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EDITED TRANSCRIPT

HALF YEAR 2025 COVESTRO AG EARNINGS CALL

EVENT DATE/TIME: July 31, 2025 / 1:00PM UTC



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CORPORATE PARTICIPANTS

- **Ronald Koehler** Covestro AG - *Head of Investor Relations*
- **Markus Steilemann** Covestro AG - *Chief Executive Officer*
- **Christian Baier** Covestro AG - *Chief Financial Officer, Member of the Management Board*

CONFERENCE CALL PARTICIPANTS

- **Operator**
- **Christian Faltz** Kepler Cheuvreux SA - *Analyst*
- **Geoffrey Haire** UBS AG - *Analyst*
- **Chris Counihan** Jefferies LLC - *Analyst*

PRESENTATION

Ronald Koehler Covestro AG - Head of Investor Relations

Welcome to the Covestro earnings call on the second-quarter results.

The company is represented by Markus Steilemann, CEO; and Christian Baier, CFO.

During the presentation, all participants will be in a listen-only mode. The presentation will be followed by a question-and-answer session. If you have a question, please use the raise your hand function or post your question into the Q&A tab. 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 like now to turn the conference over to Markus.

Markus Steilemann Covestro AG - Chief Executive Officer

Thank you, Ronald, and good afternoon to everybody and a warm welcome to our second quarter call.

With the end of today, Covestro's Chief Commercial Officer, Sucheta Govil will go into her well-deserved retirement after two consecutive terms on the Board of Covestro. I would like to express my sincere gratitude to Sucheta for her exceptional contributions and her dedication to shaping our company.

On behalf of the entire Board of management, I now have the great pleasure to introduce the new Chief Commercial Officer of Covestro, Monique Buch to the investor community. Monique is an esteemed top manager with an impressive track record and a long-standing experience in the materials business.

In her last position, she served as Executive Vice President, Nonwoven at Lenzing AG, Austria. This position had been preceded by various leading positions at Freudenberg and Dow Corning. She obtained a Master in Industrial Engineering and Management from the University of Twente.

The other members of the Board of management of Covestro and I are delighted that Monique will take an active role in improving our business performance while transforming Covestro to the circular economy and execute our sustainable future strategy.

Turning to the next page. Positive news are coming from our M&A team. We always said that we are looking for bolt-on acquisitions for our solutions and specialty business. Now with the acquisition of Pontacol, a Swiss manufacturer of multi-layer adhesive films, we have done another step in this direction.

This move expands our specialty films, product and technology portfolio, enhancing our European market presence. The acquisition offers attractive value creation through portfolio, organizational, and procurement synergies.

The addition of production sites in Switzerland and Germany strengthens our global manufacturing network and improves regional availability of adhesive films. This expansion enables us to deliver more powerful customer solutions, increase competitiveness and growth sustainably.

We expect sales growth in the low double digit EUR million range by accessing growing applications, including security glazing, flexible printed electronics, and wind blade leading edge protection. The EBITDA contribution of these attractive applications is expected in the mid-single-digit million EUR range.

The closing is expected in the second half of this year. After this encouraging news, let us now turn to the key facts of the last quarter.

Turning to the next page. The key facts of the second quarter were: sales volumes remained stable. We had lower sales of EUR3.4 billion and they were caused by lower prices and unfavorable currency. We achieved an EBITDA of EUR270 million, which is in the upper half of our guidance range.

The free operating cash flow came in negative at EUR228 million. Following our July 11 announcement, we adjusted our guidance for EBITDA, free opening cash flow, and return on capital employed above WACC. We were the first of several chemical companies that have since revised their guidance in response to adverse market conditions.

Turning over to the next page. We are looking at the business and the volume development in the second quarter of 2025. Year over year, global sales volume remained flat, almost balancing negative developments in Europe, Latin America, and Asia Pacific with positive volume trends in North America.

Across different industries, construction showed the highest growth with the mid-single digit percentage increase, mainly driven by regional supply and demand patterns without major import export trade flows. All industries depend on imports/ exports declined.

Automotive saw low single digit decline. Furniture followed with a mid-single digit decline, and electronics was most affected with a high single digit decline. Regional performance varied significantly. Europe and Latin America presented a mixed picture.

Furniture/ wood showed a slight increase. Automotive remained flat while construction declined slightly and electronics dropped significantly. North America's sales volumes, especially in performance materials, increased significantly, driven by strong growth in construction due to gain in market share from competitors relying on imports.

