



# Q2 on expectations, FY guidance confirmed

Financial highlights  
Q2 2019



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# Financial highlights Q2 2019



**+1.1%**  
Core Volume  
Growth



**€459m**  
EBITDA



**€-55m**  
FOCF



**€1.03**  
EPS



**FY 19**  
Guidance  
confirmed



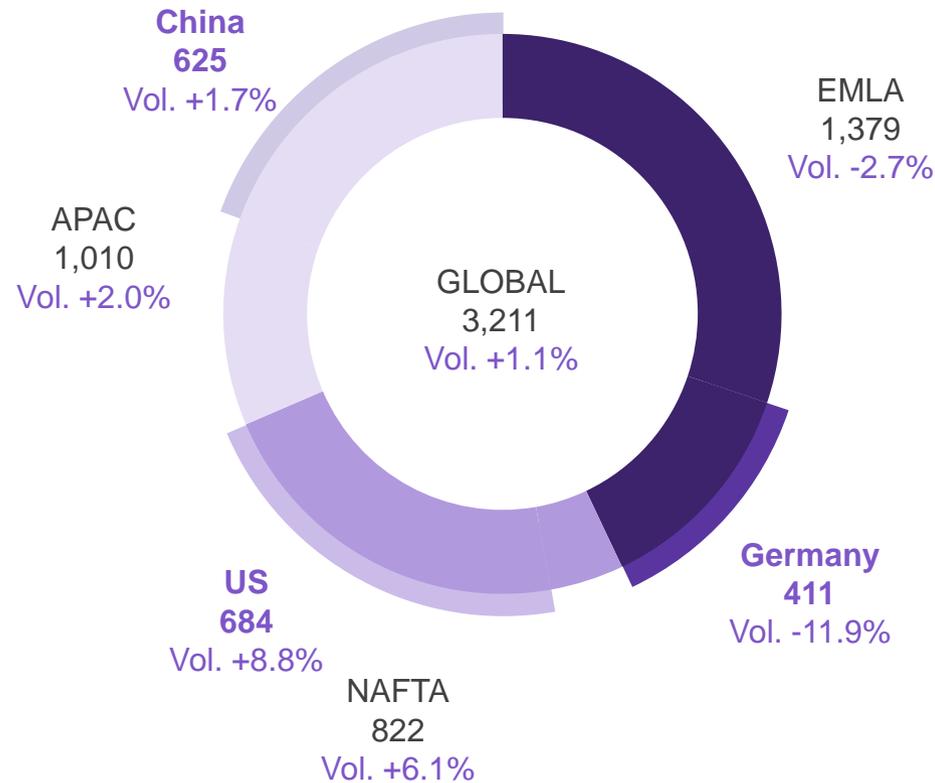
# Solid growth despite difficult environment

## Q2 2019 – Regional split



### Sales and Core Volume Growth

in € million / changes Y/Y



### Core Volume Growth Y/Y

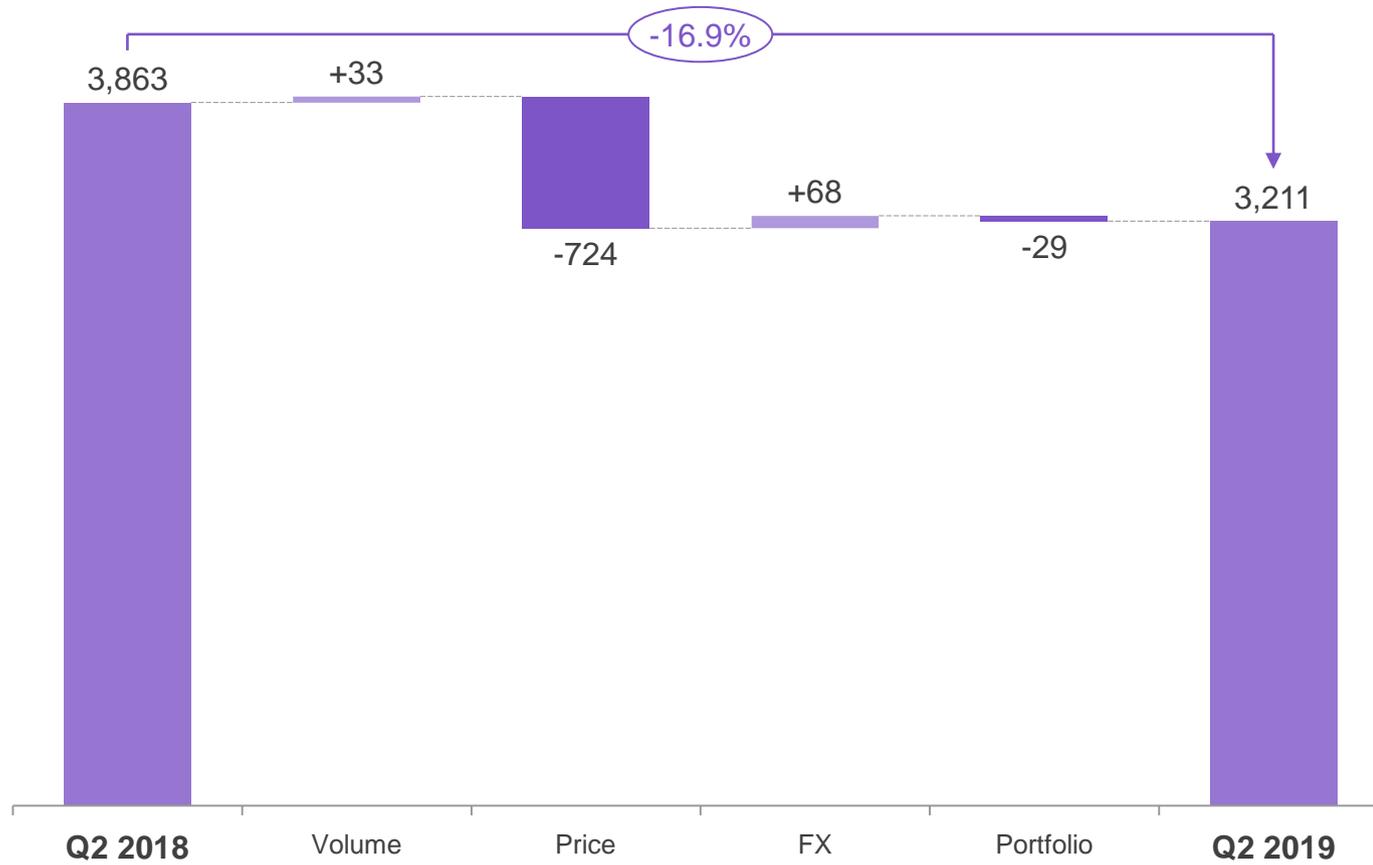
- APAC: double-digit growth in wood/furniture and solid growth in electronics compensate negative growth in automotive
- EMLA: solid growth in wood/furniture and construction, negative growth in automotive, especially in Germany
- NAFTA: double-digit growth in construction and wood/furniture counterbalance negative growth in automotive
- Global: double-digit growth in wood/furniture and solid growth in construction compensate negative growth in automotive

