio

Sales of Business Unit Additives



Business split Lubricant Additives



*illustrative*

## A leading specialties player

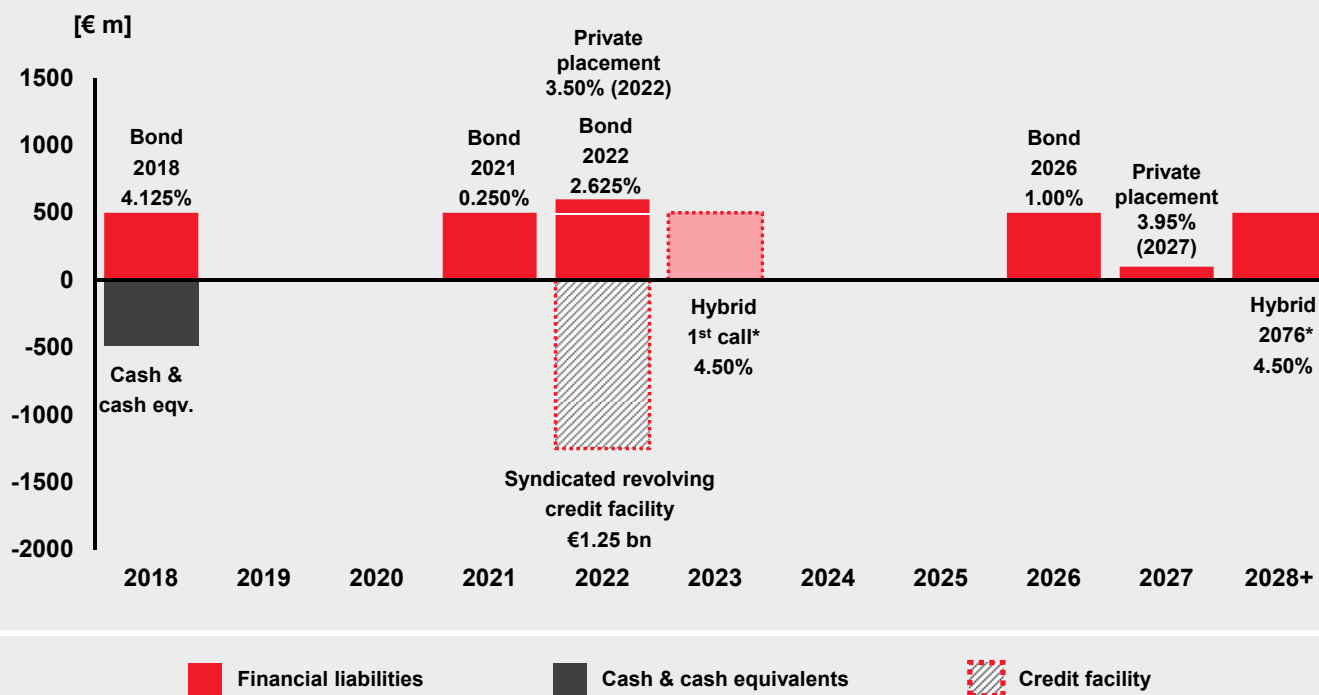
- **Highly diversified** end-market split with focus on industrial lubricants
- **Strong expertise** in high value-add specialty lubricants
- **Leading positions** in mid-sized and niche markets
- **Automotive exposure** well balanced with additives and base stocks only for high grade specialty engine oils (highest category 4 & 5)

# Maturity profile actively managed and well balanced

## Long-term financing secured

- Diversified financing sources
  - Bonds & private placements
  - Syndicated credit facility
- Average interest rate of financial liabilities <3%
- All group financing executed without financial covenants

