



# A challenging year successfully managed

Roadshow presentation



-  **Covestro investment highlights**
-  Group financials 2020
-  Segment overview
-  Acquisition DSM-RFM
-  Background information

# Covestro is diversified across geographies and end-markets



## Key performance indicators and sales split



Sales  
2020



Core volume growth  
CAGR 2015 - 2020



FOCF  
2020

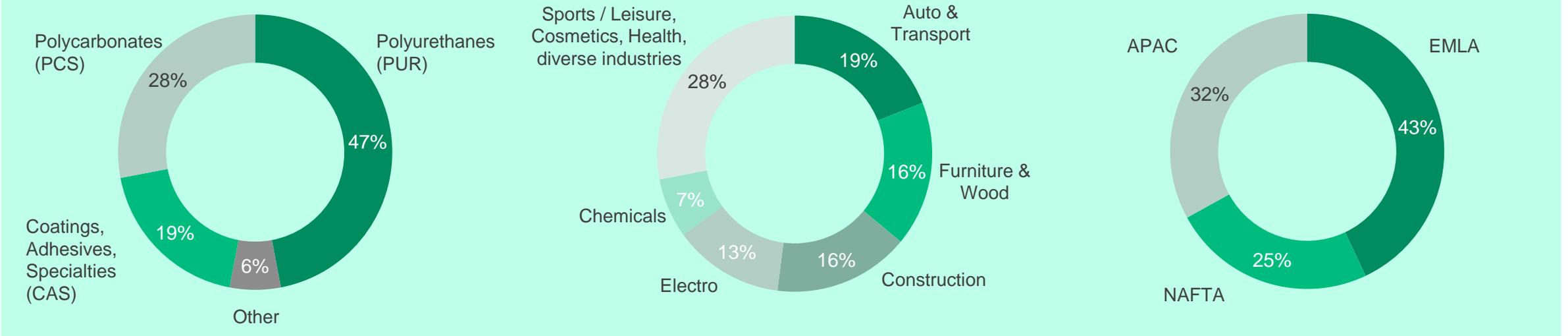


ROCE  
2020



EBITDA  
2020

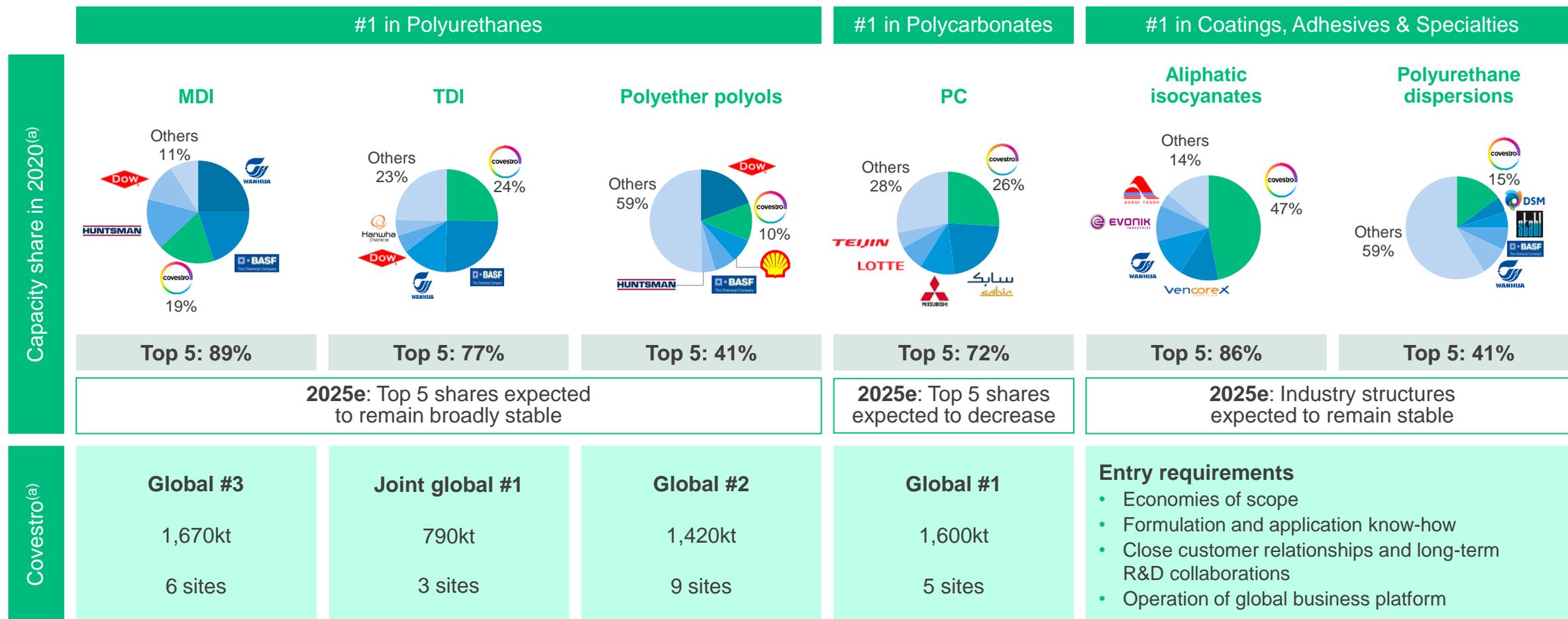
2020 sales



# Covestro is a global leader across its entire portfolio



## World-wide industry positions and production capacities



# Our new strategy – setting the path for tomorrow



## BECOME THE BEST OF WHO WE ARE



Transform the company to exploit its full potential



## DRIVE SUSTAINABLE GROWTH



Address sustainability in a profitable way



## BECOME FULLY CIRCULAR



Accelerate the transition to a fossil-free economy

ADVANCE DIGITALIZATION

EXPAND 'WE ARE 1' CULTURE

**! MILESTONE 2020**  
! LEAP transformation initiated

**! MILESTONE 2020**  
! Acquisition of RFM<sup>(a)</sup> announced

**! MILESTONE 2020**  
! First alternative feedstock sourced

# Accelerate the transition to a fossil-free economy



We will be fully circular

## ALTERNATIVE RAW MATERIALS

### Replacing fossil resources

Example Bio-based car top coat



- Enabling customers to optimize the CO<sub>2</sub> footprint of their products
- New hardener for automotive coatings with carbon basis up to 70% from renewable raw materials
- No compromises with regards to protective functions and appearance
- Collaboration with automotive group Audi and the coating experts at BASF Coatings

