

DSM STRATEGY 2018

# Driving Profitable Growth

through science-based, sustainable solutions

FEIKE SIJBESMA - CEO

ROYAL DSM CAPITAL MARKETS DAY  
4 NOVEMBER 2015 AMSTERDAM



## Safe harbor statement

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A more comprehensive discussion of the risk factors affecting DSM's business can be found in the company's latest Annual Report, which can be found on the company's corporate website, [www.dsm.com](http://www.dsm.com)

## 1 Strategy 2010-15

- Successful transformation
- Good growth platform created

## 2 Strategy 2018

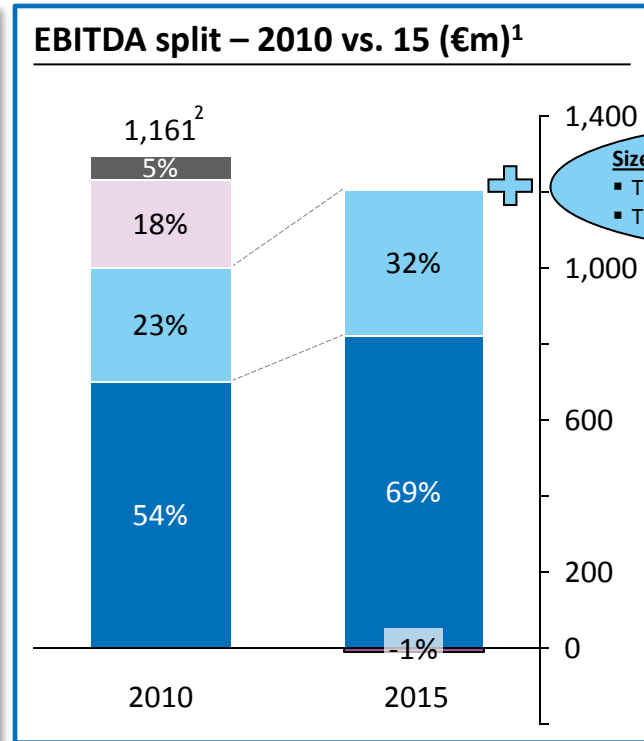
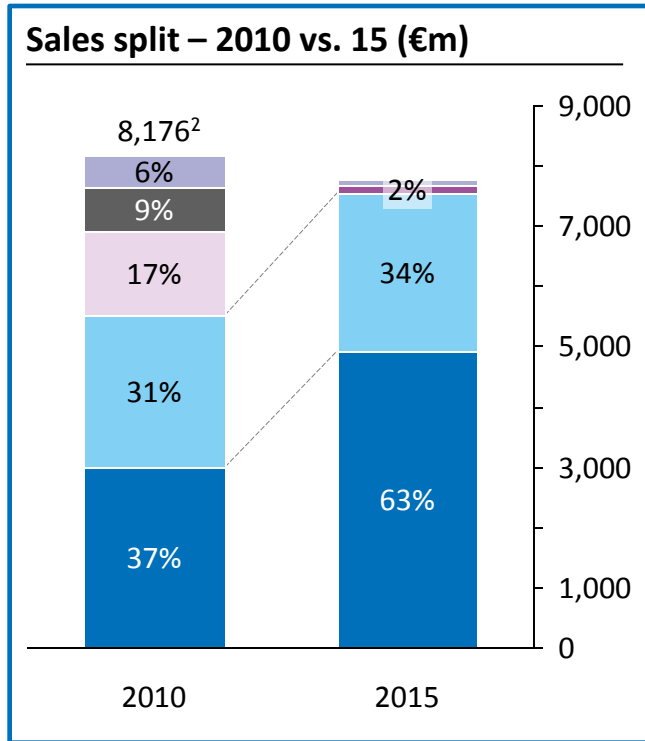
- Improve financial results, through
  - Organic growth & business strategies
  - Cost reduction & productivity improvements
  - Capital efficiency
  - Organization and culture
- Build for further future growth
- Extract value from Pharma & Bulk Chemicals

## 3 Wrap-up

# Strategy 2010-15: Successful transformation

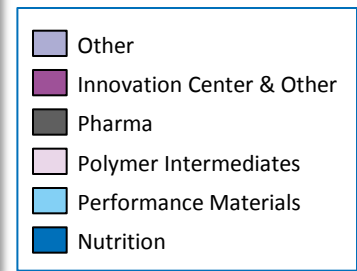
- Finalized important transformation steps
  - 2010-11 Base Chemicals divestments
  - Partnerships for Pharma in 2012 (Antibiotics) and 2014 (Contract Manufacturing)
  - Partnership for Bulk Chemicals in 2015
- Created a high-value portfolio
  - Built a broad, deep and global Nutrition business
  - Upgraded Performance Materials businesses
  - Became a more global, innovative and sustainable company
  - Created 3 new growth platforms

# Business portfolio streamlined and simplified, creating good platform for growth



**Sizeable Joint Ventures**

- Total sales 2015 (pro-rata) : ~€1.9bn<sup>3</sup>
- Total EBITDA 2015 (pro-rata) : ~€245m<sup>3</sup>



1 Other / Corporate Activities distributed over the Clusters pro-rata their EBITDA  
 2 Restated, excluding Base Chemicals which was reported as Discontinued Operations  
 3 Includes DSM Sinochem Pharmaceuticals, DPx Patheon and ChemicalInvest (see page 40 for more detail)

## 1 Strategy 2010-15

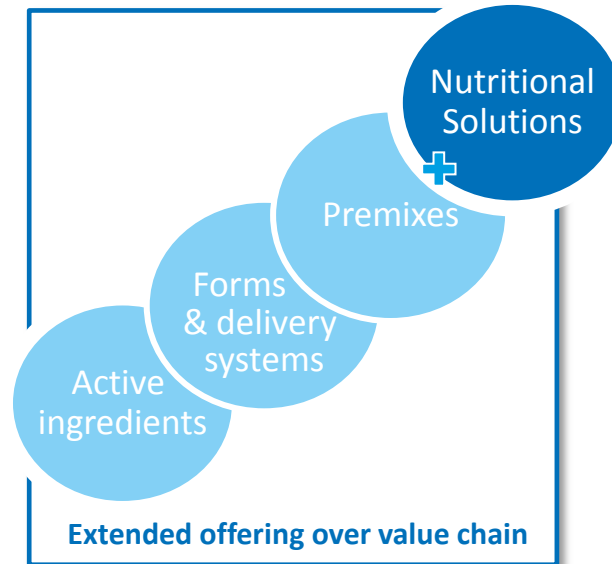
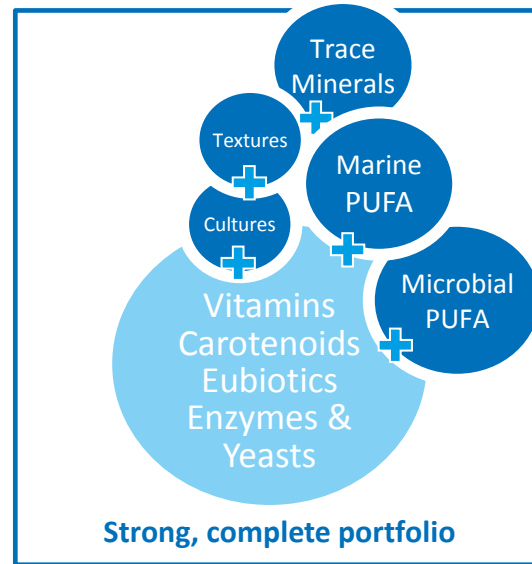
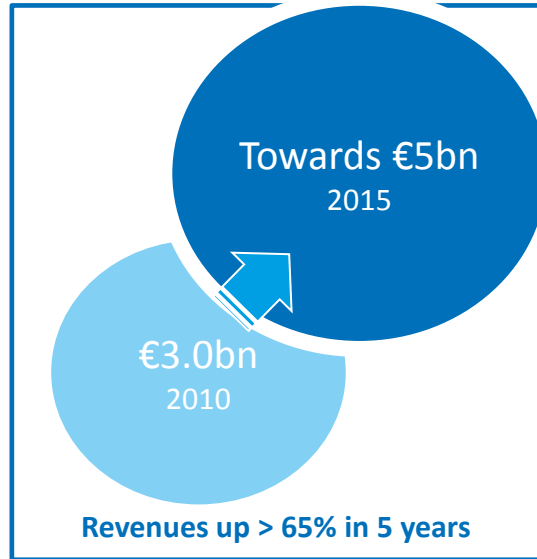
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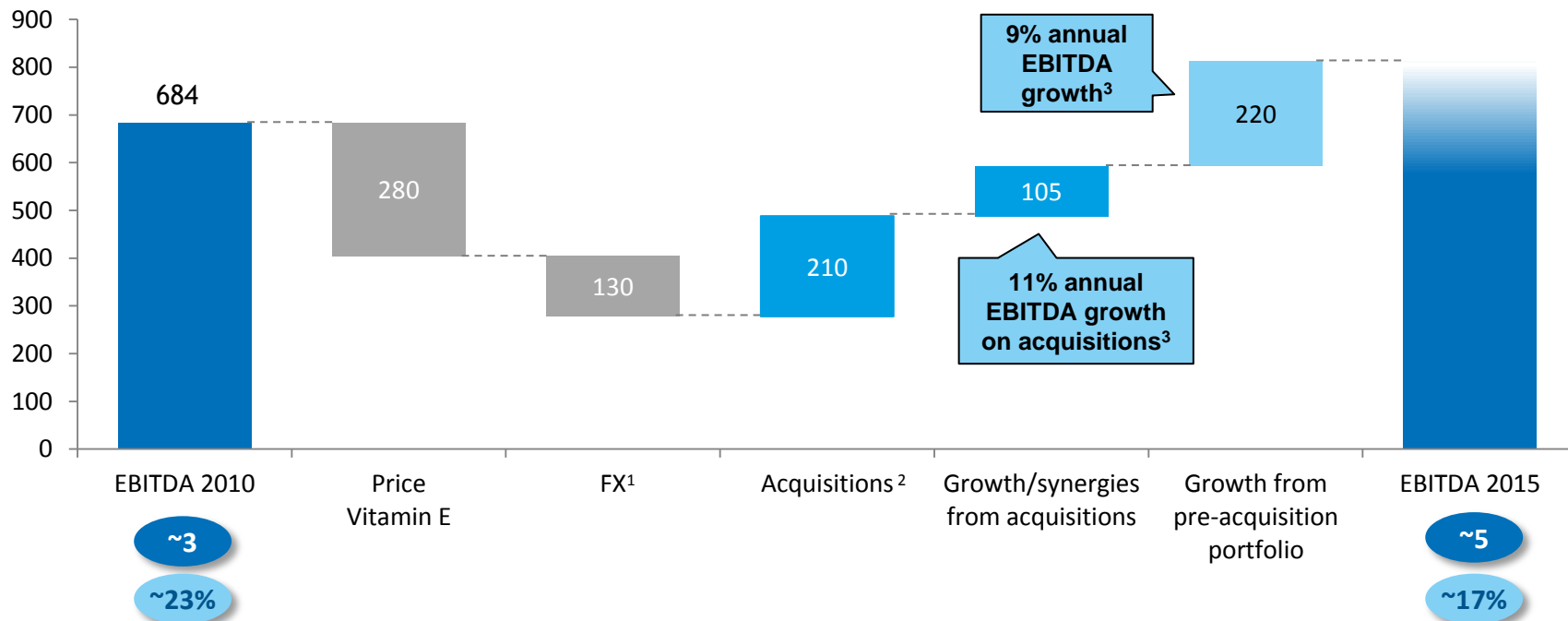
**Nutrition:** built a unique, global and broad portfolio in food / feed nutritional ingredients with increased solutions offering capabilities