## Liquidity and maturity profile as per March 2018





**LANXESS**  
Energizing Chemistry

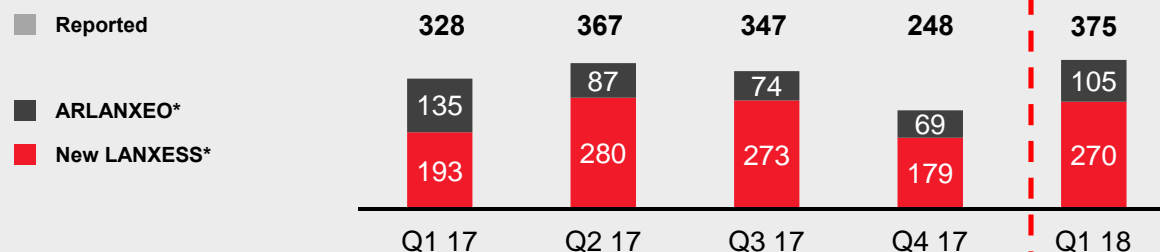
## Back-up

ARLANXEO discontinued operations



# ARLANXEO copes well with challenging market conditions, even though at normalized level

## [€ m] EBITDA pre\* (indicative only)

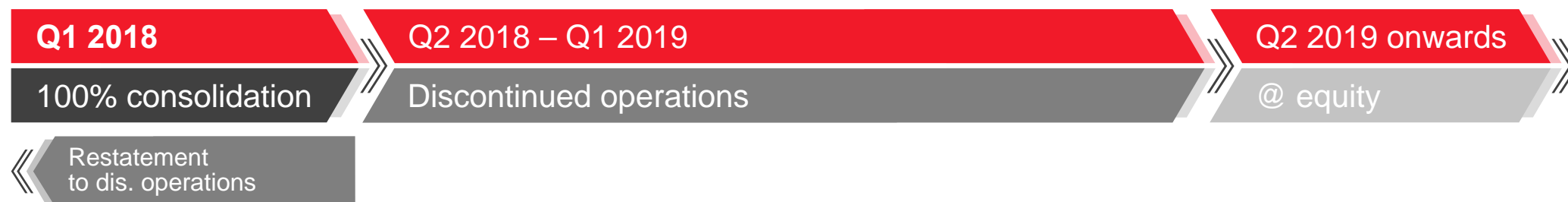


[€ m]	LXS group	ARLANXEO*	New LANXESS*
<b>Sales</b>	<b>2,565</b>	<b>761</b>	<b>1,804</b>
<b>EBITDA pre margin</b>	<b>375</b> 14.6%	<b>105</b> 13.8%	<b>270</b> 15.0%
Capex	81	21	60
Net financial debt	2,375	-128	2,503
Pension provisions	1,502	249	1,253

### ARLANXEO Q1 2018:

- Sales bridge:
  - price: -8%
  - volume: -4% (pre-buying 2017)
  - FX: -9%
- Comparison to unusually strong Q1 2017 base
- Ongoing EPDM margin pressure
- Substantial adverse FX effect
- Scheduled maintenance shutdown in Singapore
- Starting in Q2 2018, ARLANXEO will no longer be included in LANXESS' operational results

# Details on accounting for discontinued operations of ARLANXEO



## Q1 2018: legally reported as usual

- Further indication about key financial figures of the New LANXESS will be distributed\*

## Q2 2018: ARLANXEO will switch to discontinued operations

- Net income from discontinued operations will be the only ARLANXEO line item in P&L
- ARLANXEO assets will not be depreciated but accounted for lower of carrying amount and fair value
- Discontinued operations accounting also to be retroactively applied to YTD 2018 as of Q2
- ARLANXEO assets & liabilities will be reflected in balance sheet in one line item each
- ARLANXEO additional information will be shown in the notes in annual report 2018

## Q2 2019: ARLANXEO will be accounted for as at equity and shown within the financial result

# Details on accounting for discontinued operations of ARLANXEO and on New LANXESS (starting Q2 2018)



## Income Statement

- A discontinued operation is reported as income separate from continued operations
- EPS from discontinued, continuing & total to be reported
- Restatement of previous years' figures

## Balance Sheet

- Line items "Assets and liabilities held for sale and discontinued operations" will be shown under "current assets" and "current liabilities" respectively
- No restatement of previous years' figures

## Cash Flow Statement

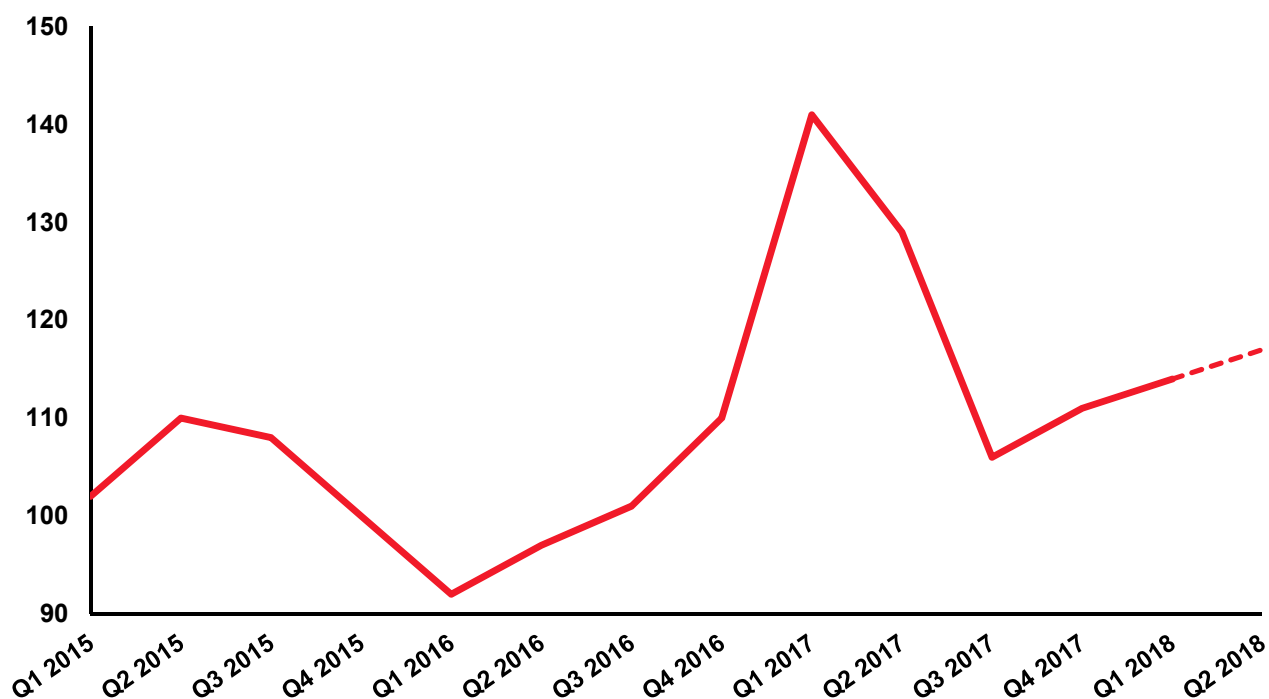
- Presentation of cash flows from continuing operations
- Restatement of previous years' figures

