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Q1 2025 COVESTRO AG EARNINGS CALL

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An LSEG Business

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PRESENTATION

Ronald Koehler *Covestro AG - Head of IR*

Welcome to the Covestro earnings call on the first quarter results. The company is represented by Christian Baier, 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 hello and a warm welcome also from my side to our first quarter call. The key financials of the first quarter were as shown on this page. Volumes developed flattish year-over-year. Sales also came in at stable EUR3.5 billion. We've achieved an EBITDA of EUR137 million approaching the upper end of our quarterly guidance range. Free operating cash flow shows the usual seasonal dip with minus EUR253 million and we are reducing the upper end of our EBITDA guidance.

Let us look at the volume development in the first-quarter of 2025. The global sales volume was stable with minus 0.4%. North America exhibited slight growth; EMLA developed flattish; and APAC was negative. The dip in Asia was caused by our portfolio pruning as we cut loss making or low margin business.

Going through the different industries, demand in construction and furniture was stable. Auto showed a low single digit percent decline, and electro followed with a mid-single digit percent decrease. Taking a deep dive into the different regions, starting with EMLA. EMLA benefited from significant growth in furniture/wood, and a slight growth in construction. Auto and electro, on the other hand, had a slightly negative development.

Sales volumes in North America also increased significantly in furniture/wood, electro, and construction. Automotive continued the negative trend from past quarters with a significant decline. APAC experienced a slight increase in auto but all other industries showed a clear decline.

We're now on page 4 of the presentation. Sales for Q1 2025 are stable year-over-year at EUR3.5 billion. The negative pricing and flat volumes were partly offset by positive FX. A negative impact of EUR40 million was coming from 1.1% lower prices. The prices in the business segment performance materials increased by 0.7%, while solutions and specialties was affected by 3% lower prices.

Volume was flat with minus 0.4% or minus EUR14 million year-over-year. Excluding the portfolio pruning, volumes would have been 2 percentage-points higher. The solutions and specialties volumes increased by 1.2% while the segment performance materials experienced a 2% decline. The positive FX effect of 0.6% or EUR21 million was mainly driven by the stronger US dollar and Chinese renminbi.

With that, let's turn to page 5 of the presentation where we are showing the Q1 2025 EBITDA bridge. As predicted in our full year call, EBITDA decreased by around 50% to EUR137 million due to costs of EUR108 million related to our transformation program STRONG.

Within this amount EUR88 million are related to the announced closure of our joint propylene oxide operation with LyondellBasell. However, the EBITDA came in towards the upper end of the predicted range of EUR50 million to EUR150 million. Lower selling prices due to unfavourable supply and demand in combination with high raw material and energy costs, especially in Europe, led to a negative pricing delta of EUR73 million.

The volume increase could only absorb a part of the negative pricing delta. As I said before, we reduced loss making business, especially in polyols, and increased sales in areas with strong margins. FX was positive.

Other items were burdened by costs associated with our transformation program STRONG that mainly includes the previously mentioned plant closure. On slide 6 we are breaking down the details for the different segments as usual, starting with solutions and specialties.

In Solutions and Specialties, the year-over-year price decline of 3% was leading to a sales decline of 1.2% despite increasing volumes of 1.2% and positive FX of 0.6%. Sequentially, sales growth was only recorded in APAC while North America and EMLA were declining.

The EBITDA in Q1 2025 was lower year-over-year due to a negative pricing delta. The quarter-over-quarter EBITDA increase was caused by higher volumes, mainly in our Coatings and Adhesive business after the winter break.

With that, the EBITDA margin increased to [10.4%] (corrected by company after the call). Despite the narrowing of our full year EBITDA guidance, we are confirming our guidance for S&S to contribute slightly above the 2024 level. After Solutions and Specialties, we are now looking at the segment Performance Materials.

