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Q3 2025 COVESTRO AG EARNINGS CALL

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- **Christian Faitz** Kepler Cheuvreux SA - Analyst
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- **Tiffany Serfaty** Jeffries - Analyst

PRESENTATION

Ronald Koehler Covestro AG - Head - Investor Relations

Welcome to the Covestro earnings call on the third quarter results. The company is represented by Christian Baier, our CFO. (Event Instructions) You will find the quarterly statement and earnings call presentation on our IR website. I assume you have read the Safe Harbor statement.

With that, I would now like to turn the conference over to Christian.

Christian Baier Covestro AG - Chief Financial Officer, Member of the Management Board

Thank you, Ronald, and good afternoon, everybody. I would like to start my presentation with some insights into a recent acquisition. Following the successful completion of the purchase of Pontacol in Q3 2025, Covestro has signed another value-accretive transaction, which is expected to close in Q1 2026, depending on regulatory approvals. This deal will also benefit our Solutions & Specialties segment with the acquisition of two HDI derivative production facilities from Vencorex in Rayong, Thailand and Freeport in the US.

This strategic move enhances Covestro's global aliphatics production footprint in attractive growth regions, particularly the US and Asia Pacific. Aliphatics isocyanates are essential raw materials for light stable coatings, paints and adhesives, primarily used in the mobility sector, but also in construction and furniture applications. The acquisition strengthens Covestro's position in the coatings and adhesives market, expanding its capacity to meet customer demand across key regions.

The acquisition delivers financial value through a low double-digit million Euro EBITDA addition and synergies of up to high double-digit euro million amounts within the next five years. These synergies stem from substantial utilization rate improvements across our asset base, combined with the implementation of Covestro's advanced aliphatics technology platform. This deal demonstrates our disciplined capital allocation approach, targeting high-return opportunities that enhance our specialty chemicals portfolio and drive sustainable value creation.

Let us now turn to the key financials of the last quarter, which are clearly impacted by the Dormagen fire incident and the ongoing challenging business environment. On the sales volume side, we declined by 1.5%, also leading to lower sales of EUR3.2 billion that are also due to negative pricing and FX effects. We achieved an EBITDA of EUR242 million, which is towards the upper end of our guidance range and mainly due to successfully delivering on cost ambitions. The free operating cash flow came in at a positive

EUR111 million. As usual, and with just two months to go, we are narrowing our FY guidance.

On page number 4, we are looking at the business and the volume development in the third quarter of 2025. Year over year, global sales volumes slightly declined, primarily driven by the external fire incident in Dormagen and partly continued macroeconomic headwinds. Volume growth in APAC and North America provided for a partial offset, but could not fully compensate for the European decline. Without the Dormagen incident, the European sales volume decline would be limited to minus 2% and global sales volume would have turned positive. Looking across the different industries, only auto showed a low single-digit increase, mainly due to the year over year low baseline after a strong decline in Q3 2024.

Construction, electro and furniture/wood all showed a low single-digit to low teens percent negative development, reflecting persistent economic weakness across key markets. Regional dynamics varied significantly. In EMLA, the performance remained challenging with automotive volumes flat and significant decline in electro, construction and furniture/wood. This reflects both the operational impact from the Dormagen incident and broader regional economic softness. In North America, we have achieved slight volume growth, supported by strong furniture/wood demand. Electronics and automotive remained flat, while construction declined significantly due to elevated interest rates and inflationary pressures and also trade policy uncertainty.

In APAC, we have delivered slight volume increases driven by robust construction and automotive demand. However, export-oriented electronics and furniture/ wood segments contracted significantly, reflecting the impact of US tariff measures on trade flows.

We are now on page 5 of the presentation and are coming to the year-over-year sales bridge. Sales for Q3 2025 declined by 12% to EUR3.2 billion. While all contributing factors were negative, the decrease was mainly caused by negative pricing and adverse FX impacts. Pricing pressure contributed 7 percentage-points to the sales decline, reflecting continued market softness and competitive dynamics across our portfolio. Foreign exchange headwinds accounted for 3.5 percentage-points of the decline, predominantly due to weakness in the US dollar, Chinese renminbi and Indian rupee against the Euro. As mentioned earlier, lower volumes contributed minus 1.5% to the sales decline.

With that, let's turn to the next page, where we are showing the Q3 2025 EBITDA bridge. Year over year, EBITDA decreased by 15.7% to EUR242 million. The performance towards the upper end of our guidance range of EUR150 million to EUR250 million was driven by delivering on our self-help measures in the form of short-term contingency savings as well as long-term structural savings. The persistent unfavorable industry supply-demand balance continued to pressure margins with selling prices declining more rapidly than raw material costs. This negative pricing delta impacted EBITDA by EUR102 million.

