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Significant step in the long-term corporate strategy of Covestro

Covestro to acquire leading sustainable coating resins business from DSM

- **Covestro to become one of the global leaders in attractive growth market for sustainable coating resins**
- **Combining strong innovation capabilities to accelerate transition to circular economy**
- **Complementary product portfolios and application industries excellently positioned to meet customer needs**
- **Acquisition adds EUR 1 billion in revenues and EUR 141 million EBITDA**
- **Purchase price of EUR 1.61 billion reflects attractive enterprise valuation of 5.7x EV/EBITDA 2021 including future synergies**
- **Substantial synergies of around EUR 120 million p.a.**

Covestro today has signed an agreement to acquire the Resins & Functional Materials business (RFM) from Royal DSM. By expanding its portfolio in the attractive growth market for sustainable coating resins, Covestro is taking a significant step in its long-term corporate strategy to strengthen its sustainable and innovation-driven businesses. Adding about EUR 1 billion in revenues and an EBITDA of EUR 141 million (2019), the integration of RFM is a substantial strategic growth opportunity to expand revenues of the Coatings, Adhesives, Specialties (CAS) segment of Covestro by more than 40% to about EUR 3.4 billion (2019 pro-forma). The acquisition creates one of the leading suppliers in the field of sustainable coating resins, with one of the most comprehensive and innovative product portfolios that enables a compelling customer value proposition. Covestro agreed to a purchase price of EUR 1.61 billion, which will be financed through a combination of equity and debt instruments.



Dr. Markus Steilemann, CEO of Covestro: “This acquisition is an important step for our corporate strategy. RFM enhances the growth trajectory of our business. By combining our strong innovation capabilities, sustainable product portfolios as well as complementary technologies and customer industries, we will unlock significant value. At the same time, it is also a key step to drive innovation for the transition towards a circular economy.”

Complementary technologies and customer industries

The integration of RFM will create a business of enhanced scale and technological capability, benefitting existing and future customers as well as its employees through a stronger growth platform. Covestro is already one of the leading providers of water-based polyurethane dispersions. With the acquisition of RFM, the company will add a complete range of water-based polyacrylate resins and will expand its technology portfolio to include water-based hybrid technologies, powder coating resins as well as radiation curing resins. RFM includes strong brands in terms of sustainability such as Niaga®, as well as additive manufacturing, and an advanced solar coatings business.

The acquisition diversifies Covestro’s industry exposure and also significantly strengthens the company’s positioning in attractive high-growth markets. Amongst others, Covestro will become one of the leading suppliers in the field of optical fiber coatings – a market segment with enormous future potential, including the future technology of 5G – and in the attractive high-growth segment of 3D-printing materials, showing an average growth rate of more than 20%. Furthermore, the optimal fit of the combined geographic footprint is strengthening Covestro’s proximity to customers in all key markets and is expanding its global production network by more than 20 sites.

Both businesses are committed to ambitious ESG (Environment, Social, Governance) goals and have an excellent and complementary research pipeline, especially in the area of sustainable high-performance raw materials for the coatings industry. Combining them will allow Covestro to be even more innovative in the field of coating resins and become an even more attractive R&D partner for its customers. Thereby, Covestro will be able to drive innovation and to advance sustainability across the integrated customer industries as well as to pursue the transition to a circular economy even faster.

Significant potential for value creation

Integrating RFM into the CAS segment of Covestro creates significant opportunities to unlock incremental value. The company expects permanent (“run-rate”) synergy effects to build-up to about EUR 120 million per annum from



full integration by 2025. These consist of approximately two-thirds of cost and one-third of revenue synergies and are generated amongst others through the alignment of purchasing, sales and administrative structures in the integrated business as well as cross-selling and the joint development of new high-performance products.

Attractive valuation and financing structure

Considering cash equivalents at RFM, the total purchase price of EUR 1.61 billion corresponds to a net enterprise value of approximately EUR 1.55 billion, representing a valuation of RFM at about 5.7x EV/EBITDA 2021 including pro-forma run-rate synergies. Excluding run-rate synergies the EV/EBITDA multiple would be 10.3x. Financing is secured through a financing agreement which Covestro intends to refinance with a combination of equity, debt instruments and own cash generation, consistent with the company's commitment to maintaining a solid investment grade rating. For this purpose, Covestro is planning to utilize its currently existing authorized share capital for an equity issuance in order to raise approximately EUR 450 million.

"The acquisition is strategically and financially a perfect opportunity for us to pursue our long-term growth strategy at highly attractive conditions and tangible synergies. With the chosen financing structure, we are striking the right balance between equity and debt," says Dr. Thomas Toepfer, Covestro CFO and Labor Director. "We look forward to welcoming our new colleagues under the Covestro roof soon. Together, we will work towards bringing our joint potential to life."

Closing of the transaction is expected for the first quarter of 2021 and is subject to regulatory approvals, including antitrust clearance.

About Covestro:

With 2019 sales of EUR 12.4 billion, Covestro is among the world's largest polymer companies. Business activities are focused on the manufacture of high-tech polymer materials and the development of innovative solutions for products used in many areas of daily life. The main segments served are the automotive, construction, wood processing and furniture, and electrical and electronics industries. Other sectors include sports and leisure, cosmetics, health and the chemical industry itself. Covestro has 30 production sites worldwide and employs approximately 17,200 people (calculated as full-time equivalents) at the end of 2019.

Find more information at covestro.investors.com.



Forward-looking statements

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