## INNOVATIVE RECYCLING

### Energy-efficient technologies

Example Recycled polycarbonates



- New polycarbonate grades from post-consumer recycled (PCR) content, e.g. water bottles, CDs and automotive lighting
- Closed loop recycling system to collect, sort, shred and clean material
- Recycled granules are finally compounded with virgin resins
- PCR grades are used in various electr. applications for a second life

## RENEWABLE ENERGIES

### Wind energy

Example Ørsted wind energy supply



- World's largest corporate supply contract for offshore wind energy entered with Ørsted in Dec. 2019
- Starting in 2025, Ørsted to provide 100 MW of electricity for 10 years
- Newly built wind farm in North Sea, implemented without public funding
- Supply to cover c. 10% of electricity consumed by Covestro in Germany

## JOINT SOLUTIONS

### Cross-industry collaboration

Example PReSmart consortium



- PReSmart to seek ways of transition from current linear lifecycle of polyurethane (PU) products to a circular economy model
- Consortium as an end-to-end collaboration spanning the entire PU reprocessing value chain
- Nine partners from six different countries, coordinated by the Belgian company Recticel

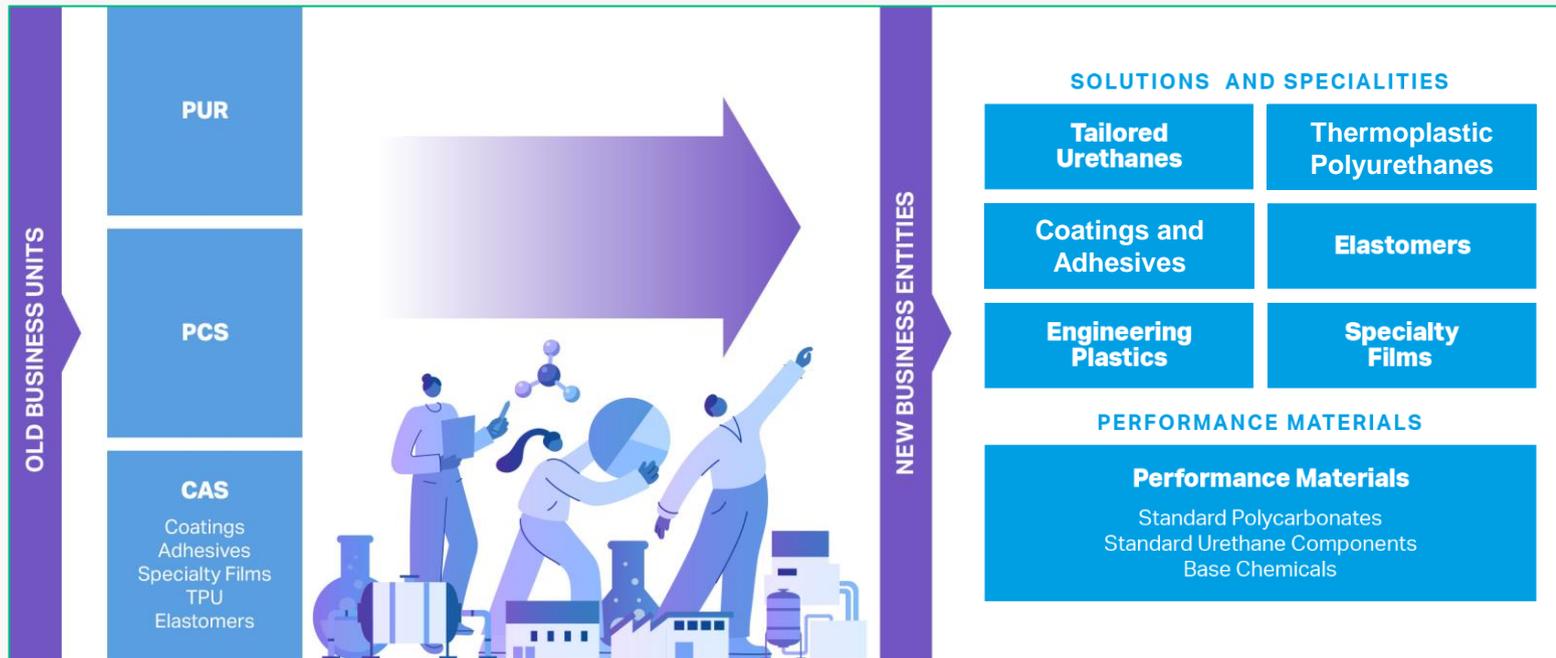
# Becoming more customer-centric

## Transformation program LEAP in 2021-2023



### LEAP

“Become the best of who we are”



### HIGHLIGHTS

- Comprehensive redesign of structures and processes as well as management and governance mechanisms
- By July 2021, new organizational set-up to be implemented
- Bundle entities based on business specifics and customer needs while fostering entrepreneurship:
  - **Solutions and specialties** differentiated chemical products and application technology services, with focus on innovation and customer interaction
  - **Performance materials** focus on reliable supply of standard products at competitive market prices with lowest internal costs