In addition, lower volumes and adverse foreign exchange rates added to the headwinds. Other items provided for a significant positive contribution, primarily due to the mentioned cost savings. Restructuring costs related to strong burdened EBITDA with EUR26 million in Q3 2025 and EUR170 million during the first nine months of 2025.

On slide 7, we break down the details for the different segments, starting with Solutions & Specialties. In S&S, the combination of the year over year price decline and negative FX effects led to a sales decline of 7.7%. Volumes remained flat. Quarter over quarter, sales declined globally and volume growth was only recorded in APAC, while EMLA and North America declined. Prices were stable in North America and APAC, while a decline was observed in EMLA.

The EBITDA in Q3 2025 declined slightly year over year as the negative pricing delta and FX effects could not be fully offset by positive volume development and others. The quarter over quarter EBITDA increase was caused by positive pricing delta and cost savings, while volumes and FX diluted the increase. The EBITDA margin increased to 12%.

After Solutions & Specialties, we now turn to the Performance Materials segment. Sales declined 16.2% year over year, driven by negative contributions of 9.8% from pricing, 3.3% from FX and 3.1% from volumes. The volume reduction was primarily attributable to production disruptions in TDI and basic chemicals stemming from the Dormagen incident. Quarter over quarter, sales declined in EMLA and North America, while APAC was flat. The Q3 '25 EBITDA of EUR174 million is higher year over year, mainly due to an insurance reimbursement and cost savings, while pricing delta, volume and FX all contributed negatively.

Please note that the segment Performance Materials benefited from a EUR75 million payment from the Covestro International RE, a licensed reinsurance company, to self-insure property damage and business interruption risks. Therefore, there is an equal negative amount booked in the "Others/Reconciliation" segment. In Q3, we assume that Covestro had a mid-double-digit euro million negative operational impact from the incident. We do not expect another insurance booking in Q4. Therefore, we assume that the operational loss of another mid-double-digit euro million amount will burden the EBITDA in the last quarter.

The next topic is the free operating cash flow development. As you can see from the graph, the free operating cash flow in 9M 2025 improved to minus EUR370 million, with Q3 free operating cash flow contributing positive EUR111 million. The free operating cash

flow declined after nine months year on year, driven by lower EBITDA and higher CapEx. The usual buildup of working capital during the year was less pronounced compared to last year due to reduced inventories. CapEx after 9M of EUR556 million was higher year on year due to higher expenditures in our Performance Materials segment.

We maintain our full year CapEx guidance of EUR700 million to EUR800 million for 2025. Income tax payments of EUR145 million remained consistent with the previous year. The minus EUR152 million in other effects mainly comprises the bonus payout in Q2.

Let's now look at our balance sheet on page 10. Our total net debt increased by EUR292 million compared to the end of 2024. The increase was caused by a negative free operating cash flow of minus EUR370 million. The decrease in the net pension liability of EUR214 million was driven by an increase in pension discount rates, mainly in Germany. This comprises pension provisions of EUR285 million and a net defined benefit asset of EUR70 million.

Summarizing our net debt situation, the total net debt-to-EBITDA ratio is at 3.8 times based on our four quarter rolling EBITDA of EUR0.8 billion. Covestro remains committed to a solid investment-grade rating, which was confirmed in April by Moody's, including a stable outlook. That concludes the overview of the Q3 financials, and we are now moving to the forward-looking part.

We are continuing with the outlook for Covestro's core industries on page 11 of the presentation. The global GDP forecast has decreased to 2.7% (corrected by company after the call) from February's 2.8% outlook. This reduced global outlook also affects most of Covestro's key industries. Growth projections for the automotive industry have been reduced to 1.9% from 2.7%, primarily driven by US tariff policy impacts and weakening demand in Europe and North America.

However, the electric vehicle segment continues to demonstrate a robust momentum with 25.7% growth expectations. The growth forecast of the construction industry increased to 0.6%, partly due to stabilization in the Chinese housing market, though ongoing conflicts and macroeconomic uncertainty limit further growth.