# Sales driven by lower prices

## Q2 2019 – Sales bridge



in € million



### Highlights

#### Positive volume development

- Sales volume expansion (in €) by +0.8% Y/Y

#### Negative pricing

- Lower selling prices negatively impacted sales by -18.7% Y/Y, driven by competitive pressure in PUR and PCS

#### Positive FX

- Sales benefited +1.8% Y/Y from FX mainly due to stronger USD

#### Portfolio impact

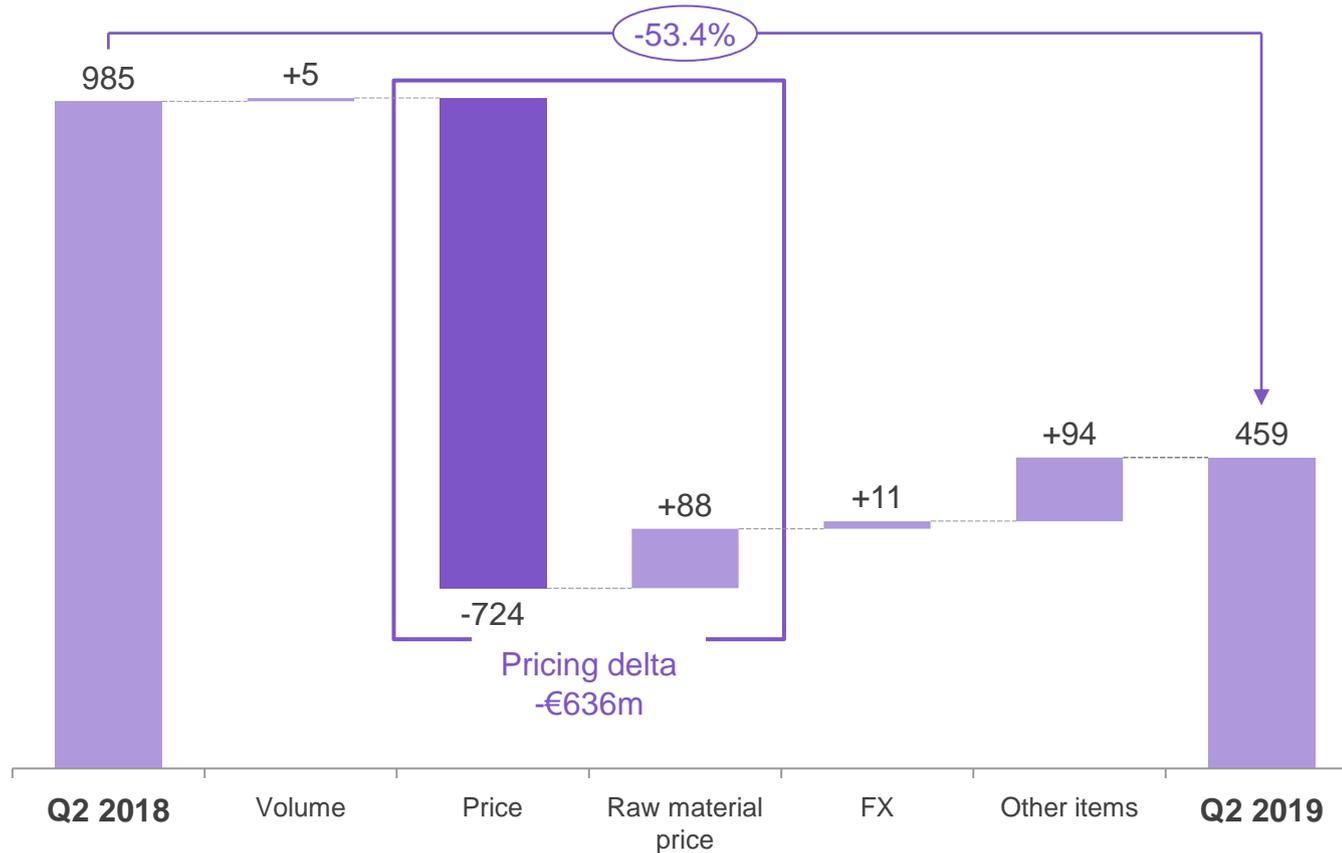
- Sales reduced by net effect of -0.8% Y/Y
- Negative effect from disposal of US polycarbonates sheets business as of 1<sup>st</sup> August 2018
- Positive effect from stake increase in DIC Covestro Polymer Ltd. (DCP), a thermoplastic PU business (CAS) in Japan, as of 1<sup>st</sup> April 2019