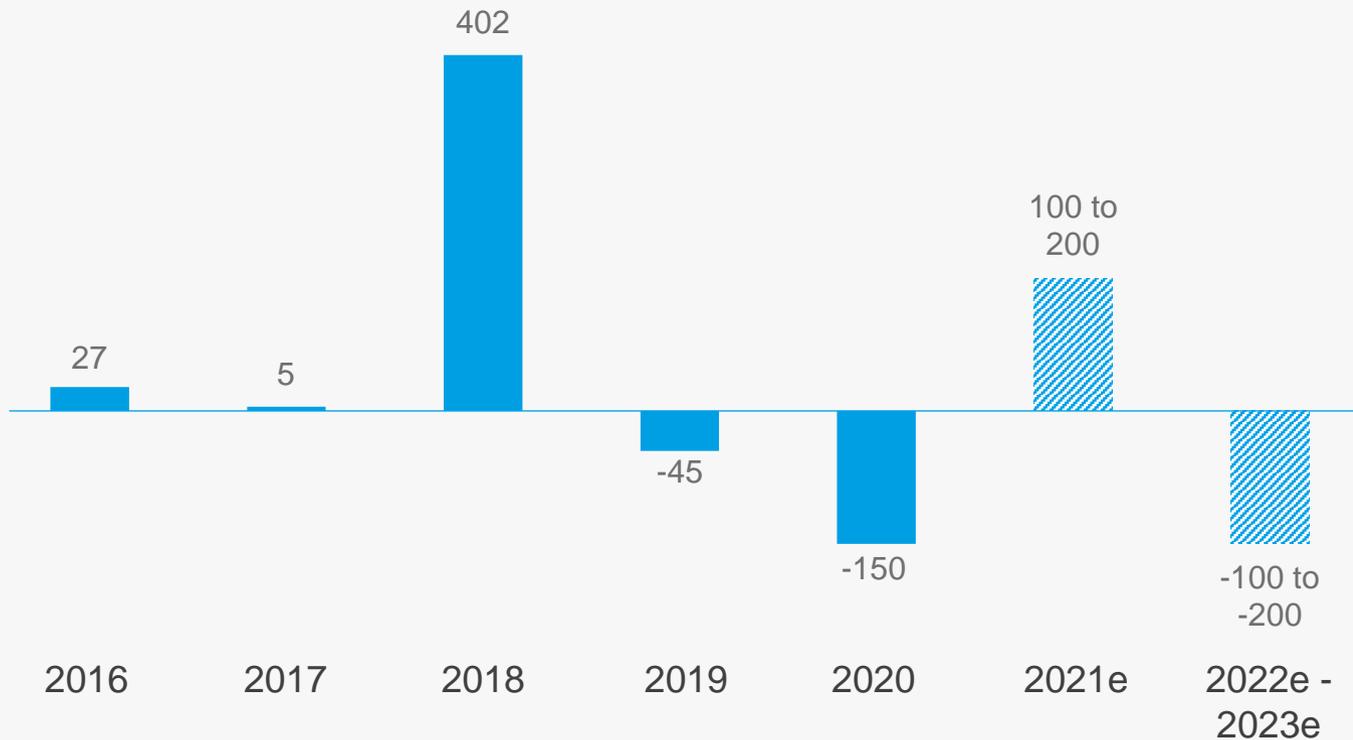
# Keeping fixed costs flat

## Transformation program LEAP in 2021-2023



### FIXED COST DEVELOPMENT Y/Y EXCLUDING INCENTIVE SCHEMES

in € million



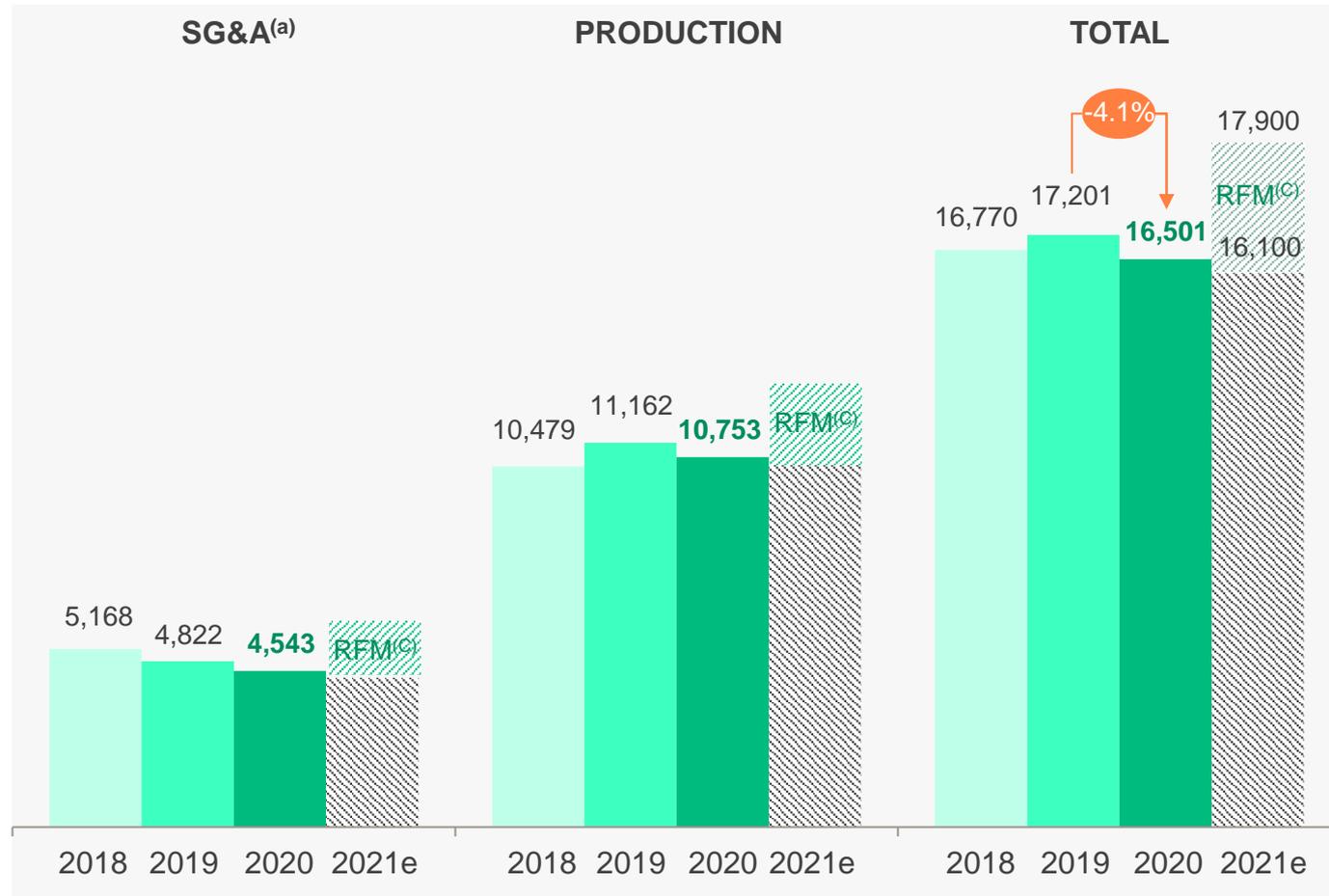
### HIGHLIGHTS

- Savings target: maintain fixed costs unchanged until 2023, excluding STI and LTI schemes, based on FY 2020
- Historical savings initiatives
  - ‘PEP’ initiated during IPO in 2015
  - ‘Perspective’ initiated end of 2018
  - ‘Short-term savings’ in 2020
- Investments into growth in 2018
- Cost in 2021e mainly driven by higher maintenance costs, merit increase, investments in digitalization and circularity
- LEAP cost savings to be realized in 2022e and 2023e
- Counterbalancing fix costs inflation, like merit increases, until 2024

# Headcount reduced by 700 FTE, further reductions planned



## Development of full-time equivalent (FTE)



### HIGHLIGHTS

- Year end 2020 FTE reduced by 700 to ~16,500 beyond original target of 16,800 through execution of Perspective program
- Plan to further reduce by ~400 to ~16,100 FTE until year end 2021
- Announced RFM acquisition to add ~1,800 FTE to total headcount in 2021e

