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EDITED TRANSCRIPT

FULL YEAR 2024 COVESTRO AG EARNINGS CALL

EVENT DATE/TIME: February 26, 2025 / 2:00PM UTC

An LSEG Business

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PRESENTATION

Ronald Koehler *Covestro AG - Head of IR*

Welcome to the Covestro earnings call on the full-year 2024 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*

Yes. Thank you, Ronald, and good afternoon, and a warm welcome to everyone. Reflecting on 2024, we faced numerous challenges due to the economic situation, many of which are still persisting. So let us look at the highlights of 2024 and start with a view on the key financials. In a persistently weak economic climate, Covestro achieved sales of EUR14.2 billion, only slightly down versus 2023.

This decline was driven by lower prices despite significantly higher volumes. The EBITDA is stable at EUR1.1 billion, indicating that the difficult demand environment is far from over. Once again, we could secure a positive free operating cash flow of EUR89 million, in line with our guidance. Our transformation program, STRONG, yielded savings of EUR119 million.

Turning over to the non-financial highlights: The full set of greenhouse gas emissions covering Scope 1, 2 and also Scope 3 went down by 17% compared to the reference years. We added two more PPAs for renewable electricity in Europe for our sites in Spain and Belgium, contributing around 200 gigawatt hours once fully enacted. The new PPAs and other measures planned will increase our renewable share of electricity from 16% in 2024 to around 22% in 2025.

In line with the strategic goal of full circularity and climate neutrality, we consider recycling of waste plastic, a key element towards achieving this goal. We made significant steps towards this goal by acquiring a stake in BioBTX and by signing a supply agreement with Encina. Both companies recycle consumer plastic waste into valuable raw materials like benzene and toluene for MDI and TDI.

We are also collaborating with Neste and Borealis on recycling discarded tires for processing into base chemicals, phenol and acetone for polycarbonate. In addition to the recycling activities, we inaugurated the first pilot plant for bio-based aniline, an important precursor for MDI using biomass as raw material.

With that comprehensive review of the highlights, we are coming to a major investment to pursue our growth strategy. As you can see on this chart, we continue to invest into our future and drive forward our growth. One example is the expansion in Hebron, Ohio in the US, where we are going to spend a low triple-digit million euro amount to expand our compounding lines. This investment is part of our sustainable growth strategy, enabling us to meet the growing demand for specialized polycarbonate materials and strengthen our position in North America.

We are continuing our journey to achieve full captive use of our standard polycarbonates in the future. The expansion will include new production lines and infrastructure to manufacture customized polycarbonate compounds and blends significantly boosting our capacity in the Solutions & Specialties business for the American market. Target industries are local automotive, electronics and healthcare industries, supplying them with high-quality materials.

Our well-established R&D center in Pittsburgh will collaborate closely with the enhanced compounding facility to drive technology transfer from lab to industrial production, supporting major transformation processes like electrification, automation and digitization. This investment underscores the importance of US sites and market to Covestro's global strategy. Construction is scheduled to begin in 2025 with operations starting by the end of 2026, It is expected to increase our EBITDA by a mid-double-digit million euro amount per year once fully utilized.

In conclusion, this expansion reinforces our commitment to sustainable growth and innovation. We look forward to continuing our journey of success with our customers and partners. We are now coming to the business details of 2024 and to the volume development for the last year.

Year on year, the global sales volume increased by 7.4%. This was driven by the improved availability of our assets, especially in Europe, after resolving the technical issues in Q4 2023 and improved demand in APAC. This led to a sales volume increase of 10.6% in APAC and 9.3% in EMLA. Volume development in North America was flattish compared to the prior year.

So how did the different industries develop? Auto was still showing positive growth rates in H1 2024, mainly driven by APAC, however, in the second half of '24, all regions showed a decline, leading to an overall flattish development for fiscal '24. Furniture had an overall positive year 2024, with growth in all regions, also benefiting from our improved TDI availability in Europe. The positive trend slightly weakened in H2 '24, but remained on a growth path.