# Negative prices partly counterbalanced by strict costs discipline



## Q2 2019 – EBITDA bridge

in € million



### Highlights

#### Pronounced decline in contribution margin

- Negative pricing delta in PUR and PCS mainly resulting from higher competitive pressure

#### Other items

- Lower costs
- Positive impact of €31m from accounting change (IFRS 16)
- Remeasurement gains of €19m from DCP
- Negative impact from restructuring costs

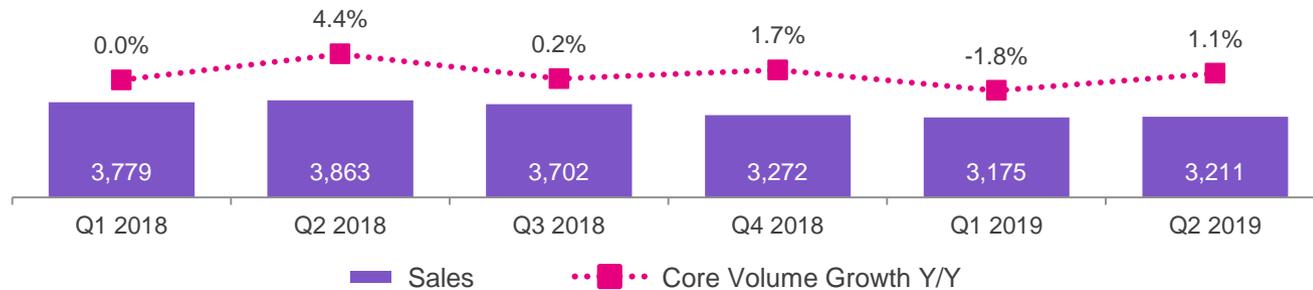
# Stabilizing margin since start of the year

## Group results – Q2 2019 Highlights



### Sales and Core Volume Growth

in € million / changes Y/Y

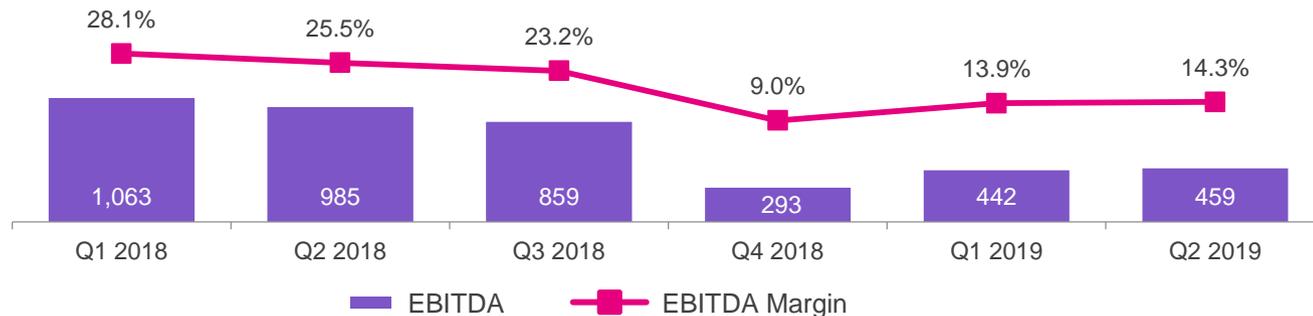


### Highlights

- Core Volume Growth of +1.1% Y/Y
- Solid Core Volume Growth Y/Y in TDI and PCS, declining volumes in MDI and CAS
- Sequentially, stable pricing; Y/Y negative pricing started in Q4 2018 with -9.3%, Q1 2019 with -18.3% and Q2 2019 with -18.7%

### EBITDA and Margin

in € million / margin in percent



### Highlights

- Compared to prior year, EBITDA declined due to pronounced negative pricing delta
- Broadly flat selling prices since beginning of the year led to sequentially stable margin

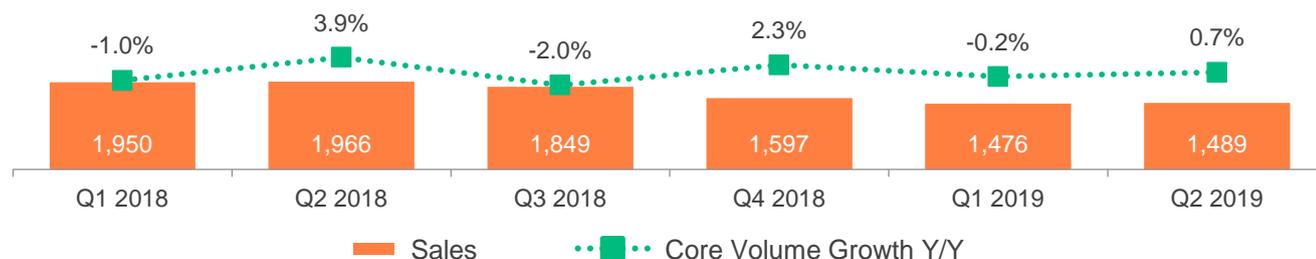
# Polyurethanes – earnings below mid-cycle