Year-over-year sales were stable with minus 0.7%, driven by minus 2% from volumes, flat pricing, and plus 0.6% from FX. Quarter over quarter, sales in North America were flattish while APAC and EMLA declined. The Q1 '25 EBITDA of EUR13 million is lower due to the before mentioned provisions for the joint propylene oxide operation closure. Without this one-time effect, the EBITDA would be comparable to Q1 2024.

Sequentially, the EBITDA and Q1 '25 decreased based on negative one-time effects and a negative pricing delta due to higher energy prices, mainly in Europe during the winter period. For PM we are reducing the upper end of our EBITDA guidance range by EUR100 million and are now expecting a range from EUR400 million to EUR700 million.

On March 18, we have announced the decision to permanently close the Propylene Oxide / Styrene Monomer joint operation of Covestro and LyondellBasell at the Maasvlakte site in the Netherlands. Contributing factors to this decision were the global overcapacities on propylene oxide being built up in China, leading to low utilization rates and thus low margins. Higher feedstock costs and increased imports from Asia made the production of PO in Europe very challenging.

As we have announced during our full year call, this consolidation is part of the ongoing transformation program STRONG, impacting our Q1 EBITDA by EUR88 million. The overall effect for FY 2025 is expected to be in the low-triple-digit euro million range and however, starting 2026 there will be a positive mid-double-digit euro million effect on EBITDA and free operating cash flow.

Our sales will be affected by a mid-triple-digit euro million amount mainly caused by the sales of styrene, and this with immediate effect as the plant has already been mothballed since the end of 2024. Covestro continues to support its customers and remains committed to the European market despite this closure and therefore through our existing supply network for PO and polyols we are supporting this.

The transformation of Covestro is in full swing, and we are walking our talk when it comes to delivering on our targets. So let me update you on our transformation program STRONG. Gross savings are now at EUR152 million, adding EUR33 million from Q1 2025 to the EUR119 million achieved in 2024. With three quarters to go until year-end, we expect this amount to rise to about EUR250 million.

However, the flip side are the announced onetime costs of EUR300 million, of which EUR100 million incurred in Q1 '25 and a similar amount is to be added during Q2 to Q4 2025. This means that STRONG with overall burden reported EBITDA in 2025 by around EUR70 million compared to 2024. As discussed before, the announced closure of the PO production marked an important step in our ambitions for 2025.

It hit our EBITDA with the already mentioned EUR88 million in Q1 '25, whereas the additional benefits will ramp up over time starting from 2026. Nevertheless, the ambition is clear. With STRONG we want to achieve EUR400 million of annual savings or slightly below 10% of our annual fixed cost by 2028. The program consists of various smaller and larger projects and involves the broad rollout of digitalization and AI and we remain focused on fully delivering on this ambitious target.

The next topic is the free operating cash flow development for Q1 2025. As you can see from the graph, the free operating cash flow in Q1 '25 was negative with EUR253 million. The free operating cash flow is significantly lower year-on-year due to the lower EBITDA and higher CapEx. Working capital typically experiences a seasonal increase.

However, in Q1 2025, the impact was relatively lower at minus EUR172 million, primarily due to stringent working capital management. Q1 CapEx of EUR180 million increased year-on-year due to higher investments among others, mainly in efficiency and growth projects of our performance materials segment in the chlorine production in Leverkusen, Germany and the Aniline project in Antwerp, Belgium. Despite this increase, we remain vigilant about our spending and confirm our CapEx guidance of EUR700 million to EUR800 million for FY 2025. All in all, the Q1 '25 free operating cash flow is showing a dip related to lower EBITDA and higher CapEx. Let's now look at our balance sheet on page 11.