# ESG ambitions support growth strategy

## Covestro non-financial targets for 2025



1

80% of project expenditures for R&D go toward areas that contribute to UN SDGs

Achievement: 51% of R&D project expenditures in 2020



2

100% of our suppliers comply with our sustainability requirements

Achievement: 79% by end of 2020



3

Reduce specific greenhouse gas emissions by 50% from the benchmark in 2005

Achievement: -46.2% by end of 2020



4

Ten million people in underserved markets benefit from our solutions

Achievement: 1.1 million people by end of 2020



5

Extract the maximum benefit from carbon and increase carbon productivity

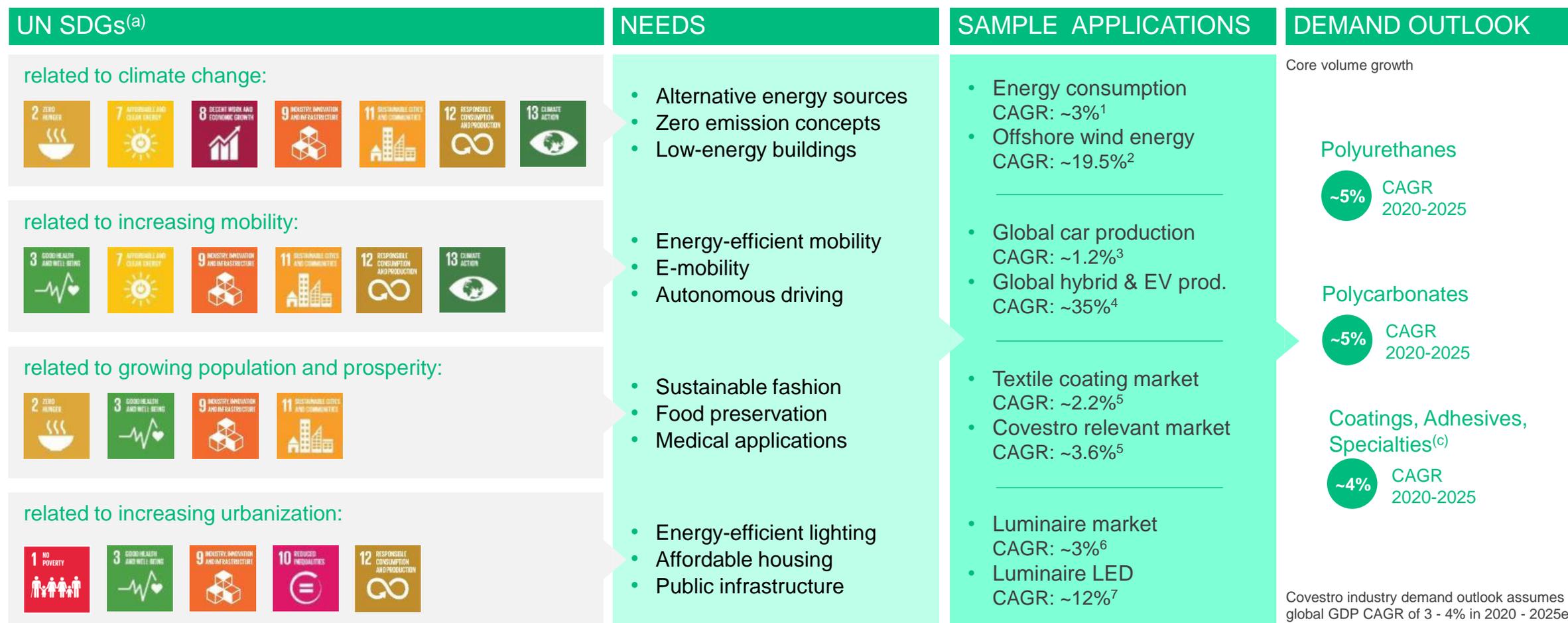
Achievement: Company vision to become fully circular announced in 2020, corporate goal setting under way



# Covestro innovative products tap into attractive new markets



## Structural growth drivers



Notes:

(a) Most impacted goals out of 17 Sustainable Development Goals, set by the United Nations' "2030 Agenda for Sustainable Development"

1) Covestro estimates for 2020-2025, based on BP, Energy Outlook, 2017 for 2015-2020 based on million tons oil equivalent