## ROCE

- ROCE definition will be adjusted for "continuing operations"

# Raw material prices with slight upward trend but lower volatility

## Global raw materials index\*



- 2017 started with a spike in raw material prices which reversed in Q2 and Q3
- Raw material costs have gradually increased during Q4 2017 and Q1 2018 on the back of a rising oil price
- We expect the slight upward trend to continue during Q2 2018

# Overview exceptional items Q1 2017 and Q1 2018

[€m]	Q1 2017		Q1 2018	
	Excep.	Thereof D&A	Excep.	Thereof D&A
Advanced Intermediates	0	0	0	0
Specialty Additives	0	0	0	0
Performance Chemicals	0	0	1	0
Engineering Materials	0	0	0	0
ARLANXEO	2	0	0	0
Reconciliation	10	0	16	0
<b>Total</b>	<b>12</b>	<b>0</b>	<b>17</b>	<b>0</b>



# Upcoming events 2018

## Proactive capital market communication

▪ <b>Q1 2018 results</b>	<b>May 4</b>	
▪ <b>Annual General Meeting 2018</b>	<b>May 15</b>	<b>Cologne</b>
▪ Commerzbank Northern European Conference	May 17	Boston
▪ mBank Chemicals Day 2018	June 5	Warsaw
▪ dbAccess Berlin Conference	June 6/7	Berlin
▪ Citi's London Chemicals Conference	June 21	London
▪ Morgan Stanley Cannon Ball Run	June 26	Cologne
▪ <b>Q2 2018 results</b>	<b>August 2</b>	
▪ <b>Analyst Roundtable</b>	<b>September 20</b>	
▪ <b>Q3 2018 results</b>	<b>November 12</b>	

# Contact details Investor Relations



**Oliver Stratmann**  
Head of Treasury & Investor Relations

Tel.: +49-221 8885 9611  
Fax.: +49-221 8885 5400  
Mobile: +49-175 30 49611  
Email: Oliver.Stratmann@lanxess.com



**Katharina Forster**  
Institutional Investors / Analysts / AGM

Tel.: +49-221 8885 1035  
Mobile: +49-151 7461 2789  
Email: Katharina.Forster@lanxess.com



**Andre Simon**  
Head of Investor Relations

Tel.: +49-221 8885 3494  
Mobile: +49-175 30 23494  
Email: Andre.Simon@lanxess.com



**Janna Günther**  
Private Investors / AGM

Tel.: +49-221 8885 1989  
Mobile: +49-151 7461 2615  
Email: Janna.Guenther@lanxess.com



**Annika Klaus**  
Assistant to Oliver Stratmann

Tel.: +49-221 8885 9834  
Fax.: +49-221 8885 4944  
Mobile: +49-151 74613059  
Email: Annika.Klaus@lanxess.com



**Jens Ussler**  
Institutional Investors / Analysts

Tel.: +49-221 8885 7344  
Mobile: +49-151 7461 2913  
Email: Jens.Ussler@lanxess.com



**Thorsten Zimmermann**  
Institutional Investors / Analysts

Tel.: +49-221 8885 5249  
Mobile: +49-151 7461 2969  
Email: Thorsten.Zimmermann@lanxess.com



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# Abbreviations

## Advanced Intermediates

- **All** Advanced Industrial Intermediates
- **SGO** Saltigo

## Performance Chemicals

- **IPG** Inorganic Pigments
- **LEA** Leather
- **MPP** Material Protection Products
- **LPT** Liquid Purification Technologies

## Specialty Additives

- **ADD** Additives
- **RCH** Rhein Chemie

## Engineering Materials

- **HPM** High Performance Materials
- **URE** Urethane Systems

## ARLANXEO

- **TSR** Tire & Specialty Rubbers
- **HPE** High Performance Elastomers