Our total net debt slightly increased by EUR315 million versus the end of 2024. The increase was mainly caused by the seasonally negative free operating cash flow of EUR253 million and negative others. The decrease in the net pension liability to EUR247 million was driven by an increase of the pension discount rates mainly in Germany. This comprises pension provisions of EUR315 million and net defined benefit assets of EUR68 million. Summarizing our net debt position:

The total net debt-to-EBITDA ratio is at 3.4 times based on a four-quarter rolling EBITDA of EUR0.9 billion. Without the STRONG provisions of around EUR100 million in Q1 2025, the increase would be limited to a ratio of 3.1 times. Covestro remains committed to a solid Baa2 investment-grade rating that was just confirmed last week by Moody's. Now we are moving away from the actual business figures of Covestro and are trying to analyze the effect of the tariffs announced by the US government beginning of April.

When looking at the trade balance for our core products, MDI, TDI and polyols, we can see a growing dependency on imports to supply the North American market. This is most pronounced for MDI already since a couple of years, with imports of around 500kilo tons. These imports are mainly coming from Wanhua originating to 70% from China and to 30% from Europe. On TDI and polyols, we see a growing trend towards imports. However, for TDI, most external supply is coming from Europe to avoid already existing tariffs from China to the US.

On both isocyanates the tariffs are at 177%. Import streams on polyols from APAC represented less than 30% of the imports in 2024. The highest share here is coming from Mexico. Tariffs on polyols are though significantly lower with 52%.

Looking at the supply picture of Covestro, we see that our regional production exceeds sales indicating that our production in the region for the region holds true. We are entertaining nine sites for local US production with a major hub in Baytown near Houston, Texas with assets for production of MDI, TDI polycarbonates and aliphaticisocyanate.

Despite the vast majority of our products sold coming from the US, there is an import volume of around EUR500 million, mainly being imported from Europe into the US. These volumes are to support the region on specialty products, scarce products and safeguarding supply of our customers during turnarounds.

In general, we expect market prices to increase on the back of higher import prices. However, there are underlying risks that the tariffs could be having a detrimental effect on the regional GDP development and thus on the global GDP. Drilling it down into the core industries, we would expect a dampening on the demand in all our core industries, automotive, construction and electro, especially furniture/wood is already impacted by imposed antidumping rates on mattresses and furniture and additional tariffs bear the risk or further slowdown.

Next to the implication on GDP, we might see a diversion from established trade flows. China is the global workbench for electro/electronics and other labor-intensive products as well as holding the biggest capacities of MDI and TDI.

Tariffs, as announced, might reduce imports into the US. So the remaining products might then stay in APAC or end up in Europe with negative effects on prices and margins. Overall, this is a very mixed picture with risks but also with opportunities. However, there are so many erratically moving parts so that it is almost impossible to have an exact prediction of the outcome.

From our side, Covestro remains agile and responsive to accommodate any new developments but we need to wait it out until we see a clear direction, this tariff escalation will take. We are now coming to the outlook for Covestro's core industries on page 13 of the presentation.

The global GDP expectation is almost unchanged at 2.6% compared to the outlook of 2.8% we presented end of February. Looking deeper into regional GDPs we also see a steady growth prediction of 1.7% for EMLA and 3.9% for APAC and around 4.5% for China. However, the US economy has seen a slight downward momentum from 2.6% to 2.0%.

Growth expectations for most of the key industries for Covestro have only seen insignificant changes with the exceptions of a slightly declining trend for furniture and a 2.6% downgrade for electro/electronics but a 3.7% upgrade for the subcategory of appliances. However, all these growth predictions do not incorporate the effects of the spreading trade war initiated by the tariff announcements by the incumbent US government early April.

For example, the automotive industry is still expected to grow slightly at 2.4% and a stable growth of electric vehicles of 22.4% is predicted. As mentioned before, erratically imposed and then lifted or delayed tariffs are fundamentally disturbing a rational evaluation of the consequences of these actions and in absence of new reliable data, we are sticking to the known facts and remain vigilant to new developments.

Currently, none of the growth indications for our core industries is reflecting the increased uncertainties and risks in the global economy that it is facing and this has been also influencing our guidance for FY 2025. After the economic outlook, let us now discuss the guidance for Covestro, taking into account the fundamentals of the last slide.