# Nutrition EBITDA growth driven by successful acquisitions; good volume growth in Animal Nutrition and Food Specialties

● Sales (€bn)  
● EBITDA-margin (%)

**Nutrition – EBITDA bridge 2010-15 (~€m)**



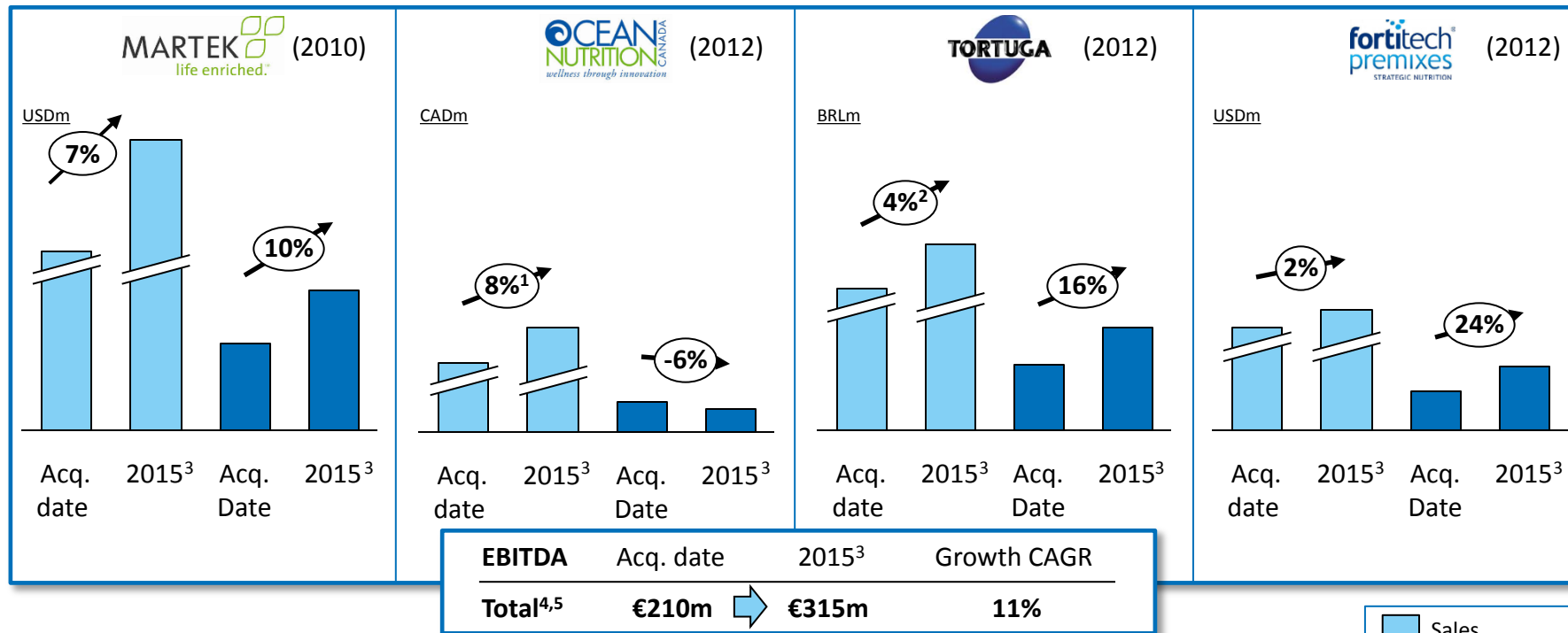
1 Actual 2010 FX: EUR/USD@1.33; EUR/CHF@1.38; 2015 FX: EUR/USD@1.13; EUR/CHF@1.08

2 Contribution main acquisitions (see next slide)

3 Includes effects from volume growth, price increases, cost improvement programs, cost inflation, etc.



# Successful acquisitions in **Nutrition** have strengthened the portfolio, boosted growth and made strong earnings contribution with further potential



1 Driven by sharp increase in fish oil price

2 Negative volume impact from discontinuation of a product line

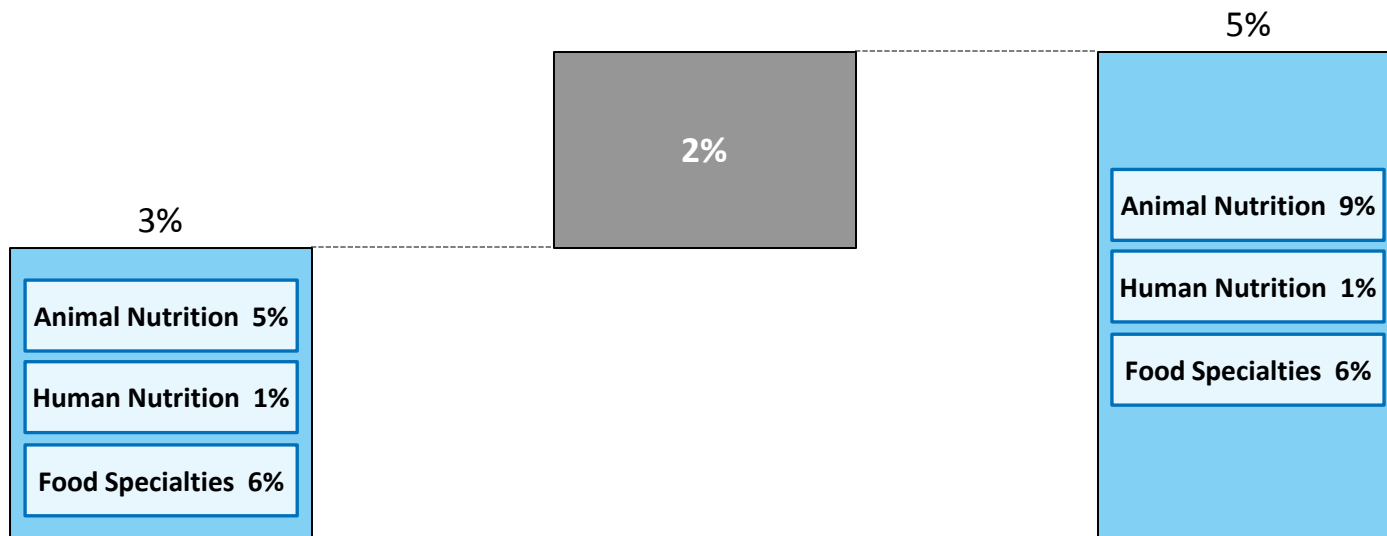
3 Estimate

4 EBITDA last FY before acquisition; FX at the moment of the acquisition

5 Total acquisition value for Martek, ONC, Tortuga, Fortitech was €2.2bn; total sales acquired around €950m which is now (2015) ~€1.2bn