2) GWEC, Global Wind Executive Council: Annual-Wind-Report 2019 for 2020-2025

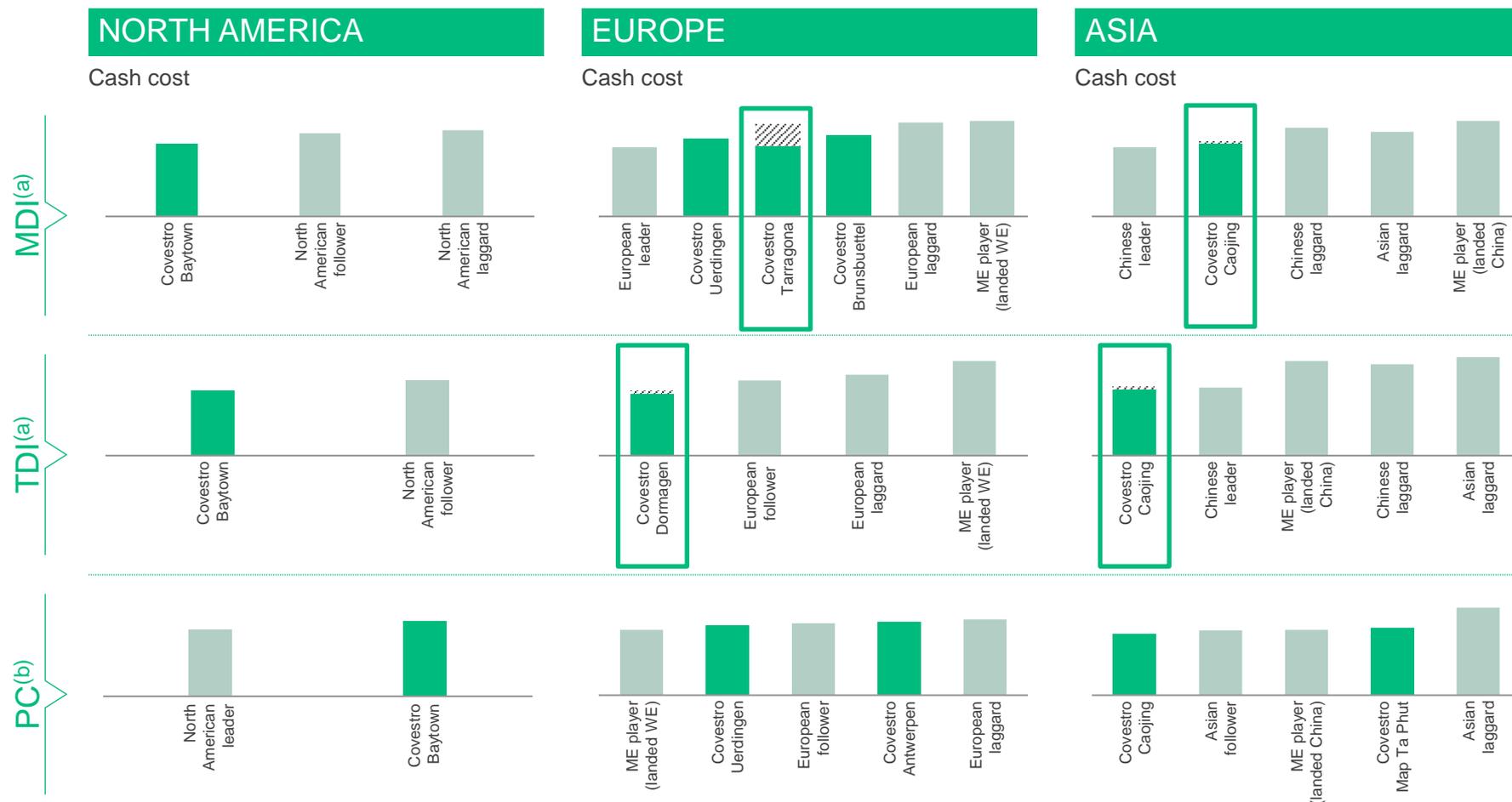
3) LMC, Aug 2020, for years 2019-2023; 4) LMC, Aug 2020, for years 2018-2023; 5) Covestro estimates for 2019-2023; 6) Covestro estimates for 2020-2025;

7) Covestro estimates based on LEDinside report H2 Y2020 (CAGR 2018-24) and Global Luminaires and Lighting Market Analysis and Forecast 2016, PennWell for 2015-2022