In Electronics, a similar pathway could be observed, and after a strong start in H1, growth rates weakened during the second half of 2024, but also stayed positive. After significant negative growth rates in '23 on construction, construction was the clear champion in 2024, outperforming all other industries by far and exhibiting strong growth in every quarter and in all regions.

Looking into the different regions, EMLA recovered quite nicely supported by the improved availability of MDI, TDI and PCS. And also here, construction was the main driver of growth. Sales volumes in North America were burdened by declines in auto and electronics, but benefited from a slight growth in furniture and a significant growth in construction. APAC was the strongest region with all industries witnessing growth.

After this summary of the 2024 demand development, we are now diving deeper into the financials. We are now on page 5 of the presentation. Sales for fiscal year 2024 are only slightly down by 1.4% year on year to EUR14.2 billion. Clearly, the volume rebound is the overall success of 2024. We managed to deliver on our target of a mid-to-high singledigit [%] volume increase after resolving the chlorine issues in Q4 '23, and producing also reliably during 2024. This led to a volume increase of 7.4% and a positive almost EUR1.1 billion impact in the sales bridge.

However, the business environment was once more challenging, and we were burdened with 8% or EUR1.16 billion in lower prices. A negative FX effect of minus 0.8% or EUR120 million was mainly driven by weaker Chinese Renminbi, Japanese Yen and the Brazilian Real.

So with that, let's turn to page 6 of the presentation, where we are showing the EBITDA bridge. As you can see for fiscal year 2024, EBITDA is stable compared to the prior year. Once again, the volume rebound contributed positively and resulted in a EUR400 million upside. On the other hand, selling prices declined stronger than raw material costs due to an unfavorable industry supply-demand ratio. As a consequence, EBITDA got a hit with EUR514 million from a negative pricing delta.

The FX effect is neglectable. Only other items are largely positive despite restructuring costs associated with our efficiency program STRONG. Positive contributions came from the insurance reimbursement for the chlorine incident in Dormagen and lower bonus provisions.

After the overview of the overall performance, we are now going into the segments. In Solutions & Specialties, sales decreased by 3.6% to EUR7 billion. Despite a volume increase, prices declined much stronger, leading to the overall slightly negative impact. EBITDA went down by 9.4% to EUR740 million.

However, it is noteworthy that 2024 numbers are affected by the higher comparison from '23 due to a EUR35 million gain from the sale of the Additive Manufacturing business and restructuring costs of EUR28 million related to STRONG. Without these effects, EBITDA performance of S&S would be comparable to '23. For the year 2025, we are expecting an EBITDA slightly above '24 levels.

Let´s now turn to page 8 and discuss Performance Materials. Performance Materials benefited most from the improved availability. We were able to increase our volumes by a strong 11.9%. However, selling prices followed the market development and declined by 9.6%. Overall, sales increased by 1.4% compared to the year '23.

Performance Materials was particularly burdened by a negative pricing delta given the low industry utilization rate and the persistent weak demand. So overall, the EBITDA in the PM segment declined year on year by 1.2% to EUR569 million. The EBITDA of PM also includes a EUR55 million contribution from an insurance reimbursement for the chlorine production event in Dormagen.

Looking ahead into the year 2025, we are expecting a modest sales volume increase year on year. We are leveraging our cost leadership and pursuing a sell-out strategy, growing our market share. Margin wise, Q1 '25 will be still challenging, but we expect some margin recovery within the rest of 2025. Based on these assumptions, we guide for an EBITDA range of between EUR400 million and EUR800 million. The next topic is the free operating cash flow development for the year 2024.

As you can see from the graph, the free operating cash flow was plus EUR89 million and at the upper end of our guidance range of between minus EUR100 million and plus EUR100 million. Q4 '24 contributed with EUR253 million and as such, we had a strong finish of the year. The fiscal year '23 CapEx of [EUR781 million] (corrected by company after the call) was roughly in line with our full -year guidance of EUR800 million. Income tax payments were at EUR164 million less than for 2023, mainly due to a more favorable geographical mix, i.e., reduced losses in Germany.

