

Performance Materials

Performance Materials

Key figures

€ million	2020	2019	Change	
			€ million	%
Net sales	3,380	2,574	807	31.3%
Operating result (EBIT) ¹	240	307	-67	-21.7%
Margin (% of net sales) ¹	7.1%	11.9%		
EBITDA ¹	925	637	288	45.2%
Margin (% of net sales) ¹	27.4%	24.8%		
EBITDA pre ¹	1,024	803	221	27.5%
Margin (% of net sales) ¹	30.3%	31.2%		
Business free cash flow¹	847	641	206	32.1%

¹ Not defined by International Financial Reporting Standards (IFRS).

Development of net sales and results of operations

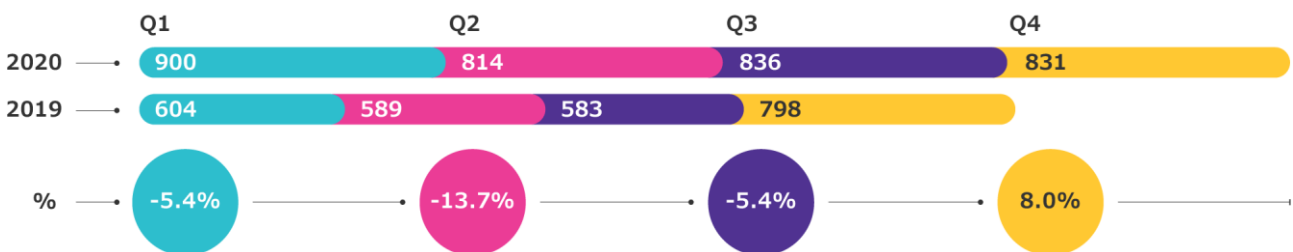
In 2020, net sales of the Performance Materials business sector increased 31.3% to € 3,380 million (2019: € 2,574 million). The acquisitions of Versum Materials and Intermolecular contributed 35.4% to the growth of Performance Materials, but an organic decline of -3.2% and a negative exchange rate impact of -0.9% partially offset the acquisition effects.

The net sales in the individual quarters as well as the respective organic growth rates in 2020 are presented in the following graph:

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Net sales and organic growth¹ by quarter²

€ million/organic growth in %



¹ Not defined by International Financial Reporting Standards (IFRS).

² Quarterly breakdown unaudited.

The Covid-19 pandemic caused a significant demand decrease in both Surface Solutions and Display Solutions in the second quarter of fiscal year 2020 and was a major factor for the organic sales growth development for fiscal year 2020.

The Semiconductor Solutions business unit was transformed through the acquisitions of Versum Materials and Intermolecular in the fourth quarter of 2019. As a result, the share of Performance Materials sales attributable to Semiconductor Solutions increased from 34% to 56%. Semiconductor Solutions now comprises two businesses, Semiconductor Materials and Delivery Systems & Services. Semiconductor Materials will continue to focus on the development and commercialization of material-based solutions for the semiconductor industry. Delivery Systems & Services focuses on developing and operating delivery systems for semiconductor manufacturers. Additionally, the unit offers services to support the equipment install base and safe handling of the specialty materials¹ that flow through it. In Semiconductor Solutions, strong improvement in the underlying

semiconductor markets helped drive organic growth of 14.3% for fiscal 2020. The organic growth was broad based across nearly all of the Semiconductor Materials businesses. Exchange rates negatively impacted net sales by -1.5%. Total growth in Semiconductor Solutions was mainly attributable to the acquisitions of Versum Materials and Intermolecular in the fourth quarter of 2019.

The Display Solutions business unit, consisting mainly of the businesses with liquid crystals, photoresists for display applications as well as OLED materials, recorded a sales decrease of -11.7% for fiscal year 2020, which was in total organically driven. The Covid-19 pandemic had a considerable impact on the development of net sales in 2020.

Net sales of the Surface Solutions business unit decreased by a total of -15.4% in fiscal year 2020. An organic decline of -13.5% was due to Covid-19 pandemic-driven demand decreases in the automotive, industrial and cosmetic markets. Foreign exchange effects contributed a further decrease of -1.9%.