Furniture/ wood increase slightly. Electronics developed flattish while automotive showed significant decline. Asia Pacific maintained a slight sales volume increase due to significant growth in construction, automotive with slight growth, but strong negative trends persisted in electronics and furniture.

With this summary of the demand development, I am now handing over to Christian who will guide you through the financials.

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

Thank you, Markus, and also a warm welcome from my side.

We are on page 6 of the presentation and are coming to the year over year sales bridge. Sales for Q2 2025 declined by 8.4% to EUR3.4 billion. This decrease was mainly caused by negative pricing and FX effects. Prices declined by 4.8%, affecting both segments, while the negative FX effect of minus 3.2% was primarily driven by the weaker US dollar, Chinese renminbi, and Mexican peso.

As mentioned earlier, overall volumes remained nearly flat at minus 0.4%. However, there was a divergence between the two segments with performance materials experiencing a slight decline while solutions and specialties achieving a slight volume growth.

With that, let's turn to the next page where we are showing the Q2 2025 EBITDA bridge. Year over year, EBITDA decreased by 15.6% to EUR270 million which falls in the upper half of our Q2 guidance range of EUR200 million to EUR300 million.

The performance above midpoint and consensus was driven by the release of EUR44 million short-term bonus provisions following the adjusted guidance for FY 2025. Selling prices once again declined more sharply than raw material costs due to the ongoing unfavorable industry supply-demand ratio.

The price decline was most pronounced in APAC and EMLA after the tariff announcements of the US government. As a consequence, EBITDA was impacted by minus EUR100 million from a negative pricing delta and additionally adverse FX effects.

The small volume increase shows the ongoing shift to reduce low margin business with strong market products. Other items were largely positive due to the aforementioned release of the bonus provision and included restructuring costs for STRONG of EUR36 million.

On slide 8, we break down the details for the different segments, starting as usual with solutions and specialties. In S&S, the combination of 3.4% negative FX effects and the year over year price decline of 3% led to a sales decline of 5.4%, despite increasing volumes by 1%.

Sequentially, sales declined globally with growth recorded only in APAC while EMLA and North America declined. The EBITDA in Q2 2025 remained stable year over year as the negative pricing delta and FX effects were offset by positive volume development and others, mainly from bonus provision release and cost contingency.

The quarter over quarter EBITDA decline was caused by a negative pricing delta, while volumes and others contributed positively. The EBITDA margin remains stable. In line with the adjustment of our FY guidance, we now expect S&S to contribute between EUR650 million to EUR850 million to our FY 2025 EBITDA.

After solutions and specialties, we now turn to the performance materials segment. Year over year sales declined by 11.8%, driven by negative contributions of minus 6.6% from pricing, minus 3.0% from FX, and minus 2.2% from volumes.

Quarter over quarter, sales increased in APAC and North America, while EMLA declined. The Q2 '25 EBITDA of EUR149 million is lower year over year, mainly due to a negative pricing delta, while positive volume effects from reducing low margin or loss-making business.

Sequentially, the EBITDA in Q2 '25 rebounded after the Q1 impact from one-time cost related to the closure of our PO JV with Lyondell. It increased due to positive effects from others, mainly from bonus provision release and cost contingency, positive volumes and pricing delta following the high energy costs during the winter period.

We are also reducing the EBITDA guidance from EUR400 million to EUR700 million and now expect PM to contribute between EUR200 million to EUR500 million. This adjustment is based on the low probability of a margin recovery for H2 2025.

The next topic is the free operating cash flow development. As you can see from the graph, the free operating cash flow in H1 '25 was negative with EUR481 million with Q2 FOCF contributing negative EUR228 million.

The free operating cash flow declined in H1 year on year driven by lower EBITDA and higher CapEx. Changes in working capital of minus EUR314 million in H1 '25 were mainly due to the seasonal build-up of inventories, however, less pronounced than in 2024.

H1 '25 CapEx of EUR365 million was higher year on year due to phasing. We reiterate our CapEx guidance of EUR700 million to EUR800 million for the full year '25. Income tax paid of EUR85 million was similar to the previous year.

The minus EUR127 million in other effects mainly comprises the bonus payout which was slightly reduced compared to 2024. Overall, the Q2 '25 free operating cash flow is seasonally depressed. Our planning assumes an improved but still negative free operating cash flow in Q3, but a strongly positive free operating cash flow in Q4 2025.