Residential construction is seeing a further decline to minus 1.8%. The growth forecast for the furniture industry decreased to 0.2%, which is more than 1 percentage-point below earlier expectations. Primarily, this is due to weakened production activity in the APAC and EMLA regions. The growth forecast for the electronics industry is now at 2.9%, down from 5.2% with persistent uncertainty regarding US trade policy and potential tariffs affecting investments. Household appliances show an improved growth expectation at 3.1%. In line with our usual practice, we are now narrowing our guidance corridor for our KPIs in Q4. We narrowed the EBITDA guidance to now in between EUR700 million and EUR800 million, and I will explain on the next page the relevant drivers for that. The free operating cash flow guidance has been adjusted in line with EBITDA and is now expected in between minus EUR400 million and minus EUR200 million. Accordingly, ROCE above WACC is now projected at minus 9 percentage-points to minus 8 percentage-points. The greenhouse gas emissions forecast was also narrowed mainly due to lower volumes after the Dormagen incident and are now expected between 4.2 million to 4.4 million tonnes. Beyond that, most other financial expectations remain unchanged, only Covestro sales are now estimated to come out at around EUR13.0 billion.

As referenced in our Q2 reporting, this waterfall chart illustrates the sequential factors driving our EBITDA guidance revision from the initial February outlook. Our February guidance established a midpoint of EUR1.3 billion. Market headwinds of about EUR700 million, countered by EUR300 million in proactive short-term cost contingencies to mitigate these pressures resulted in our July guidance midpoint of EUR900 million. Global market conditions remained challenging throughout Q3 and are expected to persist in Q4, characterized by sustained margin pressure and significant oversupply across our core product portfolio.

While our transformation program STRONG and short-term cost contingencies provide partial mitigation, we are accelerating both initiatives to capture earlier benefits. This may require pulling forward restructuring costs of low to mid-double-digit millions from 2026 into 2025. The effect of the Dormagen incident, which has occurred one day after our revised FY25 outlook has been part of our Q3 guidance, but had not been incorporated in our FY25 outlook. We are today in a much better position to evaluate the full impact of the outage for FY 2025 and estimate a burden of up to EUR150 million. Meanwhile, we resumed partial production of TDI and expect to continue running at a low operational load.

During 2026, production will be gradually increased to full capacity depending on improving chlorine availability. The lacking TDI and basic chemical volumes in combination with the ongoing challenging economic situation leads to the new EBITDA guidance midpoint of EUR750 million.

Before summarizing Q3, I would like to give you an update on the XRG transaction. We have successfully completed all pre-closing merger control approvals following Vietnam's recent authorization, and Indonesia will be addressed post closing in accordance with local regulatory requirements. Two key approvals remain outstanding, the German foreign direct investment FDI clearance and the European foreign subsidies regulation FSR approval. Regarding the European FSR, we entered Phase 2 proceedings in late July and have since maintained constructive dialogue with the EU Commission. We achieved a significant milestone by submitting

commitments, which have also undergone market testing, a standard procedural step in the FSR process.

For German FDI approval, we are in final stages of the clearance process. Both regulatory authorities are fully aware of our December 2, long stop date and remain confident to achieve the closing of the transaction before this deadline.

So let me quickly summarize the highlights and the key points for Q3 2025. We have seen a negative volume development as we were burdened by the Dormagen incident and ongoing challenging economic conditions. We have also seen sales lower at EUR3.2 billion, mainly caused by lower prices and unfavorable FX. An EBITDA of EUR242 million ended up towards the upper end of our guidance range, helped by delivering on our cost savings ambitions. And we have narrowed our FY 2025 guidance with an expected EBITDA of EUR0.7 billion to EUR0.8 billion. On the XRG transaction, we are on track for closing before December 2, which is the long stop date. And now Ronald and myself are happy to answer any questions that remained open.

And with that, I hand it over to Carsten, who will guide us through the Q&A session.

QUESTIONS AND ANSWERS

Carsten Intveen Covestro AG - Investor Relations Director

(Event Instructions)

Christian Faitz, Kepler Cheuvreux.

Christian Faitz Kepler Cheuvreux SA - Analyst

Yeah, two questions, please. First of all, thanks for the helpful comments on Dormagen and the ramp into 2026. Can you talk or elucidate a bit how much of that EUR150 million impact you talked about is actually covered by insurance payments, for example, or will be covered eventually? And then also a second question, your presentation suggests that electric vehicle growth continues to have solid momentum, even more so in '25 than in 2024. Can you remind us how much Covestro product in terms of value is in an average car with a combustion engine versus a battery electric vehicle?