# Leading cost positions across business segments and regions



## Covestro cash cost positions



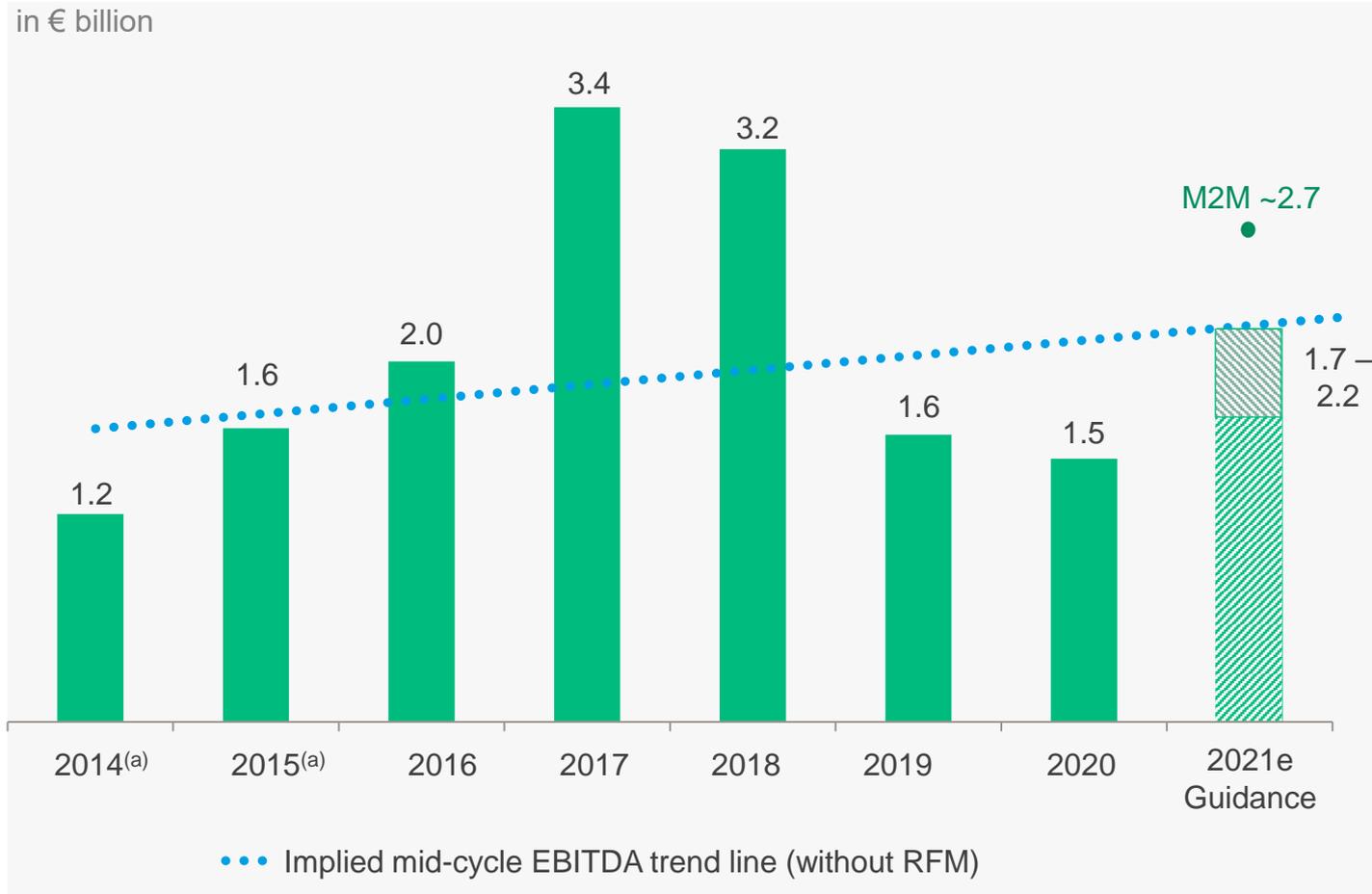
## HIGHLIGHTS

- **Covestro MDI** is one of the low-cost producers. Investment in Tarragona plant will significantly further improve cost position. MDI industry with cost advantage of ~35% between the best and the average 5 least competitive plants
- **Covestro TDI** is the global cost leader with cost advantage of ~55% versus the average of 5 least competitive plants
- **Covestro Polycarbonates** is one of the two joint cost leaders with cost advantage of ~25% versus the average of 5 least competitive plants

▨ Cash cost improvements based on investment projects

# Approaching mid-cycle level in 2021

## EBITDA development between 2014 and 2021e



### HIGHLIGHTS

#### Historic development

- Cyclicity driven by supply-demand balance
- 2017 peak due to very high industry utilization
- 2020 burdened by globally declining GDP

#### EBITDA guidance of €1,700m – 2,200m in FY 2021

- Includes announced RFM acquisition
- Mark-to-market (M2M) EBITDA in FY 2021 of ~€2.7bn based on January 2021

#### EBITDA sensitivities for FY 2021

- Volume sensitivity: 1pp change in core volumes equals around +/- €60m, excluding RFM
- FX sensitivity: 1pp change equals +/- €6m for CNY/EUR and +/- €4m for USD/EUR

# 2021 expected above pre-pandemic level of 2019

FY 2021 guidance including announced RFM acquisition



	FY 2019	FY 2020	Guidance FY 2021e
Core volume growth	+2.0%	-5.6%	10 – 15% (t/o ~6%p RFM)
FOCF	€473m	€530m	€900m – 1,400m
ROCE	8.4%	7.0%	7 – 12%

## Additional financial expectations

EBITDA FY	€1,604	€1,472m	€1,700m – 2,200m
EBITDA Q1	€442m	€254m	€700m – 780m
D&A	€752m	€776m	~€900m
Financial result	€-91m	€-91m	~€-100m
P&L (effective) tax rate	26.8%	25.0%	24 – 26%
Capex <sup>(a)</sup>	€910m	€704m	~€800m
Average number of outstanding shares (in million)	182.7	184.9	193.2

# Majority of cash allocated to growth

## Balanced use of cash



<h3>CAPEX</h3> 	<h3>DIVIDEND</h3> 	<h3>PORTFOLIO</h3> 	<h3>SHARE CAPITAL</h3> 
<ul style="list-style-type: none"><li>• Covestro's industry and cost leadership make growth investment the most value-creating use of cash</li><li>• Maintenance capex to secure safe, reliable and efficient operations</li></ul>	<ul style="list-style-type: none"><li>• New policy: 35-55% payout of net income</li><li>• 2020 dividend of €1.30 per share proposed to upcoming AGM</li><li>• Dividend yield 2020 of 2.6%<sup>(a)</sup></li></ul>	<ul style="list-style-type: none"><li>• Targeting value-enhancing acquisitions with attractive IRR</li><li>• Announced acquisition of DSM's Resins and Functional Material (RFM) business for EV €1.55bn with attractive high margins (~€1.0bn sales)</li><li>• Less attractive low-margin businesses divested (~€0.6bn sales)</li></ul>	<ul style="list-style-type: none"><li>• Capital increase of €447m executed in 2020 in context of announced RFM acquisition</li><li>• Share buy-back of €1.5bn executed in 2017-2018</li><li>• Authorization for share buy-back program for up to 10% of share capital in place, to be used in an opportunistic and anti-cyclical way</li></ul>
<b>€3.2bn invested in capex</b>	<b>€1.5bn dividends</b>	<b>€1.5bn net investments</b>	<b>€1.1bn share capital reduced</b>