Let's now look at our balance sheet on page 11. Our total net debt increased by EUR492 million compared to the end of 2024. The increase was caused by the seasonally negative free operating cash flow of minus EUR481 million and the decrease in the net pension liability to EUR215 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 a four-quarter rolling EBITDA of EUR0.9 billion.

Without the significant strong expenses of around EUR140 million in H1 2025, the increase would have been limited to a ratio of 3.3 times, which would have been an increase year on year of only 0.1 times. Covestro remains committed to a solid investment grade rating, which was just confirmed in April by Moody's, including a stable outlook.

That concludes the overview of the Q2 financials and I'm handing it back over to Markus.

Markus Steilemann Covestro AG - Chief Executive Officer

Thanks a lot, Christian.

We are continuing with the outlook for Covestro's core industries on page 12 of the presentation. Global GDP forecast has decreased to 2.5% from February's 2.8% outlook. This reduced global outlook also affects most of Covestro's core industries.

Automotive growth forecast decreased to 0.6% from 2.7%, primarily due to US tariff policies disrupting global supply chains and demanding weakness in Europe and North America. EV and battery electric vehicles outlook remains strong at 24% growth.

Construction industry growth forecast increased to 0.6%, partly due to stabilization in the Chinese housing market, though ongoing conflicts and political uncertainty limit further growth. Furniture industry growth forecast decreased to 0.5%, which is 1 percentage point below earlier forecast, mainly due to weaker production in APAC and North America regions.

Electronics industry growth forecast is now at 3.7% with persistent uncertainty regarding US trade policy and potential tariffs affecting investments. Household appliances show slightly higher expected growth at 2.4%.

Let's turn to the next page. As already mentioned, we have adjusted our guidance as published on July 11 due to downgraded industry growth expectations following US tariff announcements and the lack of substantial margin recovery prospects.

The EBITDA guidance is now between EUR700 million and EUR1.1 billion, down from EUR1.0 billion to EUR1.4 billion after the first quarter. The free operating cash flow guidance has been adjusted in line with EBITDA and is now expected between minus EUR400 million and plus EUR100 million.

Accordingly, return on capital employed over weighted average cost of capital is now projected at minus 9 to minus 5 percentage points instead of minus 6 to minus 3 percentage points. The current mark-to-market estimate is approximately at EUR900 million based on July forecast assumptions flat forward, so on midpoint of our current guidance.

Greenhouse gas emissions forecast remains stable at 4.2 million to 4.8 million tons. Unfortunately, a day after our ad-hoc release, we were impacted by a fire in the transformer station in Dormagen owned by the chemical site operator, Currenta. The sudden lack of electricity led to a shutdown of our polyol plants, but mainly damaged our chlorine production, which subsequently impacts our TDI as well as several solutions and specialty value chains. We are still uncertain about the full financial impact.

However, first preliminary evaluations revealed a possible high double digit to low triple digit million EUR EBITDA burden for the full year 2025. We are still trying to mitigate the effects of the incident as much as possible.

Beyond that, additional financial expectations are, Covestro sales are estimated between EUR13 billion and EUR14 billion. Our Q3 EBITDA is expected in a range between EUR150 million and EUR250 million including our preliminary assessment of the Dormagen impact of a mid-double digit million EUR burden.

The financial results range was adjusted to minus EUR140 million to minus EUR180 million. All other financial expectations remain unchanged.

As the guidance adjustment has been significant, I would like to quickly hand over to Christian for a detailed view on the external market headwinds leading to the revision.

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

Thanks, Markus, and let me just provide the transparency on the key factors that led to the adjustment of our EBITDA guidance.

The midpoint of our initial February guidance was EUR1.3 billion which we now have revised to EUR900 million. The primary driver is the absence of the margin recovery perspectives which we anticipated for 2025, resulting in a negative pricing delta of approximately EUR550 million.

We also expect a low triple-digit million EUR volume decline and unfavorable exchange rates for US dollar and Chinese renminbi with a mid-double digit EUR million impact. Combined, these external market developments total around EUR700 million in negative impact.

To counter this, we have launched short-term cost contingency measures expected to deliver up to EUR275 million in savings. Positive effects from our strong transformation program were already included in the initial guidance.

Other savings of around EUR100 million include reducing short term bonus provisions for FY 2025. Our internal measures can offset approximately EUR300 million of the roughly EUR700 million negative impact. Despite these comprehensive efforts, the remaining EUR400 million difference explains the EBITDA guidance adjustments announced between February and July.