# Nutrition delivered good growth despite Vitamin E prices and weak Human Nutrition in North America

## Nutrition – Organic growth CAGRs 2010-15 (rounded %)



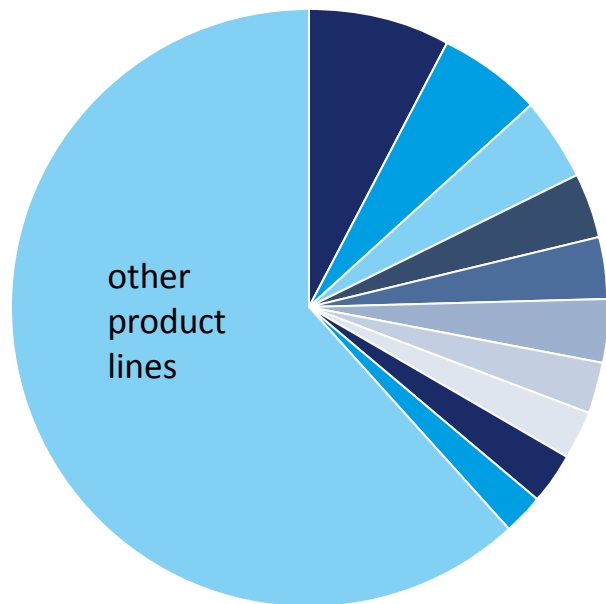
Reported organic growth

Vitamin E price effect

Underlying organic growth

## Nutrition portfolio is resilient with limited exposure to single product lines

### Top-10 represent < 40% of Nutrition profit in 2015

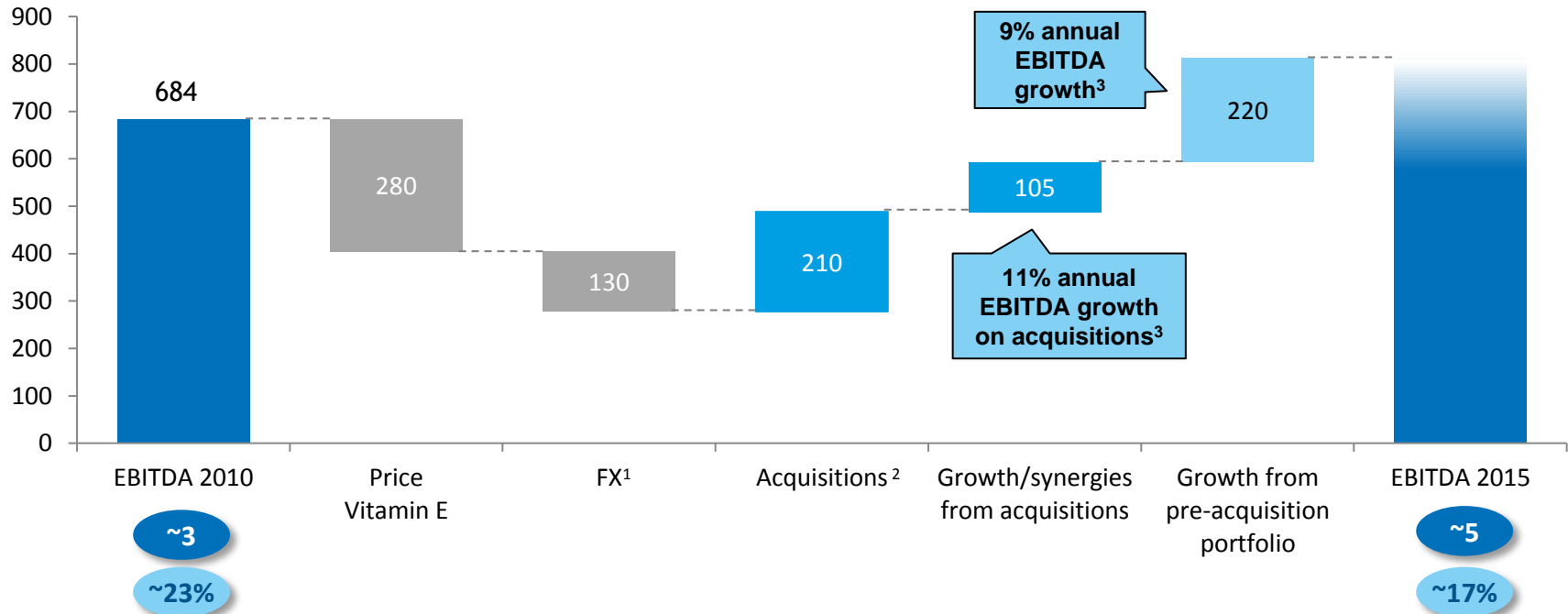


- Product range includes ~100 product lines
- Largest profit contributor less than 10% of Nutrition profit
- Several products have a strong IP position
- Vitamin E sales exposure is now normalized with EBITDA margin well within the range

# Nutrition EBITDA growth driven by successful acquisitions; good volume growth in Animal Nutrition and Food Specialties

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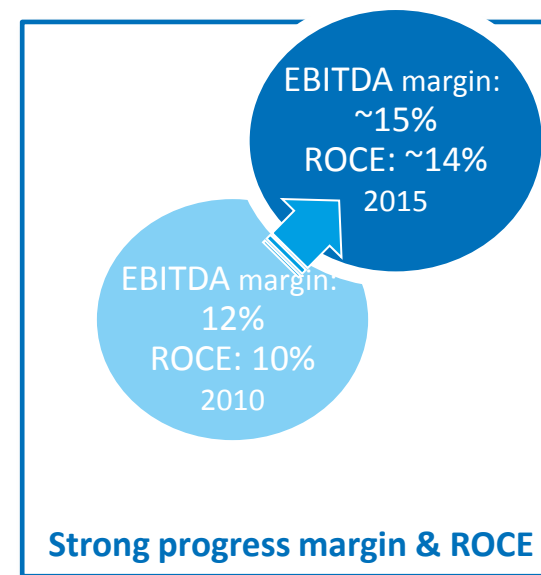
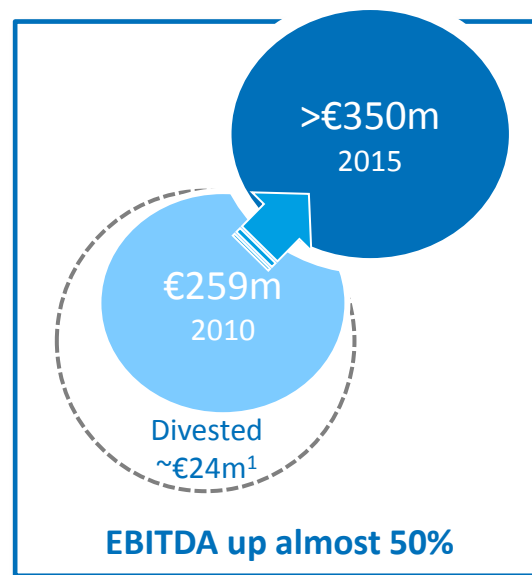
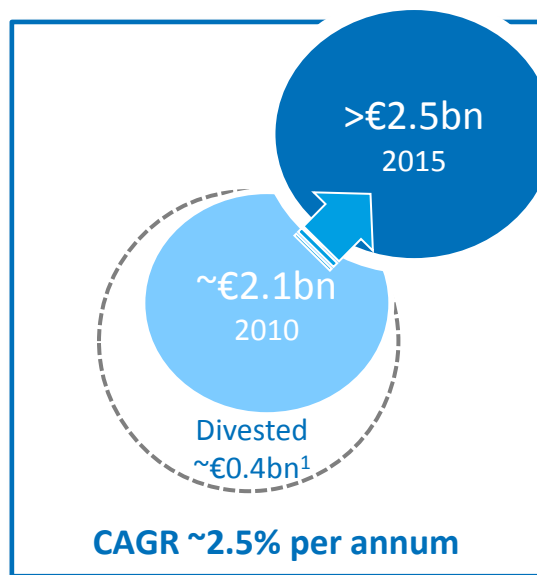


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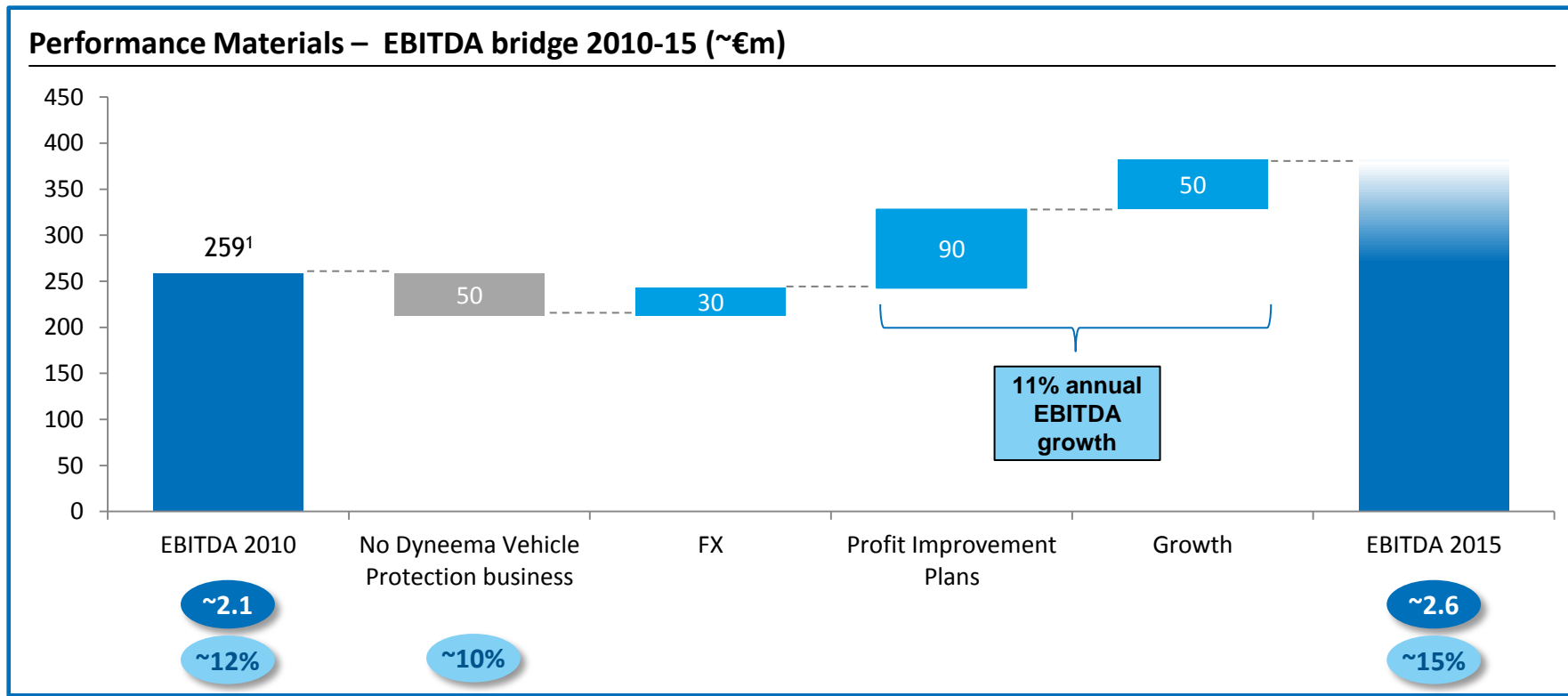
# Performance Materials: high-quality portfolio created with strongly increased EBITDA