## PUR segment results – Q2 2019 Highlights



### Sales and Core Volume Growth

in € million / changes Y/Y

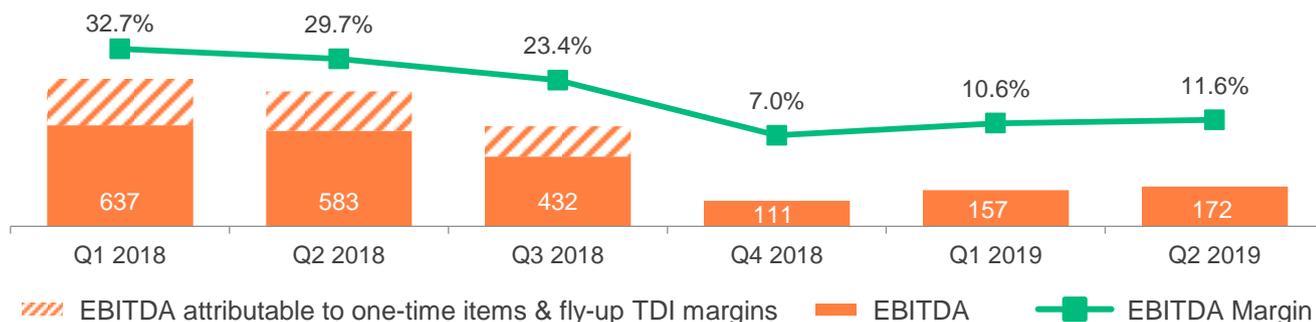


### Highlights

- Stable core volumes of +0.7% Y/Y, with strong growth in TDI negatively impacted by MDI, while polyether polyols remained flat
- Sales decreased by -24.3% Y/Y, driven by price (-26.8%)

### EBITDA and Margin

in € million / margin in percent



### Highlights

- Compared to prior year, EBITDA declined due to pronounced negative pricing delta
- Sequentially, EBITDA margin increased Q/Q to 11.6% vs. 10.6%, mainly due to positive volume development

# Polycarbonates – solid growth despite automotive weakness



## PCS segment results – Q2 2019 Highlights

### Sales and Core Volume Growth

in € million / changes Y/Y

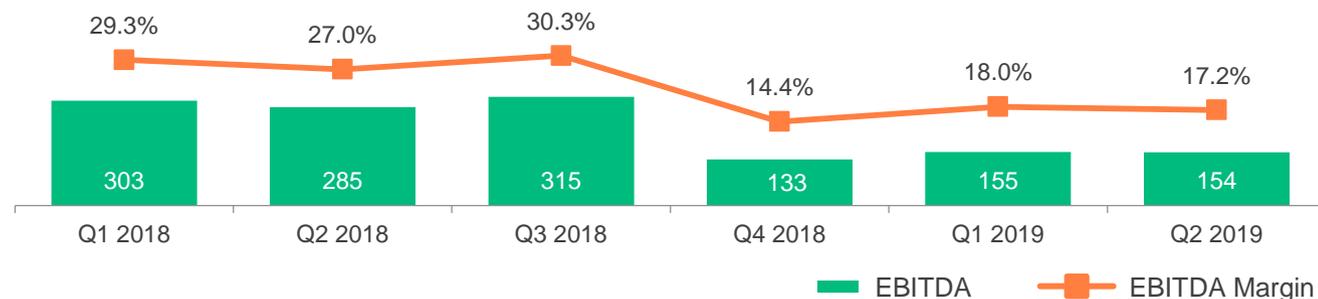


### Highlights

- Solid Core Volume Growth of +4.4% Y/Y based on sales increase in most industries except automotive
- Positive effects from volume (+5.7%) and FX (+1.7%)
- Sales decreased by -15.0% Y/Y driven by price (-18.8%) and portfolio (-3.6%)

### EBITDA and Margin

in € million / margin in percent



### Highlights

- Compared to prior year, EBITDA declined due to pronounced negative pricing delta
- Sequentially, EBITDA margin decreased Q/Q to 17.2% vs. 18.0%, mainly due to product mix effect

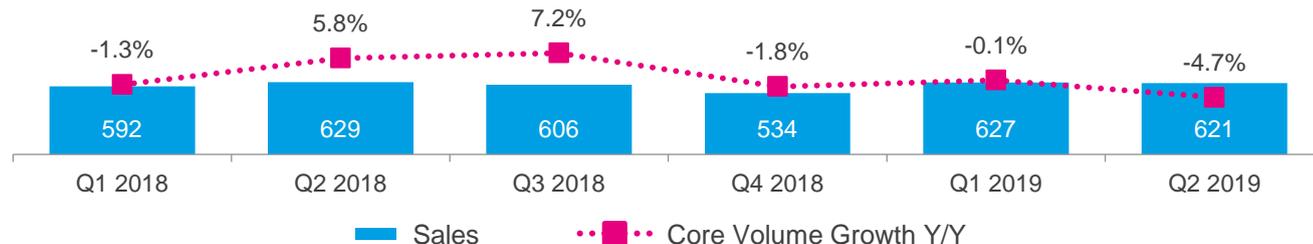
# Coatings, Adhesives, Specialties – weaker demand