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Net sales by business unit¹

€ million	2020	Share	Organic growth ²	Exchange rate effects	Acquisitions/divestments	Total change	2019	Share
Semiconductor Solutions	1,901	56%	14.3%	-1.5%	>100.0%	>100.0%	878	34%
Display Solutions	1,108	33%	-11.7%	-	-	-11.7%	1,256	49%
Surface Solutions	370	11%	-13.5%	-1.9%	-	-15.4%	438	17%
Other	1	-	-56.2%	0.1%	-	-56.1%	2	-
Performance Materials	3,380	100%	-3.2%	-0.9%	35.4%	31.3%	2,574	100%

¹ Previous year's figures have been adjusted due to internal realignment.

² Not defined by International Financial Accounting Standards (IFRS).

Net sales of the Performance Materials business sector by region developed as follows:

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Net sales by region

€ million	2020	Share	Organic growth ¹	Exchange rate effects	Acquisitions/divestments	Total change	2019	Share
Europe	250	8%	-5.9%	-0.4%	21.5%	15.2%	217	9%
North America	484	14%	2.2%	-3.1%	82.0%	81.2%	267	10%
Asia-Pacific (APAC)	2,582	76%	-3.6%	-0.4%	30.5%	26.5%	2,041	79%
Latin America	28	1%	0.2%	-15.3%	3.9%	-11.2%	32	1%
Middle East and Africa (MEA)	37	1%	-3.2%	-3.8%	>100.0%	>100.0%	17	1%
Performance Materials	3,380	100%	-3.2%	-0.9%	35.4%	31.3%	2,574	100%

¹ Not defined by International Financial Reporting Standards (IFRS).

The following table presents the composition of EBITDA pre for 2020 in comparison with 2019. The IFRS figures have been modified to reflect the elimination of adjustments included in the respective functional costs.

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Reconciliation EBITDA pre¹

€ million	2020			2019			Change
	IFRS	Elimination of adjustments	Pre ¹	IFRS	Elimination of adjustments	Pre ¹	Pre ¹
Net sales	3,380	-	3,380	2,574	-	2,574	31.3%
Cost of sales	-2,007	40	-1,966	-1,437	51	-1,386	41.9%
Gross profit	1,374	40	1,414	1,137	51	1,188	19.0%
Marketing and selling expenses	-539	9	-530	-329	6	-323	64.0%
Administration expenses	-162	17	-144	-118	11	-107	34.7%
Research and development costs	-274	2	-272	-267	26	-241	12.9%
Impairment losses and reversals of impairment losses on financial assets (net)	-	-	-	-	-	-	-
Other operating income and expenses	-160	154	-5	-116	80	-37	-85.3%
Operating result (EBIT)¹	240			307			
Depreciation/amortization/impairment losses/reversals of impairment losses	684	-123	561	330	-7	323	74.0%
EBITDA¹	925			637			
Restructuring expenses	31	-31	-	61	-61	-	
Integration expenses/IT expenses	47	-47	-	23	-23	-	
Gains (-)/losses (+) on the divestment of businesses	1	-1	-	-	-	-	
Acquisition-related adjustments	21	-21	-	82	-82	-	
Other adjustments	-	-	-	-	-	-	
EBITDA pre¹	1,024	-	1,024	803	-	803	27.5%
of which: organic growth ¹							-7.5%
of which: exchange rate effects							-1.3%
of which: acquisitions/divestments							36.3%

¹ Not defined by International Financial Reporting Standards (IFRS).

Adjusted gross profit of the Performance Materials business sector rose by 19.0% to € 1,414 million in fiscal 2020 (2019: € 1,188 million). The main driver for the increase was the acquisition of Versum Materials in the fourth quarter of 2019. The adjusted gross margin declined to 41.8% in 2020 (2019: 46.2%), primarily owing to the consolidation of the lower-margin Versum Materials business and the additional depreciation and amortization associated with acquisition accounting (purchase price allocation). Not including adjustments, the operating result (EBIT) decreased by € 67 million to € 240 million in 2020 (2019: € 307 million). The decrease was attributable to additional amortization and impairments partially offset by the additional EBIT provided by the Versum Materials acquisition.