1 Divestitures include Composite Resins (~€300m sales), Euroresins (~€80m sales) and Synres (~€60m sales)

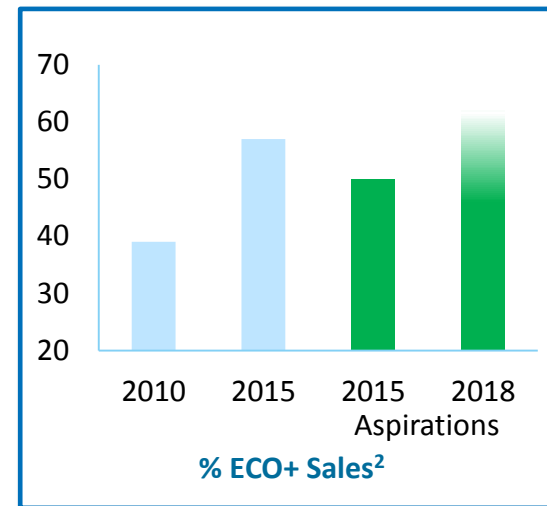
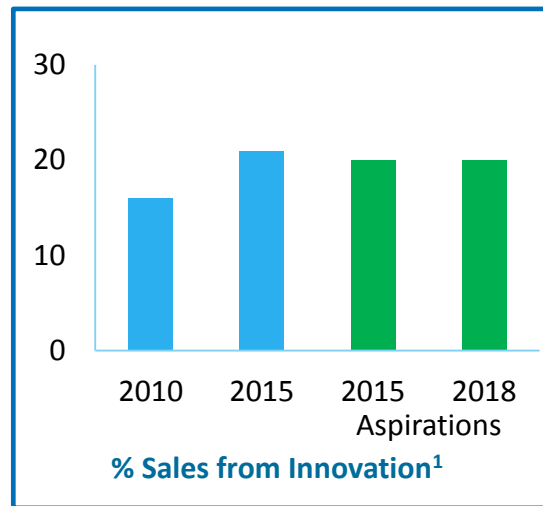
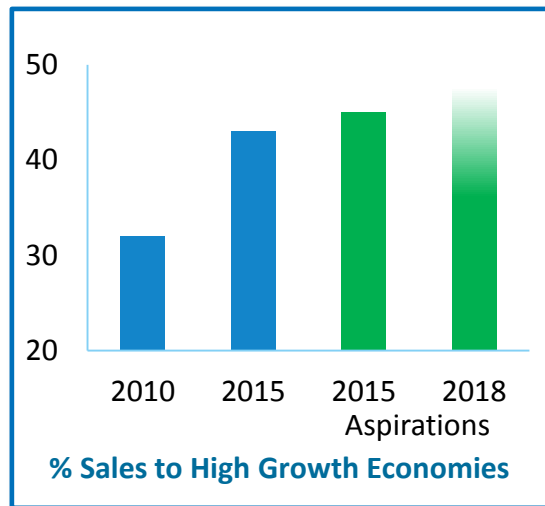
# Performance Materials has delivered strong financial performance improvement in a slow economic environment

● Sales (€bn)  
● EBITDA-margin (%)



<sup>1</sup> Corrected for divestitures

# Growth drivers well-balanced after Strategy 2010-15



1 Sales from products and applications introduced within the last 5 years

2 ECO+ solutions are products and services that, when considered over their whole life cycle, offer clear ecological benefits compared to the mainstream solutions they compete with.

# Stepping up sustainability aspirations

Sustainability aspirations	2010	2015 <sup>1</sup>	2020
Dow Jones Sustainability Index	Gold Class	Gold Class	Gold Class
<hr/>			
Brighter Living Solutions			
<i>business</i> Eco+	39%	57%	---
Eco+/People+	---	60%	65%
<hr/>			
<i>costs</i> GHG efficiency improvements <sup>2</sup>	---	20%	45% (2025)
<hr/>			
<i>people</i> Employee engagement <sup>3</sup>	70%	70%	->75%
<hr/>			
Safety ( <i>Frequency Index Recordables</i> )	0.57	0.47	0.25
<hr/>			

1 Estimated 2015 figures (Employee Engagement in 2014 was 69%)

2 Compared to 2008; supported by Energy Efficiencies (> 1% annually) and Renewable Electricity (50% in 2025)

3 Striving to reach High Performance Norm; in addition we strive to improve our (executives) Diversity Mix in (underrepresented) Nationalities (from 39% in 2010, to 50% in 2015 to 60% in 2020) and Gender (female executives from 9% in 2010, to 15% in 2015 to 5% in 2020)

**Business for society**





# Global sustainability agenda linked to DSM businesses / competences

## Malnutrition

- Addressing **Deficiencies** (North/West), e.g. Vitamin D
- Addressing **Hunger** (South & East), e.g. MixMe

## Climate Change & Energy

- **Circular Economy & Bio-based** renewables, e.g. bioplastics/fuels & Niaga
- **Climate Change & New Energies**, e.g. light-weight materials, solar coatings & biofuels

***Sustainability as a business driver:  
Driving Sustainable Markets***

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## 3 Wrap-up

# Strategy 2018 builds on Strategy 2010-15: Portfolio created offers profitable growth opportunities

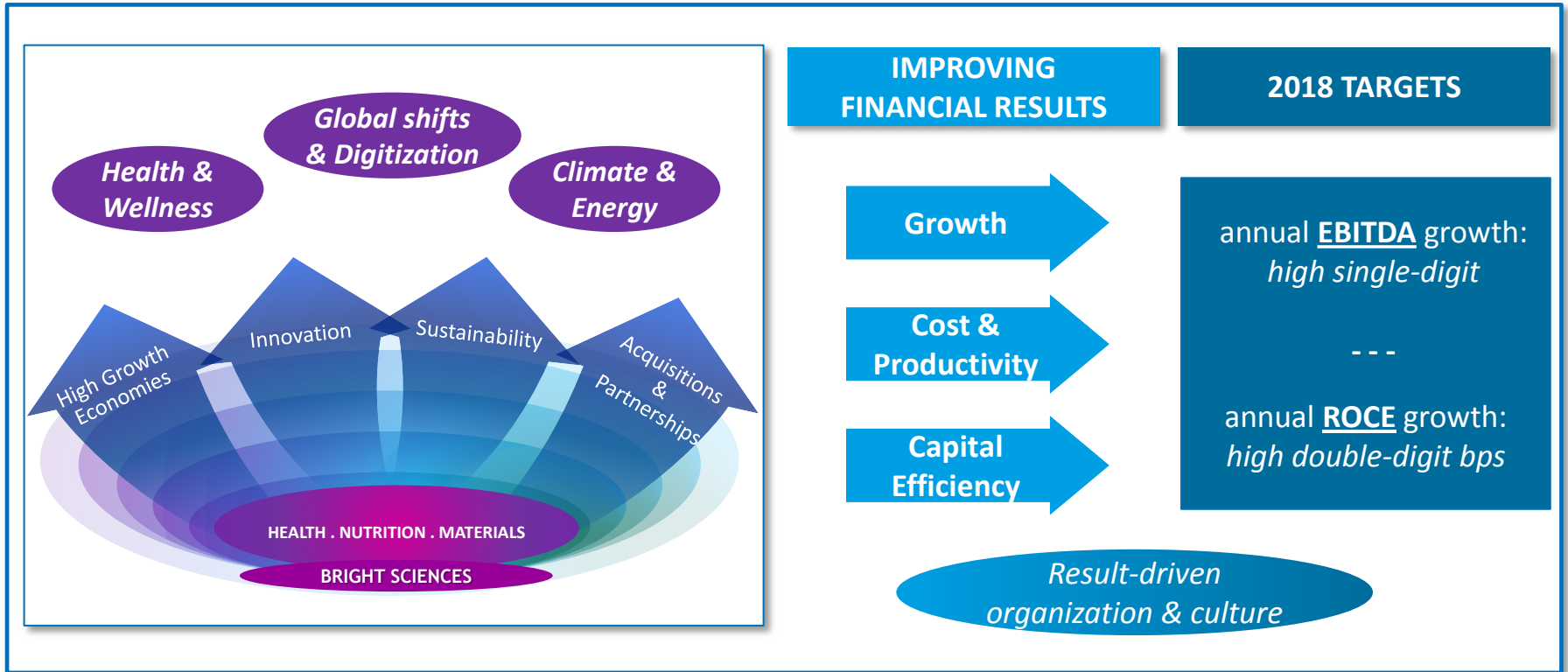
## Strategy 2010-15 Review

- Portfolio provides profitable growth options
- Strategy fueled by megatrends
- Increase focus on financial performance

## Strategy 2018

- Shorter strategic period with focus on financial results
- Growth options & cost reductions based on improved competences
- Targets set in uncertain economy
- A long-term view on further business growth maintained

# Strategy 2018: Driving profitable growth through science-based, sustainable solutions



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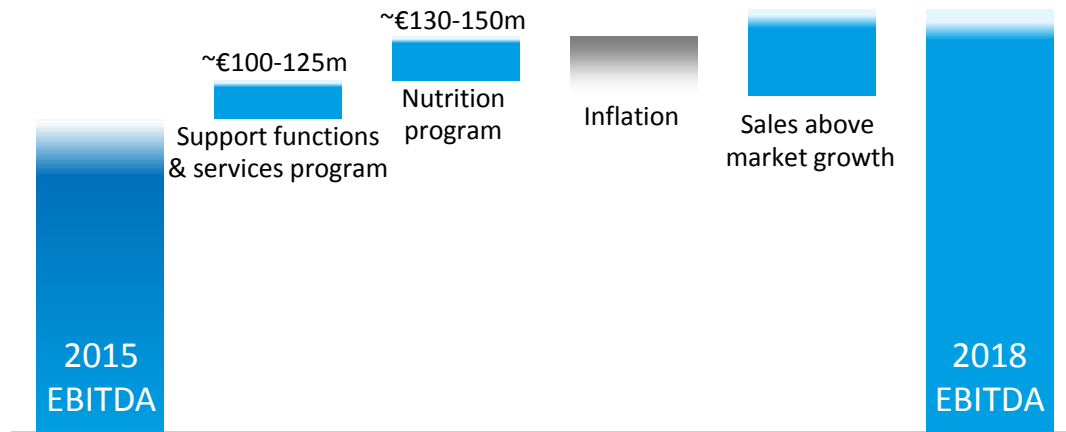
# Well-identified initiatives will drive delivery of **Strategy 2018** targets

## 2018 TARGETS

annual **EBITDA** growth:  
*high single-digit*

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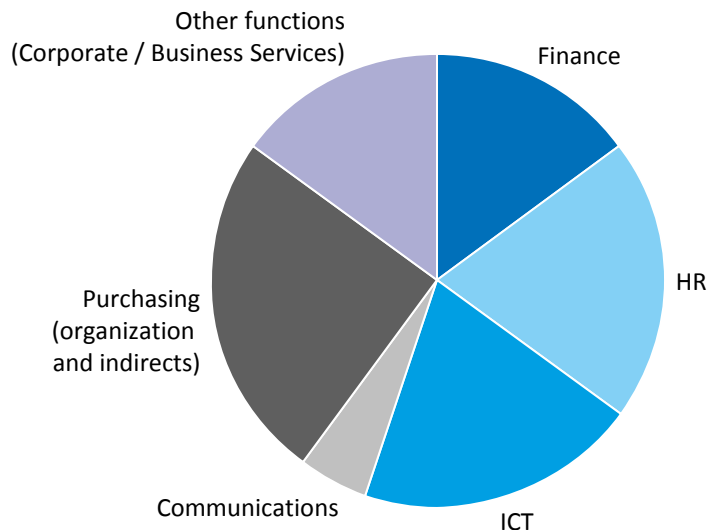
annual **ROCE** growth:  
*high double-digit bps*