## CAS segment results – Q2 2019 Highlights

### Sales and Core Volume Growth

in € million / changes Y/Y

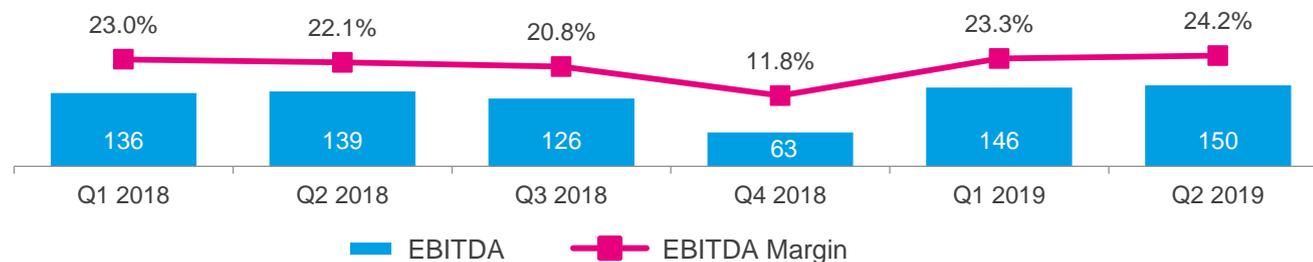


### Highlights

- Decline in core volumes of -4.7% Y/Y, due to weak demand broad-based in all industries
- Sales decreased by -1.3% Y/Y driven by volume (-4.5%) and price (-0.4%)
- Positive FX impact Y/Y (+2.2%)
- Positive portfolio impact Y/Y (+1.4%) from DCP

### EBITDA and Margin

in € million / margin in percent



### Highlights

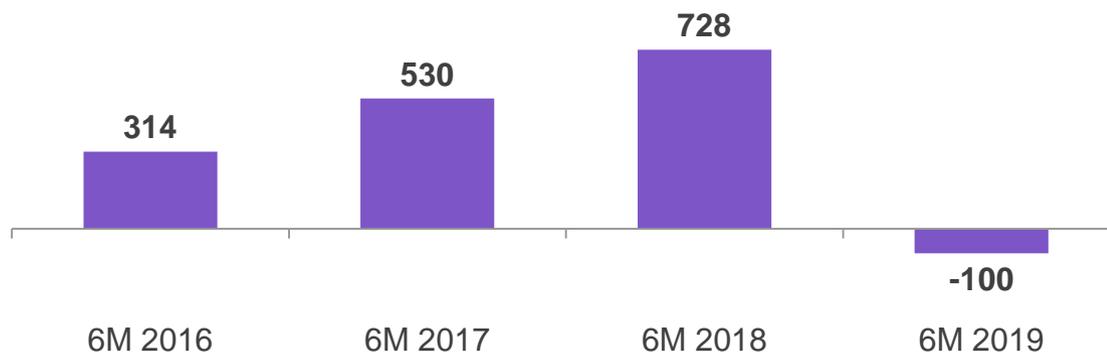
- Compared to prior year, EBITDA increased helped by remeasurement gains of €19m from DCP
- Underlying business burdened by negative volume leverage

# FOCF burdened by phasing effects

## Historical FOCF development – 6M 2019



in € million



	6M 2016	6M 2017	6M 2018	6M 2019
<b>EBITDA</b>	+1,050	+1,694	+2,048	+901
<b>Changes in working capital</b>	-357	-710	-625	-98
<b>Income taxes paid</b>	-201	-62	-335	-223
<b>Other effects</b>	-52	-226	-119	-296
<b>Capex<sup>(a)</sup></b>	-126	-166	-241	-384

### Highlights

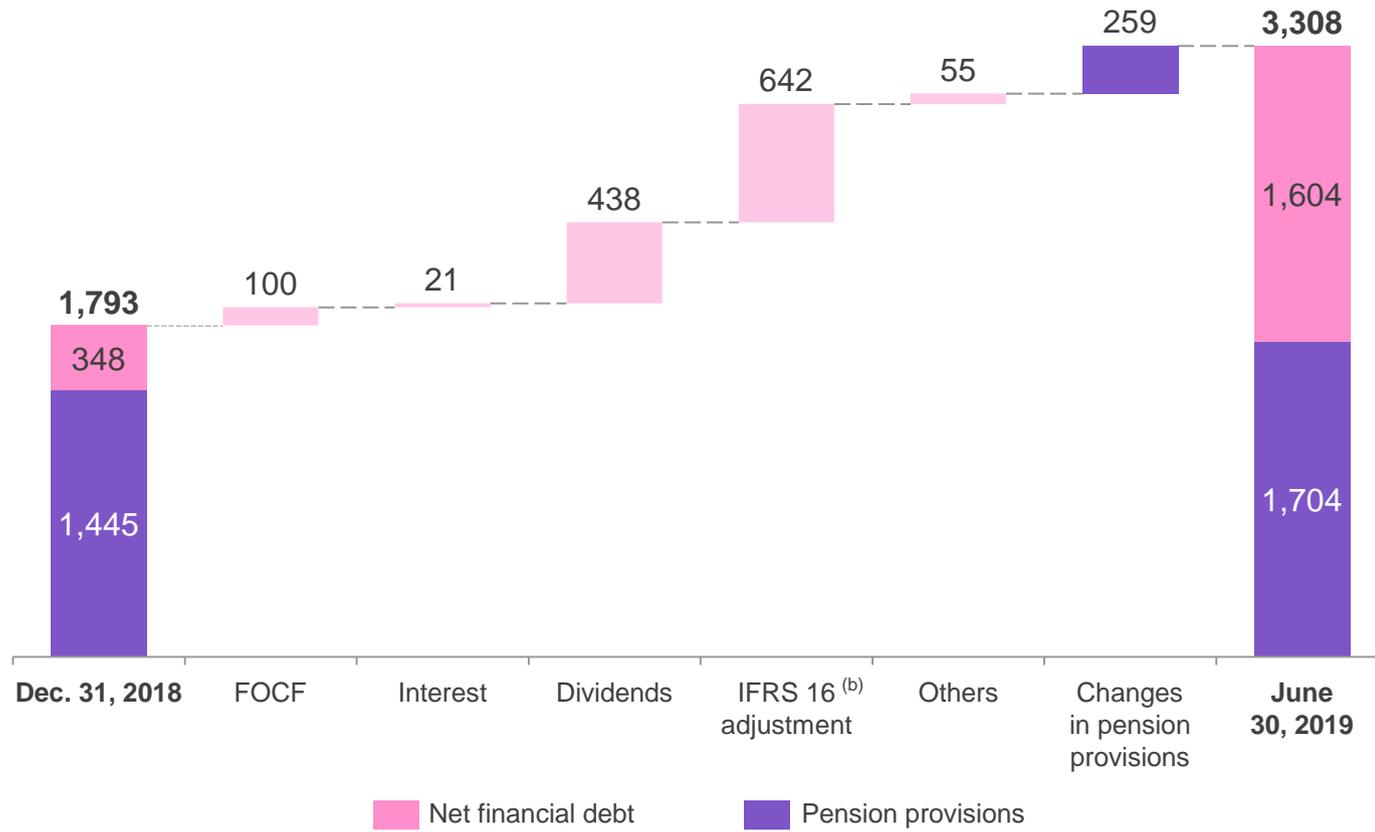
- Cash out for bonus payments amounted to ~€350m in Q2 2019
- Limiting seasonal working capital increase by specific countermeasures
- Working capital to sales ratio<sup>(b)</sup> seasonally high at 18.4%, slightly above the targeted range of 15-17%
- High cash tax rate of 45.3% above P&L tax rate of 24.8% due to phasing of tax payments
- Positive Operating Cash Flow at €284m despite bonus, high cash taxes and higher working capital
- Capex of €384m up Y/Y with focus on growth investments, in line with full year guidance
- On track to deliver on guidance of FOCF between €300-700m for FY 2019