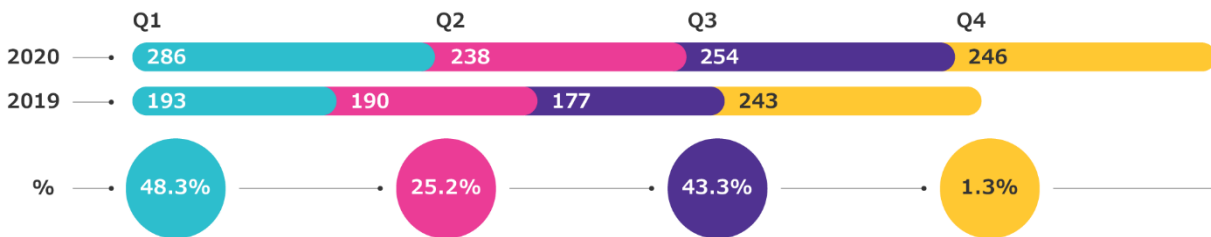
The rise in marketing and selling expenses, administrative expenses and research and development costs was due to the additional costs of the Versum Materials and Intermolecular organizations. The successful implementation of the "Bright Future" transformation program reduced the underlying research and development costs of the legacy business – excluding the increase associated with the acquisitions of Versum Materials and Intermolecular. EBITDA pre of the business sector grew by 27.5% to € 1,024 million (2019: € 803 million) as the additional EBITDA pre from the acquisitions (36.3%) more than offset the decline in organic EBITDA pre (-7.5%) and negative foreign exchange effects (-1.3%). At 30.3%, the EBITDA pre margin in 2020 was down from the prior-year figure (2019: 31.2%).

The development of EBITDA pre in the individual quarters in comparison with 2019 is presented in the following overview:

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EBITDA pre¹ and change by quarter²

€ million/change in %



¹ Not defined by International Financial Reporting Standards (IFRS).

² Quarterly breakdown unaudited.

Development of business free cash flow

The business free cash flow of the Performance Materials business sector rose by € 206 million or 32.1% to € 847 million in 2020 (2019: € 641 million). Higher EBITDA pre from the acquisition of Versum Materials and lower inventories and receivables exceeded higher investments.

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Business free cash flow¹

€ million	2020	2019	Change	
			€ million	%
EBITDA pre ¹	1,024	803	221	27.5%
Investments in property, plant and equipment, software as well as advance payments for intangible assets	-245	-158	-86	54.6%
Changes in inventories	55	-251	306	>100.0%
Changes in trade accounts receivable as well as receivables from royalties and licenses	49	-88	137	>100.0%
Lease payments ²	-18	-11	-7	60.9%
Elimination first-time consolidations of Versum/Intermolecular	-19	346	-365	>100.0%
Business free cash flow¹	847	641	206	32.1%

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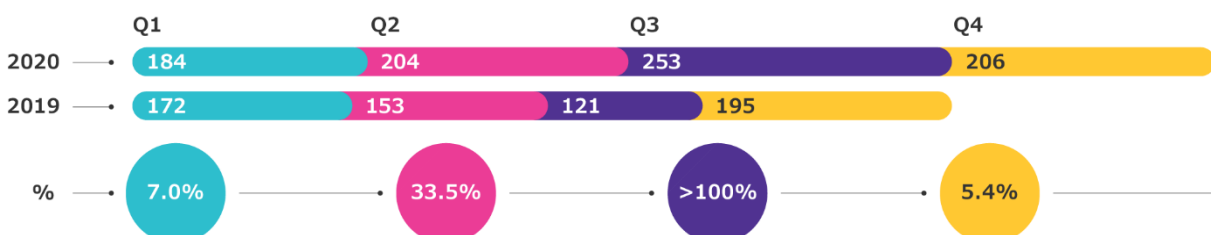
² Excluding payments for low-value leases and interest components included in lease payments.

The development of business free cash flow in the individual quarters in comparison with 2019 is presented in the following overview:

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Business free cash flow¹ and change by quarter²

€ million/change in %



¹ Not defined by International Financial Reporting Standards (IFRS).

² Quarterly breakdown unaudited.