

## **ALTANA uses crisis for acquisitions**

With the takeover of Von Roll, the "bolt is not yet shot" – CEO joins demand for industrial electricity price

**With the acquisition of the Swiss Von Roll Holding, ALTANA is setting a counterpoint to the economic crisis. However, the specialty chemicals company has not yet shot its bolt. Although ALTANA has not come through the downturn unscathed, in an interview CEO Martin Babilas prefers to look at the opportunities arising from the difficult environment.**



Despite the crisis, ALTANA CEO Martin Babilas is focusing on innovation and acquisition.

**BZ: Mr. Babilas, as of March, you anticipated a slight increase in both sales and earnings for the current cycle. In light of the recent decline, with sales decreasing by 11% and earnings down by 27% in the first half of the year, what are your revised expectations?**

Babilas: At the beginning of the year, we had expected an economic recovery from the second quarter onwards. This projection has not materialized. Currently, we anticipate a high single-digit percentage decrease in sales for the entire year, and although we haven't quantified the expected decline in earnings, it is anticipated to be less favorable than the earnings in the first half of the year.

**BZ: The chemical industry is currently grappling with a pronounced decrease in demand across all regions and divisions. When do you expect a turnaround?**

Babilas: We do not foresee a substantial recovery in the latter half of this year. However, we do anticipate a resurgence of growth in the coming year. In terms of regions, this is expected primarily in North America and Asia. Moreover, a significant portion of the current demand slump can be attributed to inventory-related factors, which we expect to end at some point.

**BZ: The inventory effect seems extremely pronounced in the current cycle. What is the reason for this?**

Babilas: This is due to supply chain issues in the aftermath of the pandemic. In 2021, we, like many others in the industry, faced significant challenges in procuring the necessary raw materials, prompting a collective effort to accumulate higher safety stock levels. Subsequently, as the economy began to rebound, the magnitude of stockpiling and its resultant implications have surpassed what is typically observed in a normal economic cycle.

**BZ: The development in China has been a big disappointment and a misjudgment in regional terms. How do you currently assess the economic prospects for the People's Republic moving forward?**

Babilas: The biggest challenge undoubtedly lies in the real estate sector in China, which has significantly influenced the country's economic trajectory in recent years. This has affected the construction industry and has also impacted some of our customer industries, such as paints, facade design, and even household appliances for real estate. This is one of the main reasons why China has not yet shown the expected turnaround. Nevertheless, I am optimistic that we will witness renewed growth impulses emanating from China in the coming years. China remains a vast market with substantial untapped potential. We foresee several growth opportunities in China, particularly in the realm of e-mobility.

**BZ: ALTANA's sales in China currently account for just under one-fifth of the company's total sales. Can you outline your strategy for the Chinese market?**

Babilas: We believe that we are very well positioned in China. Our markets are global, and our aim is to establish a presence in all major markets.

**BZ: In light of the China strategy formulated by the German government and the geopolitical challenges, do you see a need to adjust your approach to the Chinese market?**

Babilas: Absolutely. At present, we operate in China as almost a local player, with substantial value creation occurring on-site. This positioning provides us with a solid foundation for closely monitoring potential geopolitical developments.

**BZ: If you look at the breakdown of ALTANA's sales and employees, it's striking that you have almost a one-third split in terms of sales (USA, Europe, Asia), but 65% of the employees are based in Europe. Do you consider this distribution to be sustainable in the long term?**

Babilas: We have managed this distribution successfully in recent years. Nevertheless, we have observed shifts towards regions outside of Europe. Our ultimate objective is to have a global presence, strategically allocating resources as needed. While our current setup allows us to remain competitive, our primary goal is to establish structures in proximity to our customers. Therefore, we have directed our investments outside of Europe in recent years. The topic will also accompany us in the future.

**BZ: Globalization has prompted supplier industries to follow their customers around the world. Meanwhile, German industry is increasingly voicing concerns about emigration. How valid are these concerns?**

Babilas: When considering the evolution of the industry over the past eighteen months, it becomes imperative to heed these warnings. The cost structure, particularly energy expenses, remains a highly influential factor for the industry as a whole. This holds true even though ALTANA is comparatively less impacted by these costs. It's crucial to recognize that more favorable location conditions exist in other regions, a fact that global companies consider when making investment decisions.