# Seasonal peak of total net debt

June 30<sup>th</sup> 2019 – Total net debt



in € million



## Highlights

- Dividends<sup>(a)</sup> of €438m paid out in Q2 2019
- Application of IFRS 16 increased net financial debt by €642m<sup>(b)</sup>
- Pension provisions increased by €259m mainly resulting from lower discount rates in Germany
- Total net debt to EBITDA ratio<sup>(c)</sup> of 1.6x end of Q2 2019 vs. 0.6x end of 2018

# FY guidance confirmed in a challenging environment

## FY 2019 guidance



	FY 2018	Guidance FY 2019
<b>Core Volume Growth</b>	+1.6%	Low- to mid-single-digit percentage increase Y/Y
<b>FOCF</b>	€1,669m	€300 – 700m
<b>ROCE</b>	29.5%	8% – 13%
<b>Additional financial expectations</b>	FY 2018	Guidance FY 2019
<b>EBITDA FY</b>	€3,200m	€1,500 – 2,000m
<b>EBITDA Q3</b>	€859m	Around €410m
<b>D&amp;A</b>	€620m	~€750m
<b>Financial result</b>	€-104m	€-100 to -120m
<b>P&amp;L (effective) tax rate</b>	26.1%	24 - 26%
<b>Capex<sup>(a)</sup></b>	€707m	≥€900m

# Q2 on expectations, FY guidance confirmed

## Highlights Q2 2019



1

Solid growth across industries except in automotive  
in a continuously challenging environment

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2

Sequentially stable EBITDA  
based on broadly flat selling prices

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3

Solid Operating Cash Flow  
as a result of selective working capital measures compensating phasing effects

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4

Defending industry and cost leadership  
with focus on costs, innovations and sustainability

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5

FY 2019 guidance confirmed  
thanks to strict cost discipline and stabilizing margins

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# Appendix

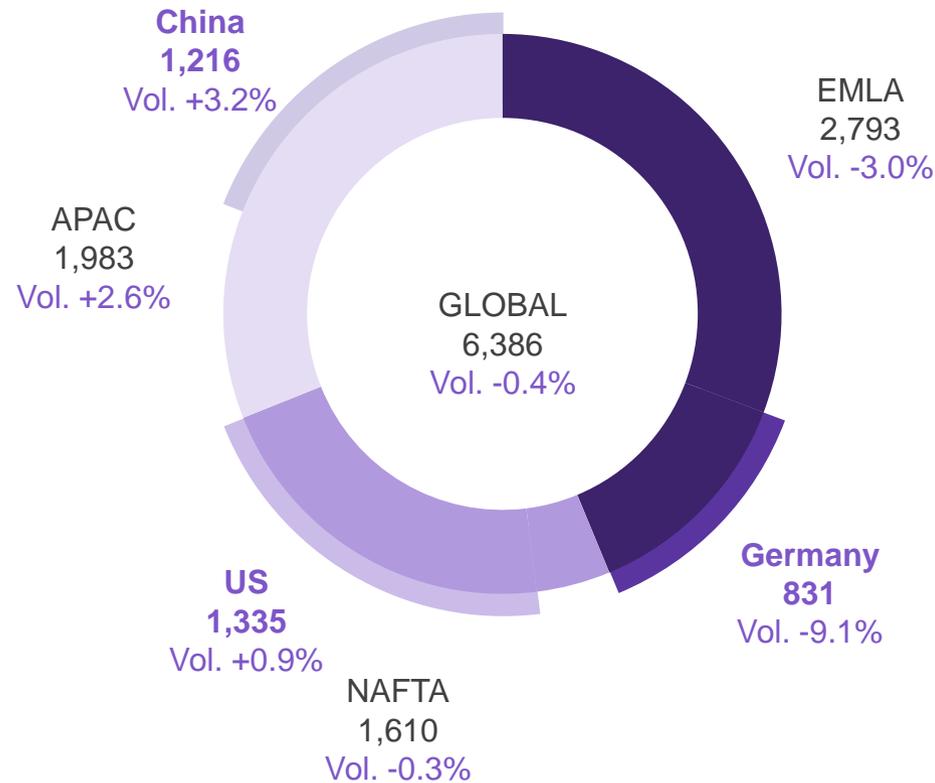
# Growth in other industries compensate weak automotive