# Globally leveraged support functions at lower costs

Savings: €125-150m<sup>1</sup>

## Breakdown by function



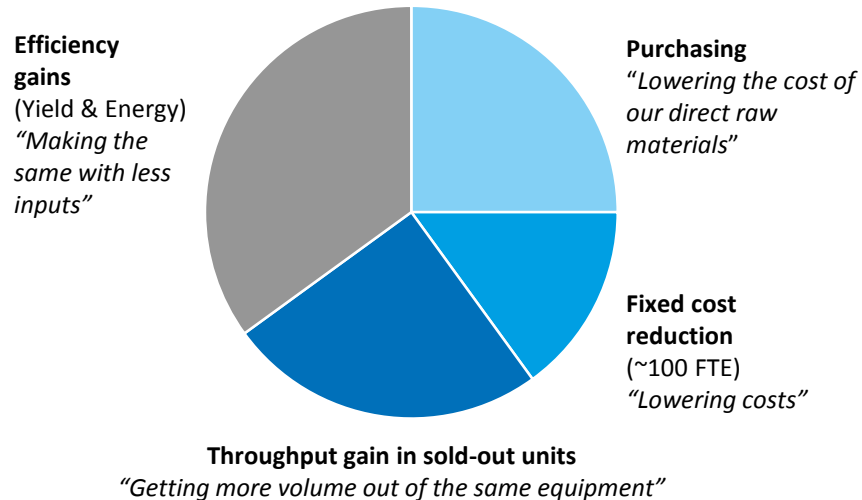
## Main levers

- BGs focus on R&D and Innovation, Direct Sourcing, Manufacturing & Operations and Marketing & Sales
- All support functions globally leveraged
- Elimination of duplications, delaying and demand reduction
- One shared services organization and increased outsourcing

<sup>1</sup> vs. 2014; of which ~€25m in 2015

# Nutrition improvement program focuses on productivity, growth and working capital

## Cost improvements - €130-150m (vs. 2015)



## Sales stimulation program – (esp. Human Nutrition)

- Simplification of the organizational/operating model
- More segment-specific set-up and approaches
- Focus on winning customers and channels
- More focus on technical applications such as coloration, and technical anti-oxidant solutions

## Integrated business planning program

- Optimize supply chain
- ... to reduce working capital
- ... and improve flexibility and agility



# Agenda

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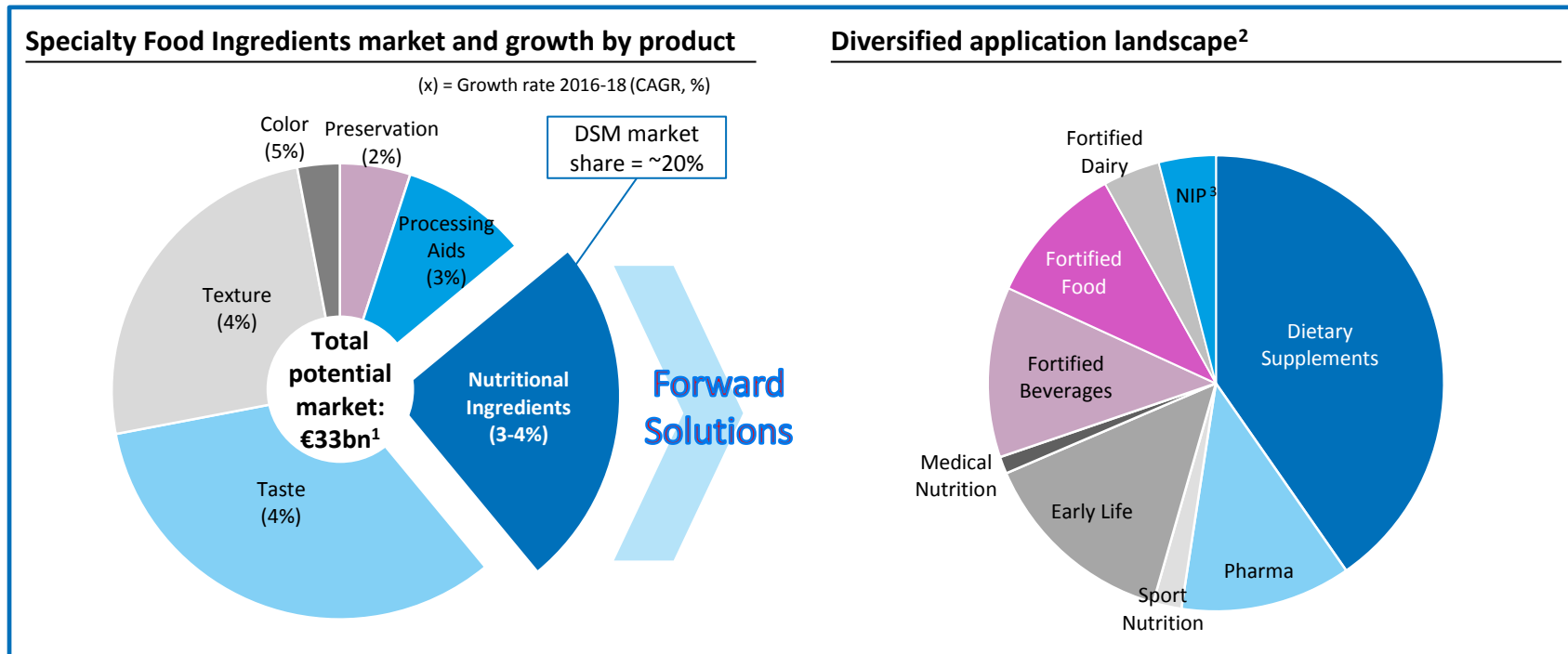
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# Our **Human Nutrition** is leading in nutritional ingredients and has ample opportunities to further expand in a diversified application landscape

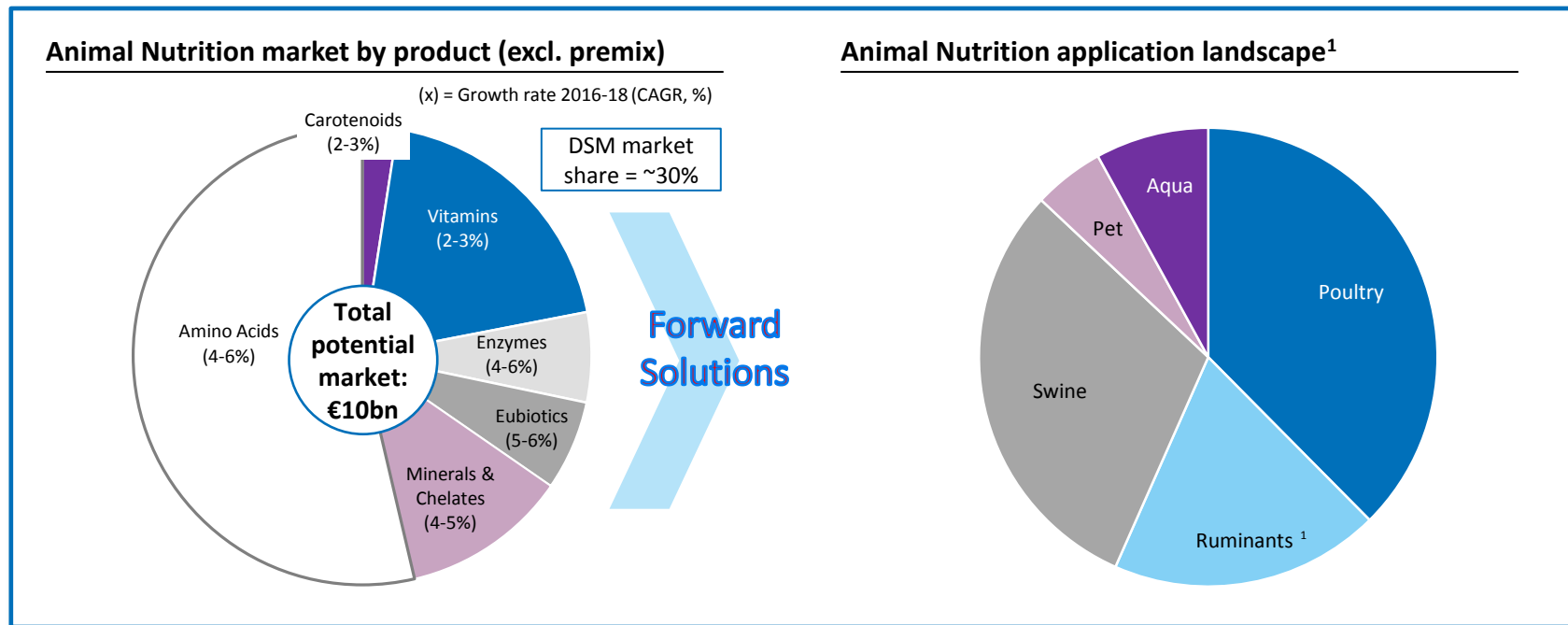


1 Total specialty food ingredients market, excluding ~€20bn of commodity ingredients, e.g., soy proteins

2 Breakdown of targeted markets, excluding Food Specialties Food & Beverages sales (mainly bio ingredients)

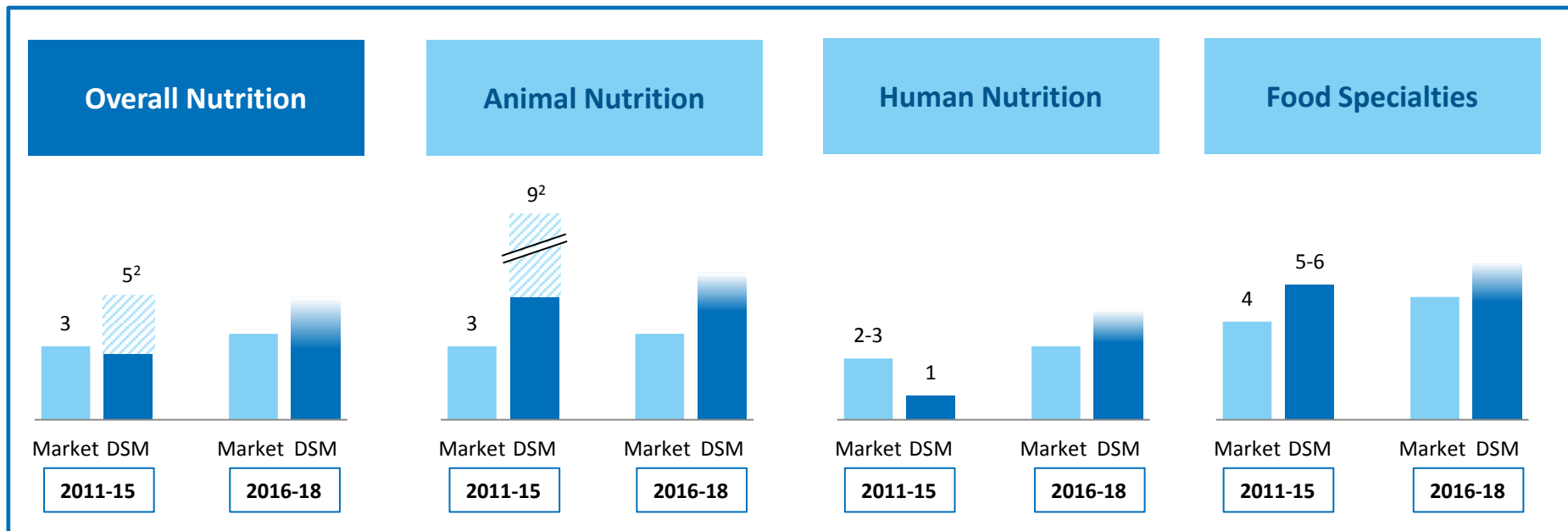
3 Nutritional Improvement Programs includes sales through governmental / NGO supply programs. Excludes BOP (bottom of the pyramid) sales through traditional retail channels