All in all, the fiscal year 2024 free operating cash flow remains positive, and we are happy of this track record in this ongoing weak economic surrounding. Covestro has always managed to achieve in any given year regardless of the economic development, a positive free operating cash flow.

Let's now turn to the P&L items below EBITDA. D&A is in line with our guidance of EUR850 million. However, in some cash-generating units, we had to revise the outlook due to demand weakness and significantly increased supply. The impairment test in the units Polyols and Coatings and Adhesives was the main driver, resulting in impairments of EUR142 million for fiscal year 2024.

I would like to highlight the P&L income tax expenses of EUR245 million due to incurred losses in Germany. In the rest of the world, the positive results are taxed with the national tax rate in the respective countries. Overall, our net income is negative at minus EUR266 million and with that earnings per share amount to minus EUR1.41. According to our dividend policy of a payout of 35% to 55% of net income, the dividend will be -as also reflected in the consensus- consequently zero.

Let's now look at our balance sheet on page 11. Our total net debt defined as net financial debt plus pension provisions is roughly stable. Net financial debt increased slightly while net pension liabilities went down. Net financial debt increased as the sum of free operating cash flow, net interest and others were slightly negative. The decrease in the net pension liability was driven by an increase in the discount rates in the US and Germany.

Summarizing our net debt situation, the total net debt-to-EBITDA ratio is stable at 2.7 times. As stated in the past, Covestro remains committed to a solid investment-grade rating and Moody's confirmed our BAA2 rating with stable outlook in Q2 2024. That concludes the financial review of fiscal year 2024, and we proceed to the industry outlook.

We are now coming to the outlook for Covestro's core industries on page 12 of the presentation. The global GDP expectation for 2025 is estimated to be 2.8% and is a continuation of the growth rates of the past two years. Sadly, most of the key industries for Covestro will not achieve such growth rates. But on the positive side, after several quarters, we are now looking at a stable to positive growth picture across all industries.

In automotive, we expect a slight growth of 2.7% after a global decline in the second half of 2024. Also, for EVs and battery electric vehicles, growth rates are again on the rise, with an expected increase of 22.4%. Especially, our engineering plastics entity will benefit from this renewed strength in electromobility.

The outlook for the construction industry will stabilize after two years of decline and remain flat at a growth rate of 0.2%. The crisis is still not over in the residential subsector, but has slowed down with a negative growth estimate of 1.5%. The furniture industry is set for a slight growth after stabilization in the last year. The outlook for soft furniture is even more optimistic at 2.4% growth. The electro industry has already been the highest growing industry in 2024 with 4.1% growth and this trend will also continue in 2025 with another 5.2% predicted growth.

The appliance sector will be showing slower growth versus last year and only exhibiting a 1.2% increase. Summarizing this outlook, we see some green shoots with the development in electro, auto and furniture and the stabilization in construction. We are positive on our volume development and with increasing volumes, also assume an increase in margins starting during 2025.

In mid-2024, we informed you about the launch of the transformation program, STRONG. The program will shape our sustainable competitiveness with effective structures and efficient processes with customer focus and supported by the broad implementation of artificial intelligence solutions. With STRONG, we want to achieve EUR400 million annual savings by 2028.

To put this into perspective, this is slightly below 10% of our annual fixed costs. And this requires around EUR300 million of cumulated restructuring costs. Now half a year later, I'm happy to confirm that we are fully on track. The program consists of various smaller and larger projects. Some highlights are the streamlining of the go-to-market organization in Solutions & Specialties. This reflects, among other things, the shift of personal customer visits to virtual meetings.

In addition, we announced the closure of a coatings and adhesive site in Augusta in the US. In 2024, we achieved gross savings of EUR119 million, partly counterbalanced by onetime costs of around EUR50 million. So overall, STRONG contributed around EUR70 million to our reported EBITDA. In 2025, we expect additional savings of around EUR130 million, leading to cumulated and sustainable savings of around EUR250 million.