## HY 2019 – Regional split

### Sales and Core Volume Growth

in € million / changes Y/Y



### Core Volume Growth Y/Y

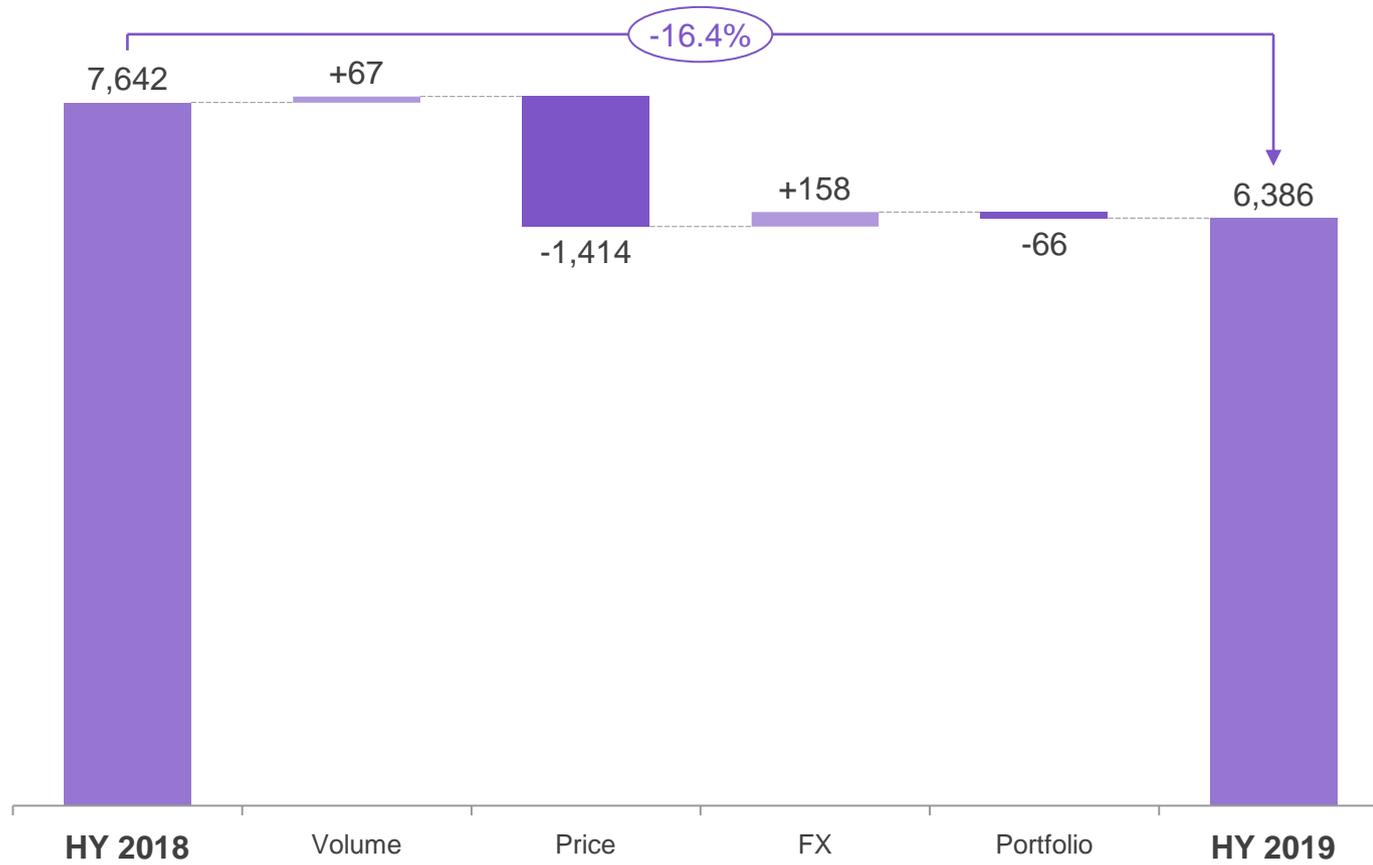
- APAC: negative growth in automotive and construction counterbalanced by double-digit growth in wood/furniture and solid growth in electronics
- EMLA: impacted by demand dip in automotive
- NAFTA: strong growth in construction compensates negative growth in automotive
- Strong growth in global wood/furniture
- Solid growth in global construction and electronics

# Negative price effects decrease sales

## HY 2019 – Sales bridge



in € million



### Highlights

#### Stable volumes

- Sales volume expansion (in €) by +0.9% Y/Y
- Product mix effects led to better sales volumes (in €) compared to core volumes (in kt; -0.4% Y/Y)

#### Negative pricing

- Lower selling prices negatively impacted sales by -18.5% Y/Y, driven by PUR and PCS