Despite increasing uncertainties, it is not clear whether the world or more specifically the US, will incur a recession. In the absence of clear indications in that direction, we are keeping our guidance aligned with the currently available data and not draw a doomsday scenario. However, we see the risks to the global economic development outweighing the chances of an optimistic scenario and as such, have decided to narrow our guidance from the top end by EUR200 million to now EUR1.0 billion to EUR1.4 billion. This narrowed range is due to the consistently low margin level in Q2, whereas our previous assumptions anticipated the beginning of margin recovery from Q2 onwards.

The effects of the volatile environment on GDP and exchange rates are not included in our FY guidance. The April mark-to-market EBITDA is now aligned with the lower end of the guidance of EUR1.0 billion. In line with EBITDA, also ROCE above WACC has been narrowed to minus 6% to minus 3 percentage-points and the guidance for free operating cash flow and greenhouse gas emissions in Scope 1 and 2 are estimated stable.

Due to lower feedstock prices and expected pass-through to our pricing we expect sales now to come in between EUR14.2 billion and EUR15.2 billion. In [Q2 2025] (corrected by company after the call), we expect an EBITDA between EUR200 million and EUR300 million.

We expect a slight sales volume decrease due to the shutdown of PO 11 and respective lower sales on polyols and especially styrene as well as a slightly higher D&A of EUR900 million. All other KPIs remained stable. Let's now move to the update on the XRG transaction.

The aggregate of shares tendered and purchased by XRG amounts to 91.58% of the total Covestro shares. Additionally, XRG secured 3.44% of shares through instruments end of January 2025, leading to XRG direct and indirect ownership of more than 95%.

The remaining free float represents 4.82%, and our treasury shares are 0.16% of our total share base. Since our last call, we have achieved further regulatory approvals and are at 67% approval rate. For the German FDI and the US CFIUS, the formal notifications have been filed and the outcome is pending. On the European for Subsidy Regulation, we are preparing the official filing.

And once done, it will be posted on the EU FSR website. Upon submission of the formal notification, the process takes approximately up to 25 working days, after which the European Commission will either clear the transaction unconditionally or decide to proceed to a Phase II investigation, if further scrutiny is required. This in-depth Phase II investigation can last up to 90 working days, if not extended.

We estimated beforehand that these three approvals would most likely be the long-running items. Significant progress has also been made on the merger control approvals and we are now at advanced to 75% approval rate with more approvals expected to come in during May.

Additionally, if we receive requests for information from any authorities, the respective teams are following up on these RFIs to facilitate a closing of the potential transaction within the expected time line. We reiterate our closing ambition within the second half of 2025 with a subsequent payout of the EUR62 per share to Covestro's shareholders. So let me quickly summarize the key points of today's presentation.

In Q1 2025, sales were stable at EUR3.5 billion with stable volumes due to reduced low-margin business. EBITDA came in at EUR137 million, approaching the upper end of the guidance range, and it was burdened by negative pricing delta and the onetime costs related to the transformation program STRONG.

The negative free operating cash flow of minus EUR253 million is in line with expectations. Full year 2025 EBITDA guidance has been narrowed with the lower end of the EUR1.0 billion reiterated and the upper end reduced by EUR200 million to EUR1.4 billion. And the XRG transaction is on track with additional approvals achieved. 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***

Thanks, Christian. Ladies and gentlemen, we will now begin the question-and-answer session. (Event Instructions)

Christian Faitz, Kepler Cheuvreux.

Christian Faitz ***Kepler Cheuvreux - Analyst***

All right, hopefully you can hear me. Good afternoon. Good morning. Two questions please. Can you elucidate a bit the rather sharp rise in short-term financial liabilities, which according to your Q2 report, mainly relates to higher bank liabilities in China? What's behind that? And then my second question is your growth forecast for the electro electronics industry has more than halved. What's behind that, i.e., do you actually see customer industries slowing down already? Is this tariff discussion related? Thanks very much.