However, we also assume onetime restructuring and implementation costs of around EUR200 million. This means that STRONG with overall burden reported EBITDA in 2025 by around EUR70 million compared to 2024. Already in Q1 2025, we expect to book restructuring costs of around EUR100 million, whereas the additional benefits will just ramp up over time.

On page 14, we are now coming to the outlook for fiscal year 2025. The expectation for the EBITDA is similar to the year 2024 between EUR1 billion and EUR1.6 billion. The free operating cash flow is forecasted to come out at EUR0 million to EUR300 million. The range is smaller compared to the EBITDA range as we expect that working capital will breathe related to the economic development.

In the case that the economic growth accelerates during the year, then this would lead to a buildup of working capital and vice versa. The ROCE above WACC is expected at minus 2 to minus 6 percentage points. The greenhouse gas emissions in Scope 1 and 2 are estimated to be between 4.2 million to 4.8 million tons. The expected increase in volumes will lead to higher emissions which should be offset by the before mentioned increasing renewable electricity share and further efficiencies in production.

Sales are expected to come in between EUR14.5 billion and EUR15.5 billion. In Q1 2025, we expect an EBITDA between EUR50 million and EUR150 million. Please note that this includes the previously mentioned onetime restructuring costs for the project STRONG of around EUR100 million. Q1 free operating cash flow will be impacted by significantly higher inventories due to pending turnarounds in our plants.

CapEx Is expected to be slightly lower than in fiscal year 2024 at around EUR700 million to EUR800 million. Out of that, we assume an expansion CapEx of around EUR300 million mainly for strategic expansion projects. Our single largest project is the aniline plant in Antwerp, which should support our MDI business in Europe with low-cost raw materials. The expected start-up is in [earliest 2027] (corrected by company after the call). We assume a high double-digit euro million EBITDA contribution from this plant.

And now comes the moment you have all been waiting for - the update on the ADNOC, or now correctly XRG transaction: The voluntary tender offer of EUR62 per share concluded at the end of 2024 after two tendering phases with almost 82% of Covestro shares being tendered. This is an important milestone and underscores that the Board of Management of Covestro in line with its fiduciary duties, has agreed on an attractive offer for the company, its shareholders and all other stakeholders. In total, 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%. Since the signing of the transaction and investment agreement, teams from ADNOC and Covestro have been diligently working on the required regulatory approvals. All foreign direct investment, the European foreign subsidies regulation and the majority of merger control proceedings were initially triggered before Christmas.

The remaining merger control filings were submitted in January. In the meantime, 50% of the approvals on FDI have been granted. This potential deal is one of the largest transactions ever in Germany. So it is not surprising that we are in a Phase 2 investigation with the German Federal Ministry for Economic Affairs and Climate Action.

On the merger control side, approvals from approximately one-third of the 19 countries have been achieved. Additionally, there are various requests for information from the different responsible authorities that the respective teams are following up on to ensure a closing of the potential transaction within the expected timeline. We are confident that this transaction will close in the second half of

2025 and will drive significant value for our investors and stakeholders, paving the way for future success and innovation.

So let me quickly summarize the highlights for fiscal year 2024. Sales have slightly decreased to EUR14.2 billion, which was caused by lower prices and an unfavorable FX, while positive volumes were pertaining. EBITDA for fiscal year 2024 of EUR1.1 billion is similar to the year '23 and in line with our guidance. This was burdened by negative pricing delta offset by higher volumes and positive other items.

The positive 2024 free operating cash flow of EUR89 million was at the upper end of the guidance range. For fiscal year 2025, the guidance is announced with an expected EBITDA of EUR1 billion to EUR1.6 billion. And the ADNOC takeover bid was successful with an aggregated above 95% share ownership and regulatory proceedings well underway.

And now, Ronald and I we'll be very happy to answer any of your questions. 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*

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

Christian Faitz, Kepler Cheuvreux.