# Our **Animal Nutrition** has a complete portfolio of targeted feed ingredients and has further growth opportunities beyond the historical core area of poultry



<sup>1</sup> Landscape includes Carotenoids, Vitamins, Enzymes, Eubiotics and Minerals / Chelates

# Nutrition: Sales growth opportunity in Human Nutrition, while other segments will continue to benefit from continued good market growth momentum<sup>1</sup>



1 At steady prices, CAGR %

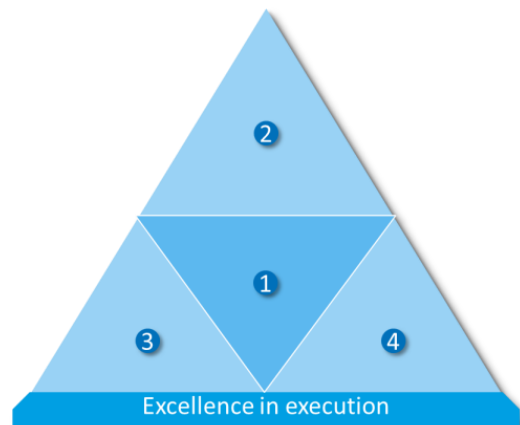
2 Excluding Vitamin E price effect

# Nutrition Strategy 2018: global products and local solutions

## Drive growth in Nutrition

### Growth acceleration and sustainable innovations

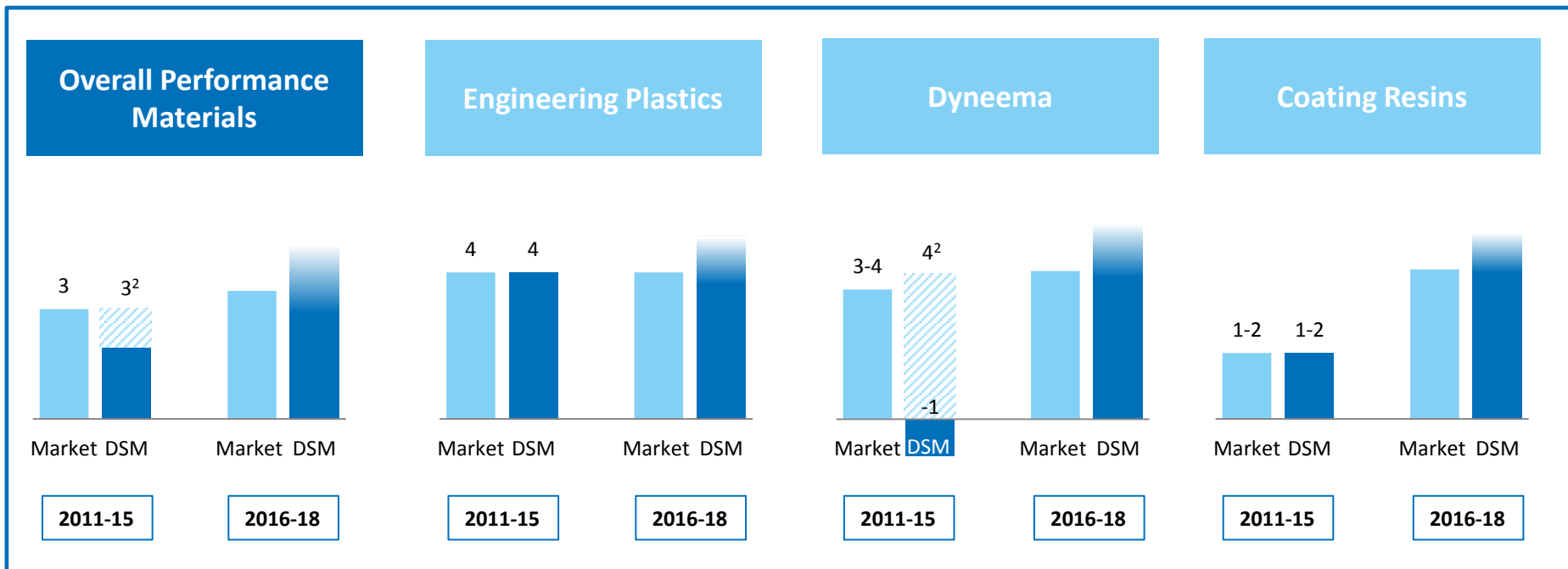
- 1 Expand the core
- 2 Add new products & solutions
- 3 Expand in new segments/regions
- 4 New business models



### Aspirations 2018 underpinning Group targets

- EBITDA margins: 18-20% over the period
- Above-market sales growth (at stable prices)

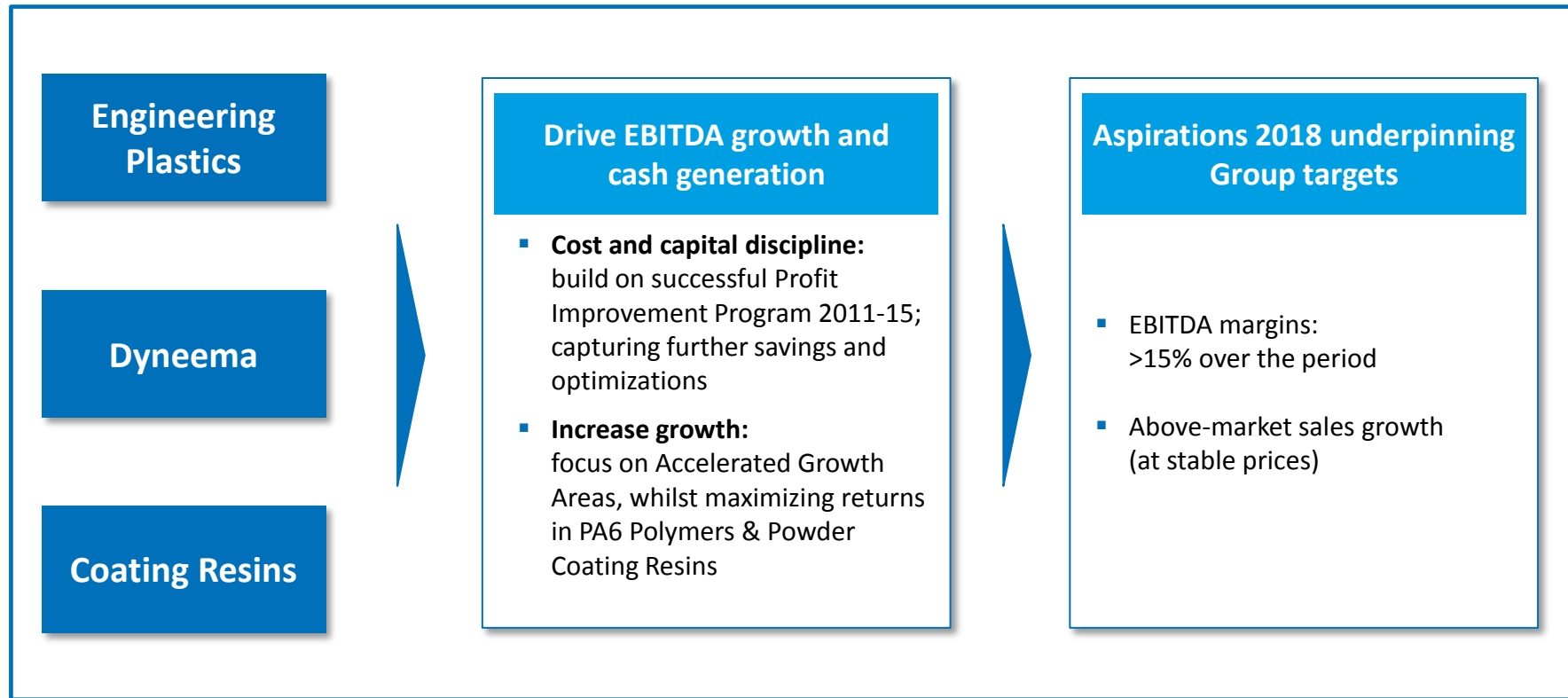
# Strategy 2018: Performance Materials expects to grow sales above market growth<sup>1</sup>