#### Positive FX

- FX benefited sales by +2.1% Y/Y mainly due to stronger USD and CNY

#### Portfolio impact

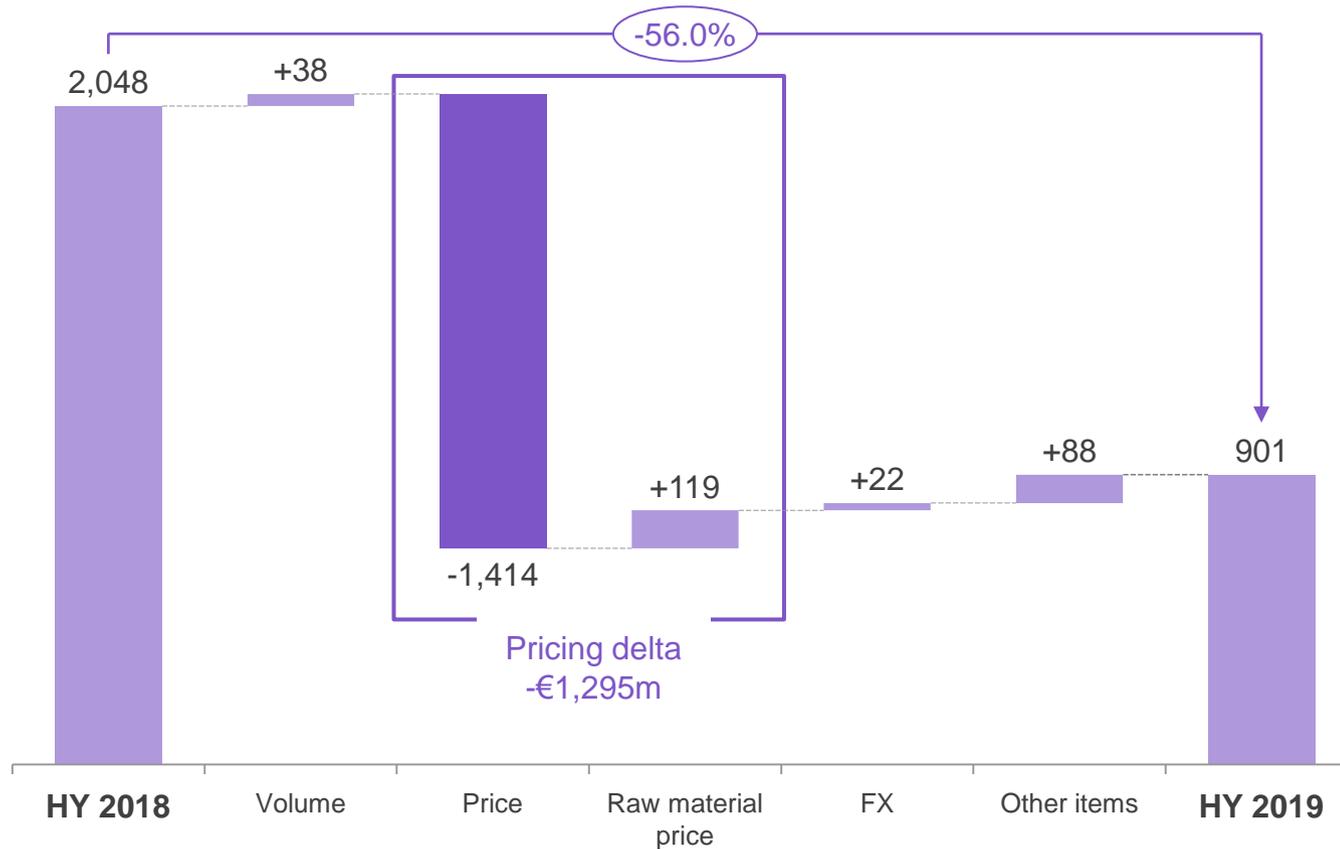
- Sales reduced by -0.9% Y/Y, mainly due to disposal of US PC sheets as of 1<sup>st</sup> August 2018
- Positive effect from stake increase in DCP, a thermoplastic PU business, as of 1<sup>st</sup> April 2019

# HY earnings with pronounced negative pricing delta

## HY 2019 – EBITDA bridge



in € million



### Highlights

#### Pronounced decline in contribution margin

- Negative pricing delta in PUR and PCS mainly resulting from higher competitive pressure

#### Other items

- Lower costs
- Positive impact of €62m from accounting change (IFRS 16)
- Remeasurement gains of €19m from DCP
- Negative impact from restructuring costs

# IFRS 16 impact on main KPIs in HY 2019



Changes in accounting as a result of the initial application of IFRS 16<sup>(a)</sup>

## Balance Sheet (as of June 30, 2019)

Net debt	+642m
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## P&L

EBITDA	€+62m
EBIT	€+5m
Financial result	€-10m
Income after income taxes	€-4m

## Cash Flow

FOCF	€+61m
Financing CF	€-61m

# Upcoming IR events



Find more information on [investor.covestro.com](https://investor.covestro.com)

## Reporting dates

- |                     |                           |
|---------------------|---------------------------|
| • October 28, 2019  | Q3 2019 Interim Statement |
| • February 19, 2020 | Annual Report 2019        |
| • April 29, 2020    | Q1 2020 Interim Statement |

## Broker conferences

- |                      |  |
|----------------------|--|
| • August 7, 2019     | Jefferies Industrials Conference, New York                           |
| • August 27, 2019    | Commerzbank Sector Conference, Frankfurt                             |
| • September 10, 2019 | Credit Suisse Annual Basic Materials Conference, New York            |
| • September 23, 2019 | Baader Investment Conference, Munich                                 |
| • September 25, 2019 | Berenberg & Goldman Sachs German Corporate Conference, Munich        |
| • September 26, 2019 | Bernstein Annual Pan European Strategic Decisions Conference, London |
| • September 26, 2019 | JP Morgan Investor Forum, Milan                                      |

## Annual General Meeting

- |                  |                              |
|------------------|------------------------------|
| • April 17, 2020 | Annual General Meeting, Bonn |
|------------------|------------------------------|