Christian Faitz *Kepler Cheuvreux - Analyst*

Two questions, if I may. First of all, if I look at your assumptions for end market growth on slide 12, it actually looks like we are going to see a significantly higher growth dynamic versus '24 in your relevant markets? I mean, I'm fully aware it's still muted. Hence, could you please share with us some insights into what your salespeople are currently seeing in terms of order book development? I would also be particularly interested in hearing a few words on how in your order book, China has come out of a new year celebrations. That's question number one.

Shall I pose question number two or after you answer the first one?

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

Please go ahead.

Christian Faitz *Kepler Cheuvreux - Analyst*

All right. So second. I'm fully aware that any potential tariffs put in place by the dream teams in Washington and/or in Brussels do not have a significant direct effect on your assets. Yet have you modeled a scenario where some of your local customer industries might be hit from automotive to furniture, for example? And if so, can you share with us some insights preferably in numerical form.

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

Yes. Thank you, Christian, for your questions. I'm very happy to address those. So from an end market perspective, you're absolutely right, the numbers that we are showing where we are relying also to external sources show a little bit of a positive development in '25 compared to '24. And then still, this is more predicated in our perspective to the later part of the year to that extent because if we now put it together with the salespeople perspective, there is the one or the other green shoot, but certainly not in a structural manner at this very stage.

As we have stated, Q1 is rather be a little bit muted from that perspective. So we're rather relying to a certain extent also on those perspectives that we can see in some of the areas, but it's more than the external data at this stage. When we put that together with the China perspective, so how did China come back from Chinese New Year. First of all, in our case, they went into reasonably well.

And now it is about the two sessions that are about to take place on the governmental side to see what kind of incentives and what kind of approaches are being taken on the economic boost that is expected to a certain extent, but that's, at the moment, still somewhat pending. And therefore, the crystal ball is not completely clear yet after Chinese New Year.

With respect to the perspective on the tariff side, I think, first of all, we are certainly very significantly producing within the regions and for the regions. And that's also what you put out there. Therefore, there should be a rather limited flow in between the various pieces.

And if we look at it by MDI, US is a net import market for many of our products, especially for MDI. And therefore, higher tariffs should be positive for us as we are a local producer and partly are then competing with imports. So we are modeling various topics there, but I think the bottom line to be kept in mind is that we are producing within the regions and therefore, feel quite well set up also in more tariff scenarios.

Christian Faitz *Kepler Cheuvreux - Analyst*

Okay. But can I just ask on that, Christian. So I mean, BMW might be hit with whatever, the 5 Series production in Munich for the US market. Have you played through such a scenario, i.e., limited sales in Germany because some of your customers might be hit.

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

Yes, we are going through that. If we look at those markets and the various OEMs and the Tier 1 and Tier 2 suppliers, to them, we have a very diversified footprint globally. And from that perspective, we do not or would not expect in that scenario that you're depicting a significant shift in our overall sales.

We are more dependent on automotive overall and less so on individual cars, although obviously, with some of them, we have a specific models a little bit of a higher share and a lower share. But in our view, that should balance also in higher tariff scenarios.

Carsten Intveen *Covestro AG - Investor Relations Director*

Sebastian Bray, Berenberg.

Sebastian Bray *Berenberg - Analyst*

I would have three, please. The first is on gas and energy cost guidance. European gas costs are over 50% higher than where they were last year. What is put into the guidance? And how nervous are you for Q1, Q2, that we're going to go back into a scenario we had two years ago where people were cutting production and revising guidance down midway through the year?

My second question is on the Chinese regulatory process. I think the Chinese regulator has actually approved some deals, but Covestro filed for a simplified process, but it seems to be taking a bit of time. Is there anything to read into this? Or is everything just fine, and this takes what it takes time wise?

And my third question is on regions, and it builds on the previous one from Christian. Where are we in terms of starting the year? Is Europe okay-ish? Is it wobbly a bit because people are concerned on energy? Is China basically fine touch wood on New Year and US okay-ish, too? But any regional color is welcome.

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

Yes. Thank you very much, Sebastian, and I will tackle two and three and then hand over to number one on gas to Ronald later on.