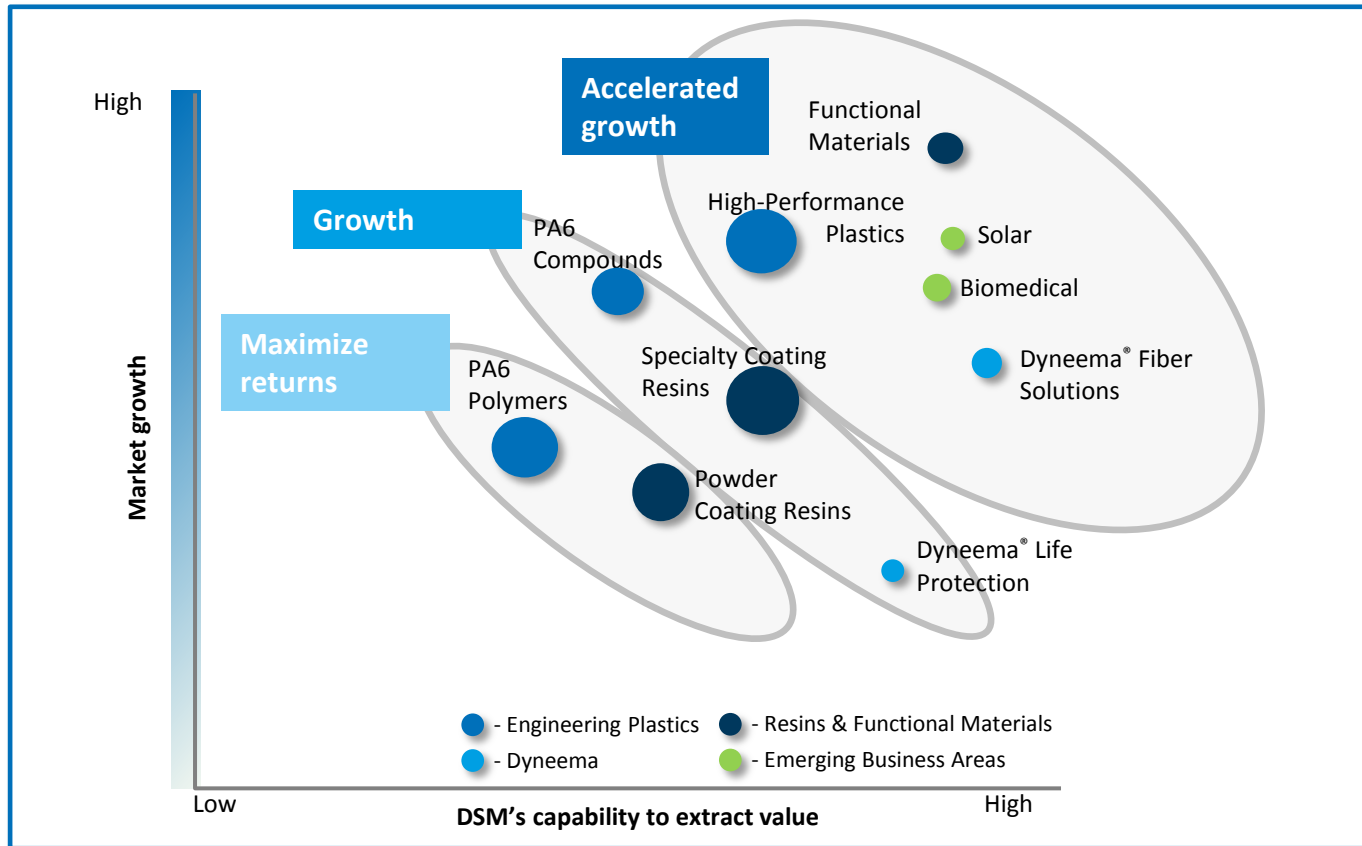
1 At steady prices, CAGR %

2 Excluding Vehicle Protection tenders

# Performance Materials Strategy 2018

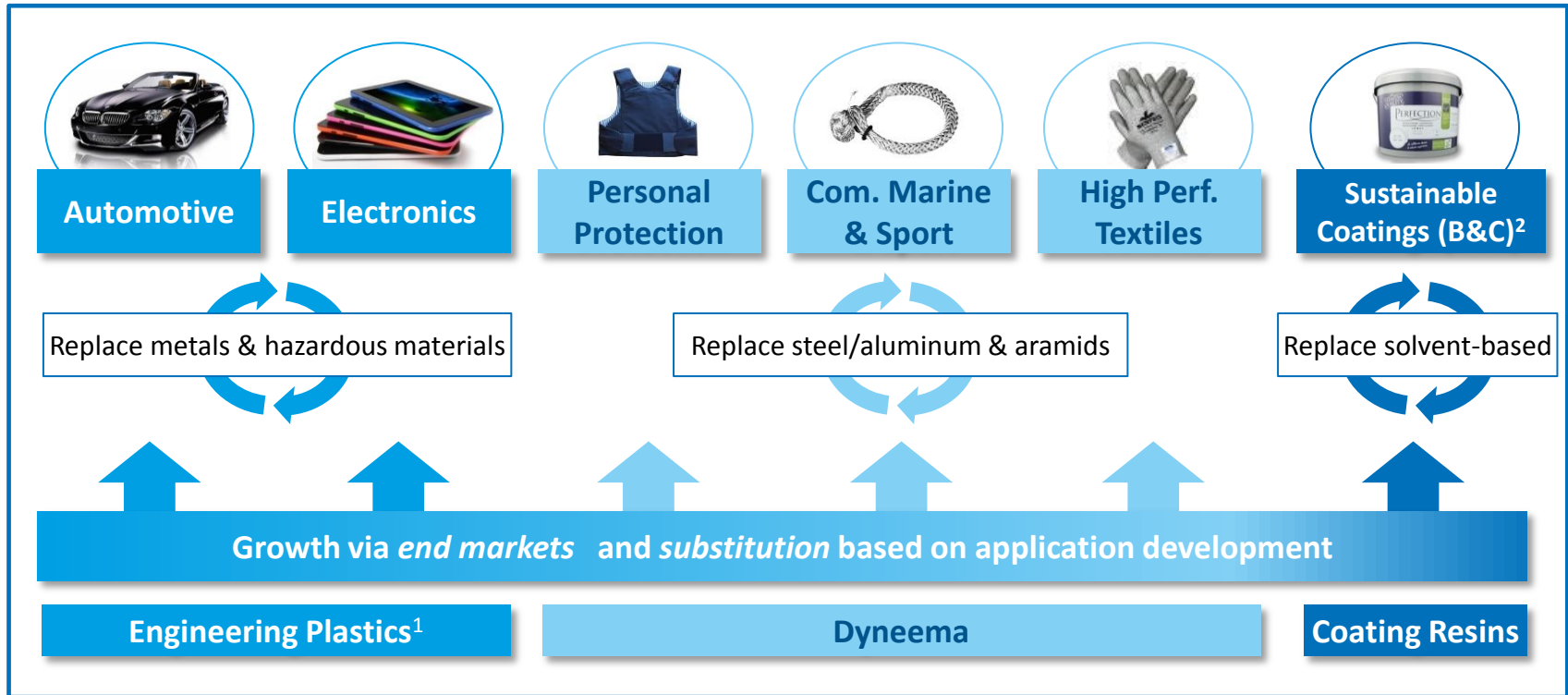


# Differentiated approach has led to a more attractive **Performance Materials** portfolio, with a higher growth and returns profile





# Performance Materials end market segments offer growth options enhanced by substitution based on application development capabilities



1 Food packaging is the 3<sup>rd</sup> application area for Engineering Plastics

2 The Building and Construction (B&C) Industry is the main area of application for Resins

# Strategy 2018 Emerging Business Areas: develop and extract value



## Biomedical

Innovative medical devices materials

- Drive organic growth by focus on high growth areas with DSM strength
  - Eye care solutions
  - Orthopedic solutions
  - Soft tissue repair & healing

€m	2015LE
Sales	~ 140
EBITDA	~ 30



## Bio-based Products & Services

Enzymes/yeast for biomass conversion

- Prove POET/DSM bio-ethanol technologies and license out
- Investigate licensing options Brazil and China
- License DSM/Reverdia technology

€m	2015LE
Sales	~ 2
EBITDA	(20)-(15)



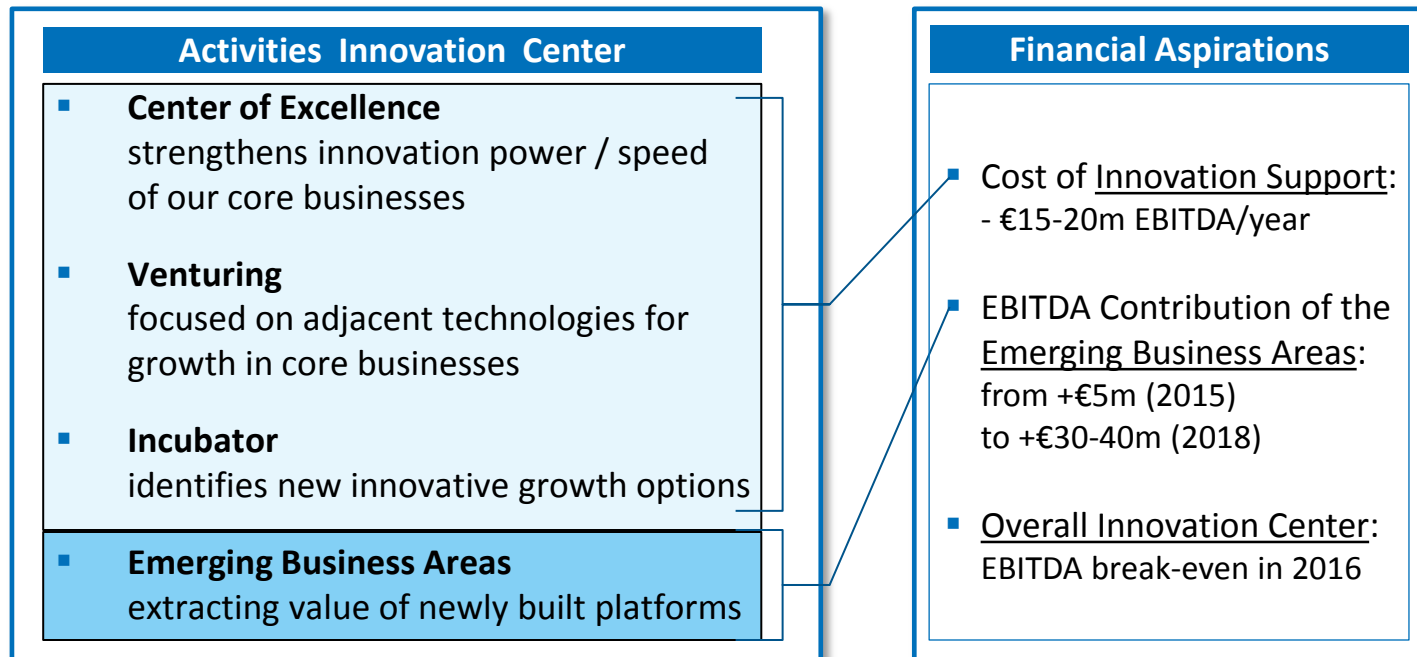
## Advanced Surfaces

Efficiency-increasing solar coatings

- Develop Anti-Reflective Coating technologies at commercial scale
- Expand in encapsulants and backsheets