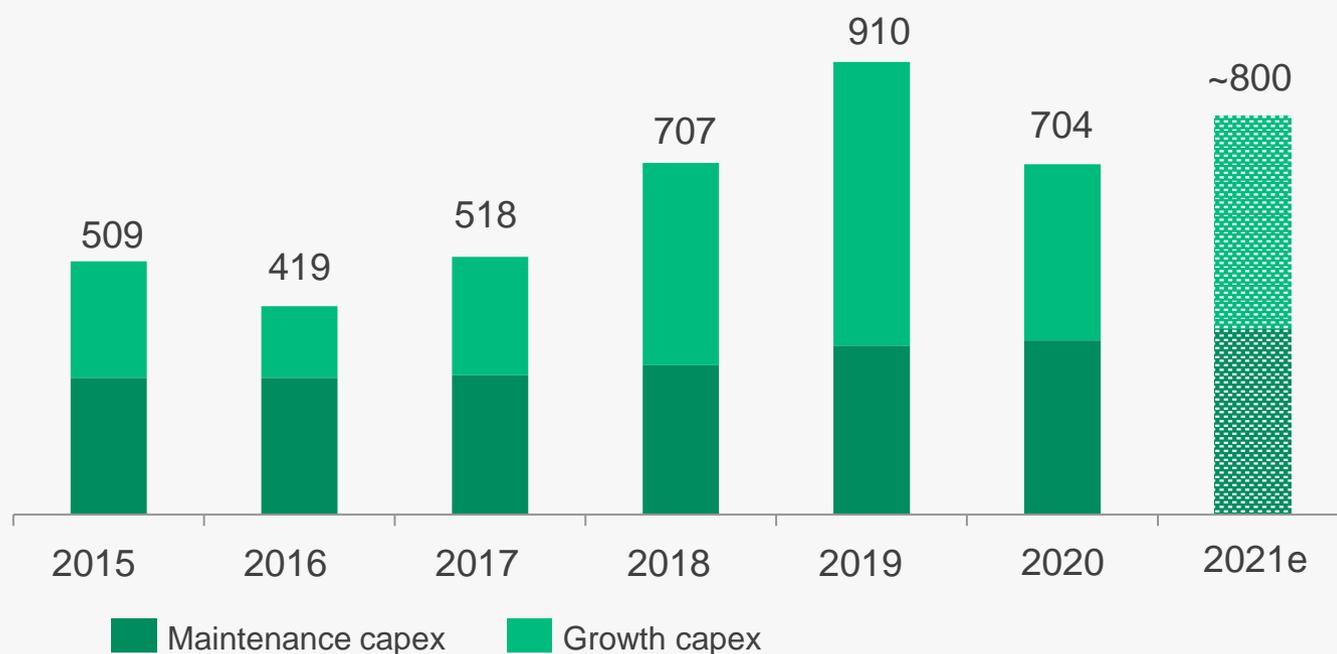
# Investment into organic growth to deliver attractive returns



## Covestro capex development

### CAPEX<sup>(a)</sup>

in € million



### HIGHLIGHTS

#### Future capex

- FY 2021e includes announced RFM acquisition
- Single largest capex project Tarragona Chlorine (~€0.2bn)
- Almost 100 projects with capex of more than €10m, with spending spread over several years

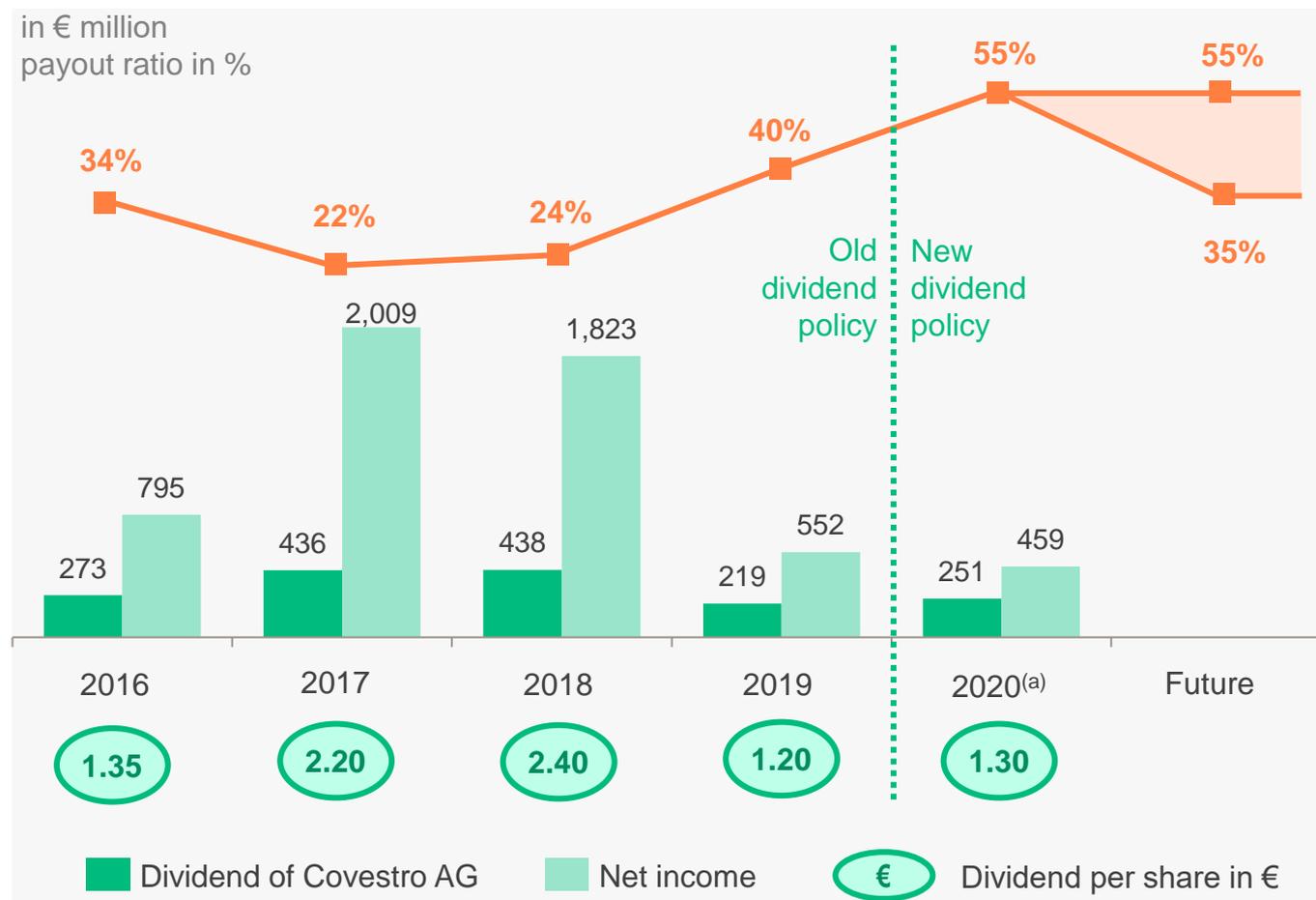
#### Maintenance capex at ~€350-400m p.a.