We remain committed to driving our transformation and will continue to pursue every opportunity to improve our performance throughout the remainder of 2025.

Back over to you, Markus.

Markus Steilemann Covestro AG - Chief Executive Officer

Yeah. Thanks, Christian, and before summarizing the second quarter, I would like to give you an update on the XRG transaction.

Regarding the European Foreign Subsidy Regulation, we have been informed about the conclusion of the Phase 1 review and our entry into a Phase 2 investigation. This Phase 2 referral was expected given the size of the deal and its significance as it is the first FSR review involving a national oil company as well as the first complete takeover of a German blue-chip company by a Middle Eastern company.

This in-depth Phase 2 investigation can last up to 90 working days. On merger control approvals, we have now advanced to a 90% approval rate, with only Vietnam remaining prior to closing. We reiterate our confidence to close within the second half of 2025, most likely in Q4, with the subsequent payout of EUR62 per share to Covestro's shareholders.

Let's turn to the next page and allow me to quickly summarize. We have seen in the second quarter flat volume development that was burdened by economic and geopolitical uncertainties. Sales came in lower at EUR3.4 billion, mainly caused by lower prices and unfavorable currency effects.

The EBITDA for the second quarter of 2025 of EUR270 million was above the midpoint of the guidance range and was helped by internal measures. The full year guidance for the year 2025 has been adjusted with an expected EBITDA now of between EUR700 million and EUR1.1 billion and the XRG transaction is on track with expected closing in the second half of 2025.

And now, Christian and myself are happy to answer any questions that remained open, and with that, I hand it over to Carson who will guide us through the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Christian Faitz, Kepler Cheuvreux.

Christian Faitz Kepler Cheuvreux SA - Analyst

Two questions, please. First of all, at the lower end of your EBITDA guidance for the materials segment, you're not expecting much of a positive contribution in H2. So just about EUR40 million at best, I guess. Kind of a H2 '22 situation.

What are the assumptions for this lower end, and I take it this includes the force majeure effects, correct? And the second question would be - are there any signs of a demand revival into Q3 from any key customer industries, furniture, electronics, automotive?

Markus Steilemann Covestro AG - Chief Executive Officer

This is Markus speaking. For your questions, let me start with the second part or second question, the revival signs of any industries going into the third quarter. I hope we could provide you with an overview about where the different industries in terms of overall industry outlook look like, and I'm here specifically referring to one of the slides that we have in our presentation that supports the respective call.

And there you see that many of the industries that we are serving mainly take automotive, construction, furniture, electrical, electronics, there is a positive growth outlook for the full year 2025. However, in general terms, we have to say that this industry growth outlook has been revised downwards for some major industries, and that downwards revision having now Q1 and Q2 behind us for sure would impact the second half of this year stronger.

So if you do the math, you would figure out that currently, there is limited to no signs of a significant uplift that might be regionally slightly different here and there. But in general terms, we have to say that the world is still challenged, and one of the major reasons is the ongoing uncertainty due to ongoing negotiations of US tariffs.

So that is the underlying thing, and it all comes on top of the uncertainties that we have seen so far and the prolonged crisis, and I don't want to reiterate it since when we already have consecutive crisis going on. 2021 with Corona, energy peak and so on and so forth.

So long story short, the market currently is in a very challenged overall situation. So it means for second half, I personally would not see a significant broad-based, across the board uplift in demand. And once again, there might be here and there some regional differences by industry or in general but I do not think that this is sufficient to provide a broad positive overall uplift of the markets for our industries and for our main customers.

So it's a very broad answer, but before we now go into details and then it's maybe seen as, there is a positive sign here, positive sign there, broad basis from today's perspective, the markets will remain very challenging.

Christian Faltz Kepler Cheuvreux SA - Analyst

So to summarize it, front end loaded here with the front end being behind us.

Markus Steilemann Covestro AG - Chief Executive Officer

Well, let's not forget, Covestro is doing a lot on self-help. We have just and have been mentioned today is this program STRONG. We also have made it very clear where we stand in terms of the rest of the year outlook with our updated guidance.

And now coming back to your first question, the costs that we had to digest this year. For example, restructuring costs for PO11 are non-recurring then for the next year, most likely. And the Dormagen case that I just mentioned has not been included in the midpoint but should be covered at the low point.