**BZ: Despite the relatively low impact on your business, do you support the proposal for an industrial or bridge electricity price?**

Babilas: We've consistently advocated for a substantial expansion of renewable energy sources, aligning with the objectives of an energy transition. In our view, this is the pivotal aspect. Firstly, we require a secure and sufficient supply of renewable energy. Secondly, it should be economically viable and promote the shift away from fossil fuels. We believe there's insufficient emphasis on the incentivizing aspect of this transition. A measure like a bridge electricity price, or any similar mechanism, would be a practical tool in this regard.

**BZ: Given Germany's status as a high-wage country with high energy costs, is a basic industry necessary there?**

Babilas: It's essential to remember that we are talking about value chains here, which often extend beyond specific industries. In many cases, the chemical industry represents the initial link in these value chains. It's crucial to consider that Germany lacks many raw materials and relies on importing various starting materials. The industries that use them to create value are of the utmost importance because these value chains are not easily dismantled. Hence, I believe it's a perilous course of action for a country like Germany, heavily reliant on industrial value creation, to consider excluding specific segments of this value creation.

**BZ: So, business as usual?**

Babilas: We must recognize that our industry has to undergo a transition toward climate neutrality. Moreover, we need to acknowledge that Germany's long-term success hinges on our ability to deliver innovations that outperform those of other companies. To achieve this, we need an environment that fosters education and innovation as the foundation for sustained prosperity. Overall, I believe this is even

more critical than the debate surrounding cost levels and specific industrial sectors. It should be the cornerstone of our path towards future prosperity as a society.

**BZ: ALTANA continued to increase R&D spending in the first half of the year, despite challenging circumstances. How sustainable is this strategy?**

Babilas: History demonstrates our consistent ability to maintain this practice throughout economic cycles. We are committed to driving future growth through innovation. Our approach to innovation extends beyond the immediate present; while our current investments may not yield results in the second half of this year, they are essential for future growth. Therefore, sustaining innovation initiatives demands a certain degree of persistence. Fortunately, our financial strength and capital reserves enable us to advance our business, with a focus on long-term prospects for success.

**BZ: To what extent does the fact that you are no longer listed on the stock exchange help you?**

Babilas: Undoubtedly, it's a positive factor. Being delisted has allowed us to pursue our strategy with even greater consistency.

**BZ: Doesn't your owner SKion, Susanne Klatten's investment holding company, insist on dividends from ALTANA?**

Babilas: The primary concern for our owner is the company's long-term success. Whatever measures are necessary to secure this success are pursued. In this regard, we share a strong alignment.

**BZ: With the acquisition of the Swiss Von Roll Holding AG, it appears that you are capitalizing on your competitors' vulnerabilities. If the public offer achieves the desired outcome, the investment may exceed 320 million euros. Have you shot your bolt with this acquisition?**

Babilas: Primarily, Von Roll is a company that we find highly attractive and innovative. Consequently, it represents an opportunity for us to enhance ELANTAS and Von Roll, creating an even stronger company geared toward the energy and mobility transition.

**BZ: But there is a reason why the majority shareholder is departing.**

Babilas: The added value comes from the combination, and, from our perspective, ELANTAS is the preferred owner. However, this acquisition doesn't exhaust our resources. We remain open to additional opportunities, but such endeavors depend on finding compelling prospects. I am confident that we will identify and pursue such opportunities over the next few years.

**BZ: The challenging economic environment is likely to create more acquisition opportunities.**

Babilas: We anticipate this, and we are actively exploring options. When the right opportunity arises, we will certainly let you know.

**BZ: The challenging business environment has prompted many competitors to initiate cost-cutting programs, and in some instances, even shutter plants.**

**Where is there a need for optimization in ALTANA's portfolio?**

Babilas: Optimization is an ongoing consideration for us. We have always done our homework to ensure that our operations generate value. The present circumstances are no different, and indeed, we are mindful of both costs and working capital. Naturally, there may be adjustments to project timelines, but historically, we've been diligent in maintaining efficient structures.

**BZ: Is this advantage due to ALTANA's high degree of specialization?**

Babilas: Absolutely, specialization is indeed an advantage for us. We operate in niche markets and maintain a highly adaptable and flexible organizational structure, which proves particularly beneficial during challenging periods.