

Analyst Factsheet

Q3 2017

October 18, 2017

AkzoNobel 

Revenue and volumes up despite strong headwinds; Transformation plan to deliver €110 million savings in 2018

Creating two focused high-performing businesses:

- Initiating phase one of transformation plan to create a fit for purpose Paints and Coatings organization to deliver €110 million savings in 2018, contributing towards the 2020 financial guidance
- New management structure for Paints and Coatings
- Extraordinary General Meeting (EGM) to be held on November 30, 2017
- €1 billion special cash dividend as advance proceeds to be paid on December 7, 2017, following shareholder approval for the separation
- Separation of Specialty Chemicals on track to be completed by April 2018

Q3 2017:

- Volumes 2% higher overall, driven by Decorative Paints and Performance Coatings while flat for Specialty Chemicals despite significant global supply chain disruptions
- Revenue up 1%, mainly due to volume growth and acquisitions, partly offset by adverse currency effects
- EBIT at €383 million (2016: €442 million), impacted by unfavorable currencies, temporary disruption to the manufacturing and supply chain, continued headwinds for Marine and Protective Coatings and margin pressure from raw material cost inflation
- Interim dividend up 51% to €0.56 per share (2016: €0.37)

Outlook

We anticipate positive developments for EMEA (excluding the UK), North America and Asia, while Latin America is expected to stabilize.

Industry specific headwinds continue, including higher raw material prices and challenges for marine and protective coatings.

We are implementing various measures to mitigate current market challenges, including increased selling prices and additional cost control.

EBIT for 2017 is now expected to be in line with 2016, due to ongoing industry specific headwinds and supply chain disruptions.

Highlights Q3 2017

Decorative Paints

Volumes were up 5% due to positive developments in Asia. Revenue was down 1%, with positive volume development more than offset by adverse currency and price/mix effects, mostly due to strong growth in Asia.

EBIT was adversely impacted by continued higher raw material costs in the Paints and Coatings industry, not yet fully compensated, and geographical/product mix effects. Appropriate measures are being taken to address higher raw material costs, including increased selling prices and additional cost control.

Performance Coatings

Volumes were up 1%. Revenue was up 2%, driven by the acquired Industrial Coatings business, as well as positive volume development in Industrial and Powder Coatings, partly offset by adverse currency effects. Adverse conditions persisted in the marine and oil and gas industries.

EBIT was adversely impacted by ongoing weakness in the marine and oil and gas industries, as well as increased costs of raw materials in the Paints and Coatings industry and adverse currency effects. Measures being implemented to mitigate current industry specific headwinds include increased selling prices and additional cost control.

Specialty Chemicals

Volumes were flat despite significant global supply chain disruptions, including Hurricane Harvey. Excluding the impact of supply chain disruptions, volume growth would have been around 3%. China and Brazil continued to grow. Revenue was up 1%, due to positive price/mix effects, partly offset by adverse currencies. Positive price/mix reflects the successful pass through of raw material price inflation.

EBIT was up 1%, with favorable price/mix developments and cost savings mostly offset by adverse currencies and global supply chain disruptions. The EBIT impact from the supply chain disruptions was around €20 million.

Raw materials

Raw material prices were higher compared with the same period in 2016.

We are taking appropriate measures to deal with higher raw material prices in an inflationary environment.

These measures were already effective for Specialty Chemicals, while for Decorative Paints and Performance Coatings it is expected to take several quarters before the necessary mitigating impact is fully realized.

Other activities

The direct impact of disruptions to the manufacturing and supply chain was around €25 million on EBIT in Q3 2017, related to Hurricane Harvey and other events, with the majority of the impact in Specialty Chemicals.

EBIT in other activities improved, due to lower corporate costs including one-off items, as well as lower pension and insurance related costs.

Operating income was negatively impacted by identified items totaling €45 million, mainly related to the implementation of the new strategy to create two focused high-performing businesses. The identified items impacted operating income in other activities.

Cash flows and net debt

Operating activities in Q3 2017 resulted in a cash inflow of €416 million (2016: €600 million).

At September 30, 2017 net debt was €1.7 billion versus €1.3 billion at year-end. The increase is mainly due to pension top-ups which were paid in Q1, the share repurchase program and currency effects.

Financial summary

€ million Unless stated otherwise	2016		2017		
	Q3	Q4	Q1	Q2	Q3
Revenue	3,600	3,456	3,661	3,785	3,624
Decorative Paints	1,021	898	922	1,046	1,007
Performance Coatings	1,406	1,398	1,471	1,504	1,428
Specialty Chemicals	1,202	1,169	1,289	1,259	1,209
Other	(29)	(9)	(21)	(24)	(20)
EBITDA	594	385	534	620	535
D&A	(152)	(150)	(158)	(159)	(152)
EBIT(operating income excluding identified items)	442	235	376	461	383
Decorative Paints	123	51	77	121	95
Performance Coatings	199	152	187	202	147
Specialty Chemicals	168	118	176	179	169
Other	(48)	(86)	(64)	(41)	(28)
Identified items	12	(18)	-	(20)	(45)
Operating income	454	217	376	441	338
Finance income/expenses	(33)	(32)	(22)	(19)	(36)
Results from associates and joint ventures	10	5	8	8	5
Profit before tax	431	190	362	430	307
Income tax	(131)	(39)	(101)	(104)	(82)
Non-controlling interests	(15)	(17)	(21)	(24)	(10)
Discontinued operations	-	(1)	-	(1)	1
Net income attributable to shareholders	285	133	240	301	216
Tax rate	30%	21%	28%	24%	27%

Revenue development

in % versus Q3 2016	Volume	Price/mix	Acquisitions/ Divestments	Exchange rates	Total
Decorative Paints	5	(3)	-	(3)	(1)
Performance Coatings	1	-	5	(4)	2
Specialty Chemicals	-	4	-	(3)	1
Total	2	1	2	(4)	1

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