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

Yeah, thanks Christian, for the questions. I think there's two reasons for the increase on the short-term financial liabilities. One is basically the reclassification just of a bond, which has been moved from the long term to the short term given that we went under that one-year period. And the other part is an increase of short-term funding which is partially from the commercial paper side but also within the short-term market in China as we are balancing the overall financial profile.

On the other hand, you have seen the cash also having increased during the same period. With respect to the topic on the electro industries, it is partially related to the trade flows that would be expected within the overall setup, i.e., a number of the products on the electro electronics do not reside still in China than after the production but are rather impacted by the tariff elements that we would see there.

On the other hand, you have also seen that appliances, the subcategory of that has actually been increased which is then rather related to the domestic demand that we would be expecting in China also linked to some governmental programs. So I think a tale of two cities there within electro/electronics.

Christian Faitz ***Kepler Cheuvreux - Analyst***

But overall, your forecast has halved, that is correct, right?

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

On the total of electro/electronics, for us, more important pieces are related then also to appliances here. And therefore, that's for us, I wouldn't say a wash but the halving should not be seen as that significant of an overall impact.

Christian Faitz *Kepler Cheuvreux - Analyst*

Okay, understood. Thanks very much, Christian.

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

Thank you.

Carsten Intveen *Covestro AG - Investor Relations Director*

Sebastian Bray, Berenberg.

Sebastian Bray *Berenberg - Analyst*

Hello, good afternoon, and thank you for taking my questions. I'd have two please. The first is on the development of spreads by chemistry over the last two or three weeks, it's a little bit difficult to track given the development in some of the raw material pricing but could you talk about if MDI spreads, which look like they were picking up have continued to do so?

And if there are any big changes in polycarbonate to TDI over the last month or so. My second question is on natural gas costs. How long does it usually take for the higher cost from the start of the year to show up in the P&L?

Is it about two or three months gap between spot and when this appears in the Covestro P&L? Thank you.

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

Thank you, Sebastian. Happy to take those. I will go for the first one, and we'll hand over to Ronald on the second one. With respect to the spreads. What we have seen recently especially over the last four weeks, we have seen a relevant drop in prices on MDI, TDI and partially also on polycarbonates, which was especially related to the Asian market.

While EMLA and also the US are keeping up, US is sometimes even increasing. So that's the one element of the spread part with respect to the margin development, given that the raw material costs are not following that fast, and there is some contraction that we see in the beginning of the Q2, but we are now seeing a: prices stabilizing on those products that you were just asking for.

And on the other hand, obviously, also the reduced raw material costs coming through and therefore, for the remainder of the quarter, we see a more balanced situation there with respect to the spreads development.

Ronald Koehler *Covestro AG - Head of IR*

On your natural gas costs, and I might answer a little bit more broadly on overall energy costs. So we were the biggest part of the energy consumption we're having is actually buying electricity. And electricity actually, we buy on a daily basis. So indeed, we have a rather quick, let's say, pass through into the P&L.

Natural gas costs are typically a bit more longer, which means we have something like three to four weeks before we see into the P&L. So raw materials as Christian mentioned, is rather six to eight weeks, so much longer, energy and natural gas a bit quicker.

Sebastian Bray *Berenberg - Analyst*

Thank you.

Carsten Intveen *Covestro AG - Investor Relations Director*

So there are no further questions at this time. (Event Instructions) So it seems as if everything has been clarified. So with this, handing back to Ronald.

Ronald Koehler *Covestro AG - Head of IR*

Thank you, Carsten. If you have follow-up questions, don't hesitate and contact the Investor Relations department.

Thanks for coming back to that call and your interest and see you then latest for the next call, I guess, for Q2 results. Thank you, and goodbye.

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