So there will be ongoing margin pressure also for materials like polycarbonate and polyol. So it will remain a challenging year and at the same time, we have to also make clear that we do everything that is in our own power to make sure that we deal with the current situation.

So the underlying is relatively stable, yet at for us also low levels and therefore, we would expect that Q3 is therefore similar to the second quarter but excluding the Dormagen incidents. So I hope that gives you somewhat a picture and a flavor.

Operator

Geoff Haire, UBS.

Geoffrey Haire UBS AG - Analyst

I thought I could ask Markus, if he had any comments, on this policy in China, this anti-evolution policy, and what impact and the timing of it might have on the chemical industry as a whole, but -- and also and I'm aware of, obviously, your other hat that you wear with the VCI, but also what you make of the action plan from the EU that has been announced.

Markus Steilemann Covestro AG - Chief Executive Officer

So the anti-environment policy, we currently do not see any direct effects on our businesses for the time being to be very clear. And with regards to the current conversations on European level, is it on countermeasure or is it more the general because you talked about VCI? I'm not sure, Geoff.

Can you just clarify because I understood you that you say how do you look on the European, overall policies but not as potentially countermeasure, is it?

Geoffrey Haire UBS AG - Analyst

No. I was just wondering, obviously the action plan that the EU announced, and all I meant was I was aware that you obviously have other responsibilities, but I was wondering what impact do you think that could have on the chemical industry in Europe and also do you think that the anti-environment policy may result in old capacity being taken out and were not for Covestro but for the industry more as a whole?

Markus Steilemann Covestro AG - Chief Executive Officer

Yeah. As I said, and with regard to environment policy, let's see, once again, we currently do not see any impacts, at least not short term, and I also have not seen, any announcement that would support, that thesis that old capacity would be taken out.

On Europe, the European Chemical Action Plan. First and foremost, what I am positive about, also in my role as a VCI President, is that finally that new economic reality has obviously arrived in the Brussels offices and therefore also has now led to action that seems to me a more balanced approach towards economy and the ecology.

So whereas climate was on top of the list, maybe only on top of the list for the last administration, I now see that is a more balanced approach being taken and that in itself I see as a very positive sign yet the effects, whether it has really positive effects, whether it makes the EU and its industries more competitive, that remains to be seen and therefore more actions and more swift actions have to be taken and without repeating myself, that is lowering bureaucracy, doing something on tax, tackling the high energy prices in Europe, and so on and so forth.

So a good start, but way too little to really turn now the tides.

Operator

Chris Counihan, Jefferies.

Chris Counihan Jefferies LLC - Analyst

I just wanted to ask about Dormagen and specifically how long you expect the plant to be out for, firstly. Obviously, you've given a financial impact, but just, I wasn't sure if I heard how long you expect it to be on force majeure for as of today.

And then, secondly, obviously, that's about a third of your TDI capacity, if I look at my supply demand. Is there the potential for the other two-thirds to benefit from the market being a bit tighter?

Markus Steilemann Covestro AG - Chief Executive Officer

Very roughly speaking, we expect Dormagen to be out for several months. And now comes the big but. What is mainly affected for these several months is the chlorine supply. The chlorine supply is absolutely essential to run the TDI plant.

However, there's other chlorine customers internally as well as externally, and that's why we also issued that force majeure. Because there is an opportunity to gradually at least bring back some of the other internal value chains, for example, in the solution

and specialty area but that will also be a matter of weeks, so not days, but really weeks.

So gradually, we expect that more and more plants will come up on stream, but the big volume and also margin contributor TDI, that is definitely out from today's perspective for several months. With regards to your second part, we have just observed that Asia prices have rebounded based on the prices that were quoted by traders.

First, we have to take a look at it, is it sustainable? And in the US, we have, in the entire industry, not so fast moving prices due to contractual basis, and I'm talking more about what I perceive as a general industry pattern rather than our own situation.

And therefore, we have not seen any reaction so far. And also please bear with me, we're not going into any further details because the TDI market is a very, narrow market and therefore anything I say could be one word too much around this and from that perspective, please allow me that I'll leave it with that.

Operator

There are no further questions at this time.

So handing back to Ronald.

Ronald Koehler Covestro AG - Head of Investor Relations

Okay. Thanks for your question. I know it's a busy day for you today with a lot of reportings, so if you have any follow up questions, don't hesitate to contact the IR department.

And with that, I would thank you for your interest and see you next time.

Bye-bye.

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