Christian Baier Covestro AG - Chief Financial Officer, Member of the Management Board

Thank you, Christian, for your questions. Very happy to comment on both. With respect to Dormagen and the insurance perspective, we are, on the one hand, very early in that process, really focusing heavily on restoring operations where we are very confident to be able to ramp that up significantly over time. The insurance perspective that you have seen, first of all, we have that internal insurance of EUR75 million, and we have basically deductibles of EUR25 million. So we are very strongly expecting that the coverage is there above EUR100 million effect that would be happening at that point of time.

With respect to the EV view, we certainly have a very high ratio of products within the EVs, especially when we talk about the high-end luxury EVs, we are talking about a very significant number, which is about 2 to up to 5 times higher than in a normal combustion engine car. So EVs definitely is an important market for us, and it continues to be. Still, we see, obviously, in different regions, various strengths and also weaknesses overall. But given that we are very much penetrated also with well-performing Chinese players, we see also a good perspective down the road in that market, while auto at the moment certainly is somewhat challenging.

Carsten Intveen Covestro AG - Investor Relations Director

Sebastian Bray, Berenberg.

Sebastian Bray Joh Berenberg Gossler & Co KG - Equity Analyst

I have two, please. The first to come back on Dormagen. Is this done in January of '26, the plant is fixed and everything goes back on line? Or is it not quite that simple?

And my second question was on the comments around September mark-to-market pricing for key products implying about EUR750 million of EBITDA for the year FY25. And I'm looking at MDI, a little bit of polycarbonate and some other commodity prices, and these all appear to have deteriorated significantly in excess of raw material prices through October. If you were to perform the same analysis again with mark-to-market October prices, is EUR700 million a more reasonable figure? Or does it not differ very much?

Christian Baier Covestro AG - Chief Financial Officer, Member of the Management Board

Yeah. Thank you, Sebastian, for your questions. Happy to address those. I think with respect to Dormagen, it is basically a multifold analysis that is being done. We already have ramped up parts of the various production entities.

I think the key one was to restore relevant parts of the power supply in order to also ramp up trains on various of the subproducts. But just answering specifically your question, not early in January '26, this is not all going to be fixed at that point of time, but we will be ramping up throughout that year on the key products in order to then basically come back to full TDI availability at that point of time, but we're very confident together with the external partners that are important here also on that external fire incident to ramp up reasonably quickly at that point of time.

With respect to the September mark-to-market, yes, certainly, there is always some fluctuations between the various months, but we very much remain confident with the guidance range that we have narrowed today of this also being the relevant one to look at for the full year outlook also on the back of current trends that we see in the last couple of weeks.

Sebastian Bray Joh Berenberg Gossler & Co KG - Equity Analyst

Could I just follow up on this? So we're comparing Q4 versus Q3, I appreciate there are various bits and pieces of noise around semiconductor supply to automotive in Europe and so on. But it is notable how much some of these prices have declined, let's say, October versus quarter average for quarter three. Is this because ones who are ramping up further MDI supply? Is it entirely demand led? What is your own view on why prices are seemingly weak in October?

Christian Baier Covestro AG - Chief Financial Officer, Member of the Management Board

Well, as we are not commenting then on competition, but what we basically see is some headwinds certainly on the products that you quoted. It's in the end a combination of various factors that we see there. There certainly is demand development that also from a seasonal perspective is ramping in, providing some pressure. And given that we have seen some additional volumes in this year, hitting that demand situation, supply-demand certainly is something to be improving over time. But at the moment, that's the balance that we see. And still, it's consistent with our expectations for the full year.

Sebastian Bray Joh Berenberg Gossler & Co KG - Equity Analyst

And if the deal closes, all the best for life on the Adnoc.

Carsten Intveen Covestro AG - Investor Relations Director

We have an additional question by Tiffany Serfaty. Tiffany, up to you.

Tiffany Serfaty Jeffries - Analyst

Okay. Perfect. So you said four weeks ago at a conference that you had an agreement with the German government on the FDI approval. So my question is, what are they waiting for?

Christian Baier Covestro AG - Chief Financial Officer, Member of the Management Board

Well, I think we basically are making good progress on the FDI side. We have never said we have an agreement on the FDI or the approval in Germany, but we continue to be very constructively in conversations there and are very confident to, by the long stop date, have clearance not only on FDI in Germany, but also on FSR in Europe.

Carsten Intveen Covestro AG - Investor Relations Director

So with that, there are no further questions. With that, handing back to Ronald.

Ronald Koehler Covestro AG - Head - Investor Relations

Thank you all for listening in. I know it's a busy day today with a lot of other companies reporting. So thanks for your questions. And if you have any follow-up questions, don't hesitate to call the IR team. Thanks, and goodbye.

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