€m	2015LE
Sales	~ 15
EBITDA	(10)-(5)

# Strategy 2018 Innovation Center supports innovation in our core businesses and develops new Emerging Business Areas



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## 3 Wrap-up

# Organizational adjustments to deliver



- **A new -strengthened- top structure:**

*Executive Committee* aligns finance, business, innovation, strategy & people, enabling faster *strategic alignment & operational execution*

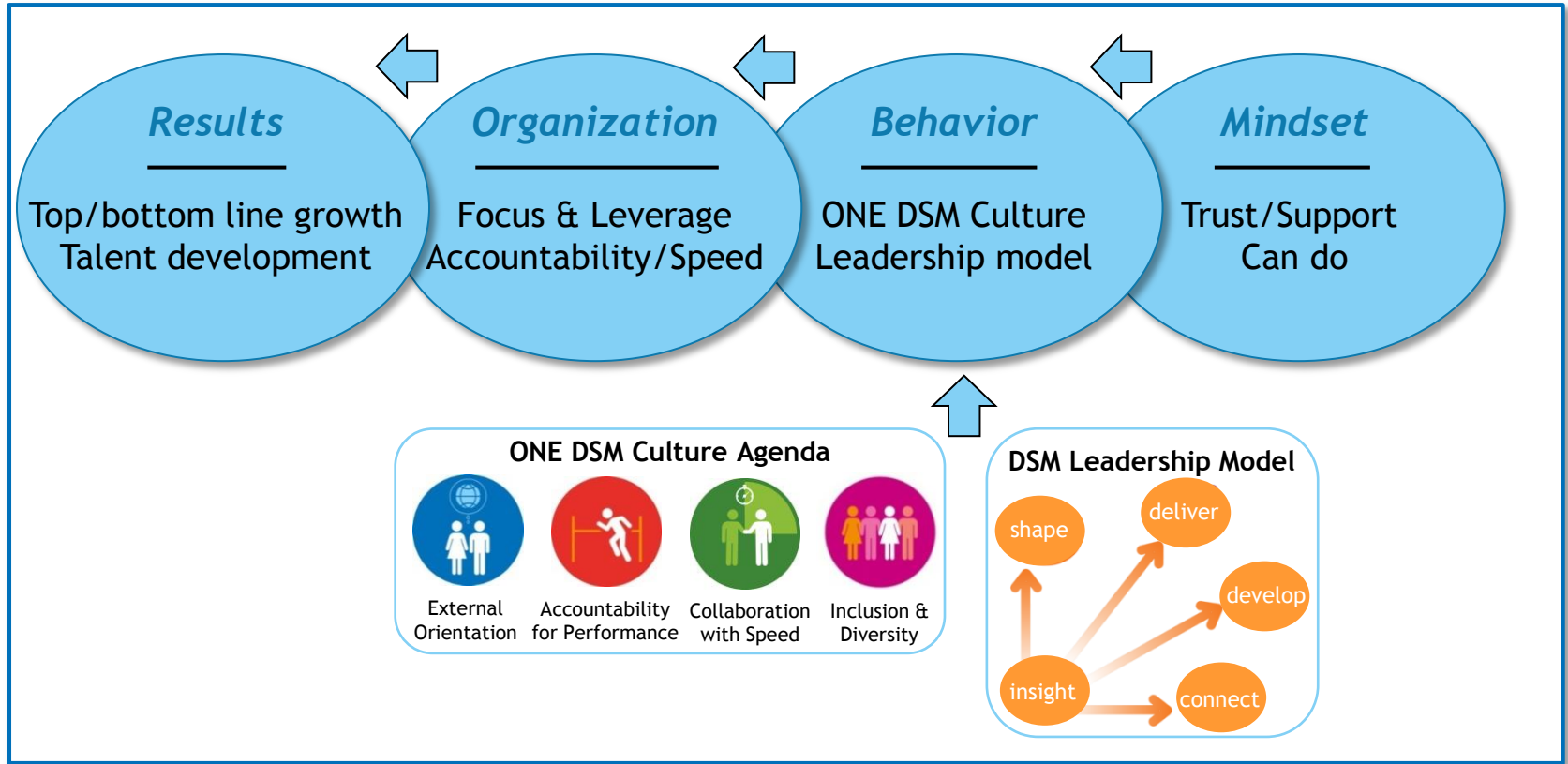
- **A new operating model:**

*Business Groups:* focus on M&S, Operations, Sourcing, R&D  
*Support Functions:* globally leveraged: Finance, HR, Legal, Comms, IT, Business Services & Corporate Departments

- **A new way of working:**

Focus on *Accountability* (delivering) and *Collaboration* (trust/speed)  
*Examples:* reduction internal meetings, reducing demand, increased speed, feedback loops, clearer expectations and engagement with more skills, supported by incentives

# A mindset & culture focused to deliver



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# Key business/innovation projects driving earnings growth beyond 2018

## Human Nutrition/Food

- Vitamers (high-potency vitamins)
- New infant ingredients
- New bio colorants (blue/red)
- Algae-derived low-cost Meg-3
- Stevia (sweetener)
- Hydrocolloids (texture)
- Proteins for the future
- New skin solutions (Personal Care)
- India B2C businesses
- i-Health (B2C nutrients)
- New premix solutions

## Animal Nutrition

- Eubiotics (cultures)
- New enzymes
- Clean Cow (feed ingredient)
- Algae-based low-cost Meg-3 (with Evonik)

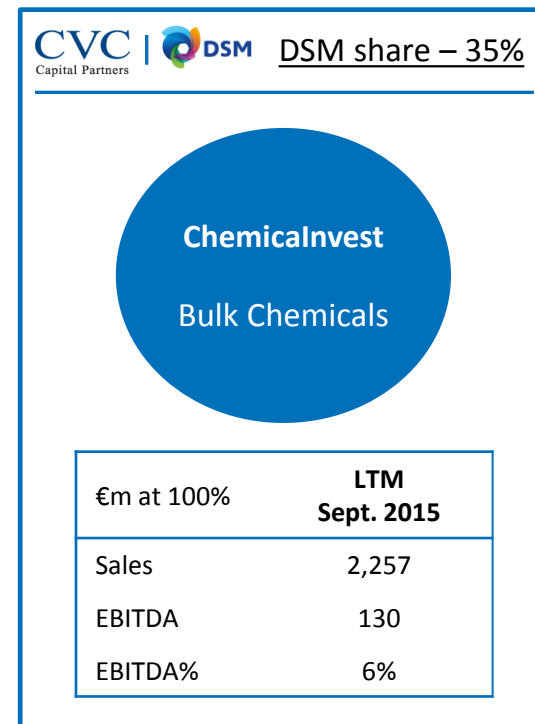
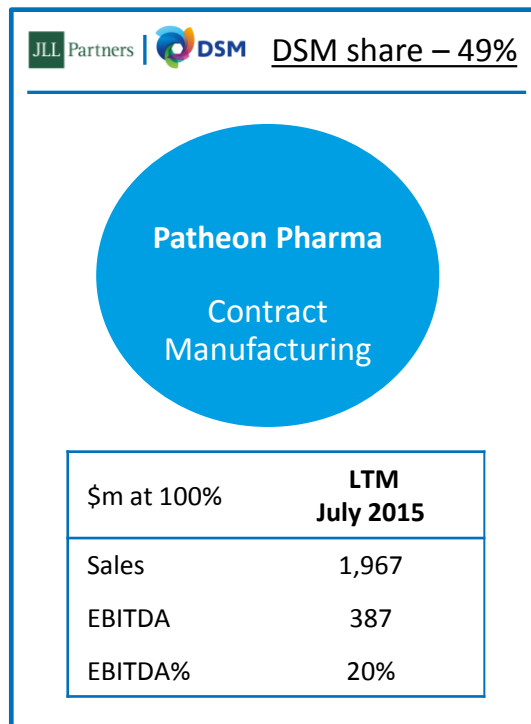
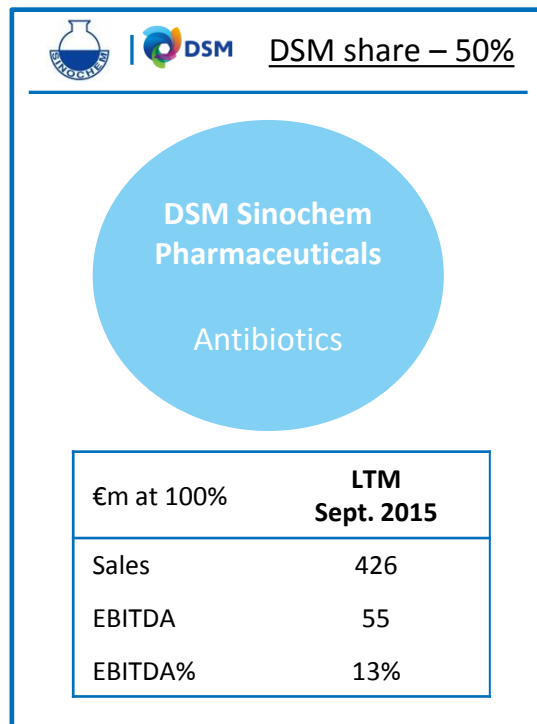
## Materials

- ForTii (HPPO polymer)
- Niaga (recycle carpets)
- Ultra (low-temp. powder coating)
- Decovery (bio-based resins)
- Apparel (Dyneema textile apps)
- Force multiplier technology (light personal protection)
  
- 3D options (combine Somos/Resins, Biomedical & Engineering Plastics)
- New Bio-Medical products
- Solar materials
- Bio-based Products & Services

Additional potential EBITDA >2018 (not risk adjusted) amounts >€300m (of which ~€75m 2016/18)



# 'Smart exits' **Pharma** and **Bulk Chemicals** resulted in cash-in and will create further financial headroom in the coming years



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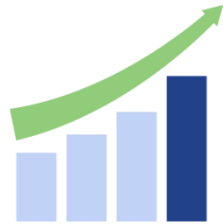
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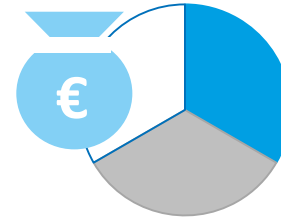
## 3 **Wrap-up**

# Driving profitable growth

Value creation 2016-18 will be driven by:



- EBITDA & ROCE growth
- Via higher growth at lower costs, with strengthened organization



- Extract value from Pharma & Bulk Chemicals ventures



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