On number two, this was China with respect to the regulatory process. We are very confident that this is the normal process that we are going through there. The team in collaboration is well prepared to address all the regulatory requirements that we go through and therefore, good confidence to properly also be successful in this very regulatory process.

From a regional perspective, very happy to look at the individual pieces. First of all, we need to keep in mind that for some to many of our industries, especially from a seasonal perspective, it's a little bit early to call on that, but starting with China that I mentioned before, all eyes are now on the governmental hearings that are being done over the next few weeks in order to see how China really comes out of Chinese New Year at that stage. But overall, we are in a reasonably okay set up but not yet any jump in terms of demand expected at that end.

I think the same somewhat holds true with respect to Europe, where certainly, there is now also from a political perspective, a little bit more initiatives in stabilizing and pushing forward the domestic situation. So I think we are very much looking at the political landscape and not in any way scared, but to expect maybe a little bit of also business-friendly perspectives, which should then, at some point, also translate into customer confidence. At this point of view, and of time, there is not anything specific and strong. I think that is probably somewhat different in the US because there, the direction is very clear that is being taken, and we are certainly preparing for that also with the before mentioned investment in Hebron that we are doing because we see some good market opportunities to develop.

In the very short term, this is tough to gauge. And therefore, we need to put a little bit out to the second half of the year where there are a couple of structural elements that should be positive although we should be keeping in mind that still also throughout the year, there will be a bit of capacity coming online, that could be a curve ball in that context. But overall, expected that the second half of the year should be a bit more benign on that.

And now Ronald will be on the gas question.

Ronald Koehler *Covestro AG - Head of IR*

Yes. Energy costs, you might be aware, we last year had a global bill of EUR1 billion in energy costs. We forecast this year roughly EUR1.1 billion, mainly driven from the most recent increases and especially obviously hitting Q1. And indeed, it's also part of our Q1 guidance. And let's say, if you look at the underlying year-on-year increase we're having from EUR273 million to, let's say, midpoint of our guidance without restructuring costs of around EUR200 million.

So to say the gap is indeed what we would expect as margin pressure most likely coming then from these higher energy costs. So clearly, there is a negative effect on that. However, as we speak, we see natural gas prices and electricity costs coming down. We also would expect that typically over the summer period with, let's say, green energy, the prices might go lower. So that's also part of our, let's say, forecast. And therefore, we believe there should be not a lasting effect.

And you know I mean there are several scenarios right now discussed in the market. One scenario is even very bullish, let's say, if the Ukraine war would come to an end, that energy prices would fall. Just as a reminder, of the EUR1 billion last year, two-thirds of the energy costs were related to Europe. So of course, any significant relief there would be a positive. On the other side, yes, the short-term drivers were quite negative, but covered in our guidance, I would say. That's the important message from my side.

Sebastian Bray *Berenberg - Analyst*

That's helpful. If I might just follow up quickly on the North American market. Do you see any signs that some of the end customers, I'm thinking of some of the adhesives manufacturers and so on have indicated about weakening domestic demand there or not really?

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

No, overall, we don't see any relevant signs of concern there. We rather see the US as one -- from the big three markets as the one that is balanced in between with China being stronger from a demand perspective, with Europe being weak and the US in between, but no relevant concerns in that perspective that you just described.

Carsten Intveen *Covestro AG - Investor Relations Director*

So there are no further questions at this time. (Event Instructions) Well, it seems as if all questions are answered. So handing back to Ronald.

Ronald Koehler *Covestro AG - Head of IR*

Yes. Thank you for your questions. And of course, you can always follow up with the IR team. We are happy here to answer any more questions you might have. We will obviously have a continuous IR program despite clearly this ADNOC situation changed, let's say, a bit our process here.

But nevertheless, we will have a roadshow in London. We will also attend one of the other conference. And there are the follow-up dates where you might have a chance to meet us in our presentation at the last page. And happy to see you then also in the future.

Thank you. And bye-bye from my side.

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