- Securing safe, reliable and efficient operations
- Including announced RFM acquisition

# New dividend policy: 35-55% payout ratio of net income



## Historical dividend development



### HIGHLIGHTS

- Commitment to a payout ratio of 35% to 55%, related to dividend over net income
  - Higher payout in years with peak earnings, while ratio towards lower end
  - Lower payout in years with trough earnings, while ratio towards upper end
- For FY 2020 dividend, proposal of €1.30 per share to the upcoming AGM on April 16, 2021
- Corresponding FOCF of €530m in FY 2020 fully covers dividend payout of €251m

# Securing profitable growth



## Why invest in Covestro

- 1** Leading and defensible global industry positions  
as innovation and cost leader
- 2** Sustainable volume growth above GDP  
driven by innovation and sustainability trend
- 3** Transformation program LEAP to exploit Covestro's full potential  
maintaining fixed costs unchanged until 2023
- 4** "We will be fully circular"  
accelerating the transition to a fossil-free economy aligned with ESG criteria
- 5** Capital allocation focused on value creation  
with commitment to profitable growth



- Covestro investment highlights
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# Significantly increasing margins towards year end

## Group results



### SALES AND CORE VOLUME GROWTH<sup>(a)</sup>

in € million / changes Y/Y

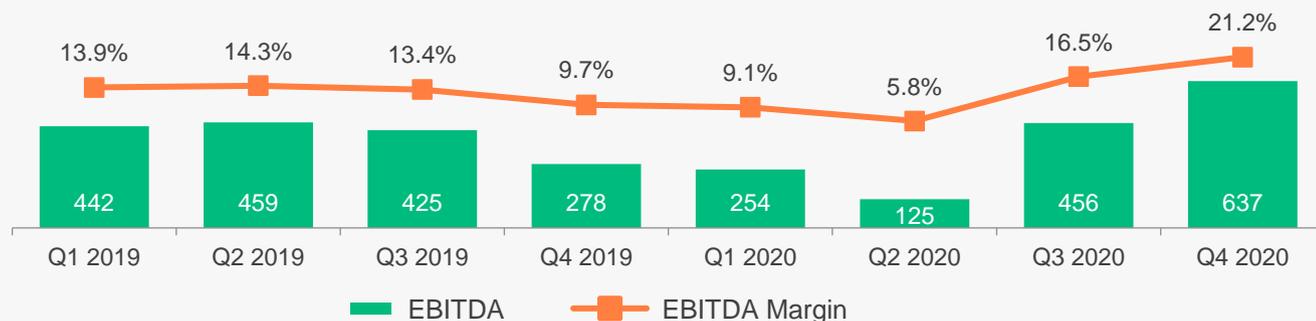


### HIGHLIGHTS

- Severe negative impact from coronavirus pandemic particularly in Q2 2020, core volumes again above previous year in H2 2020
- Q4 2020 core volume growth reflects solid underlying demand globally, hampered by constrained availability of products in PUR and PCS

### EBITDA AND MARGIN

in € million



### HIGHLIGHTS

- Q1 2020 and particularly Q2 2020 burdened by the effects of the coronavirus pandemic
- In Q3 2020, EBITDA of €456m again above prior year, strongly benefitting from saving measures
- Q4 2020 EBITDA driven by €388m positive pricing delta Y/Y, mainly in PUR

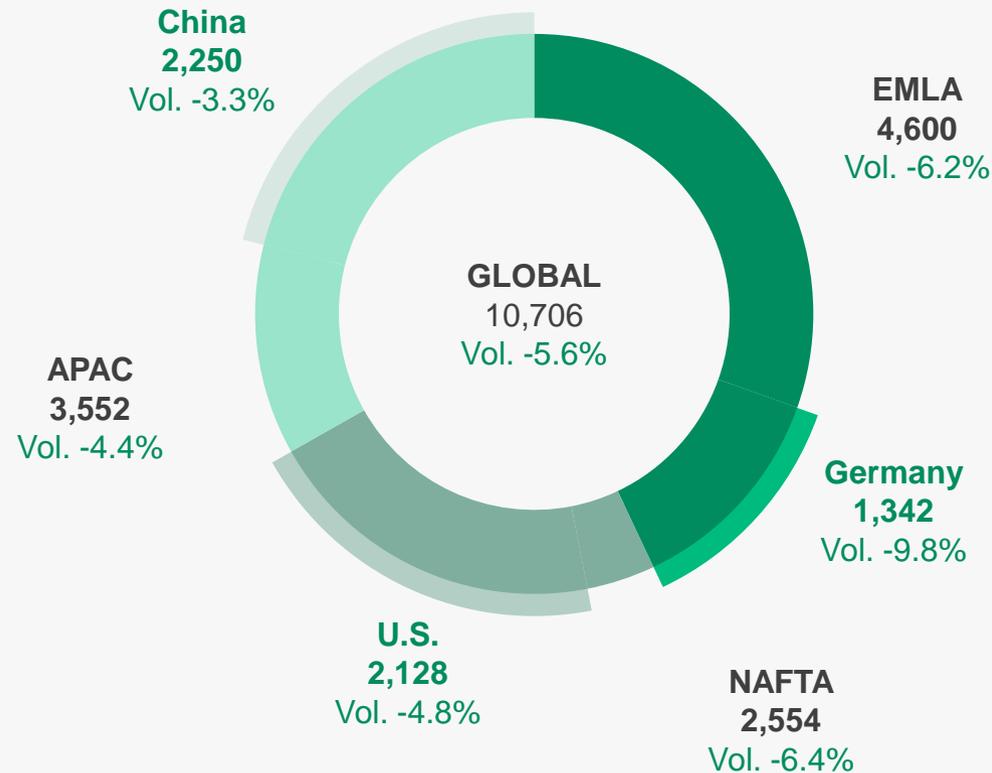
# Volumes burdened by impact from coronavirus pandemic



## FY 2020 – Regional split

Sales in € million

Core volume growth Y/Y in %



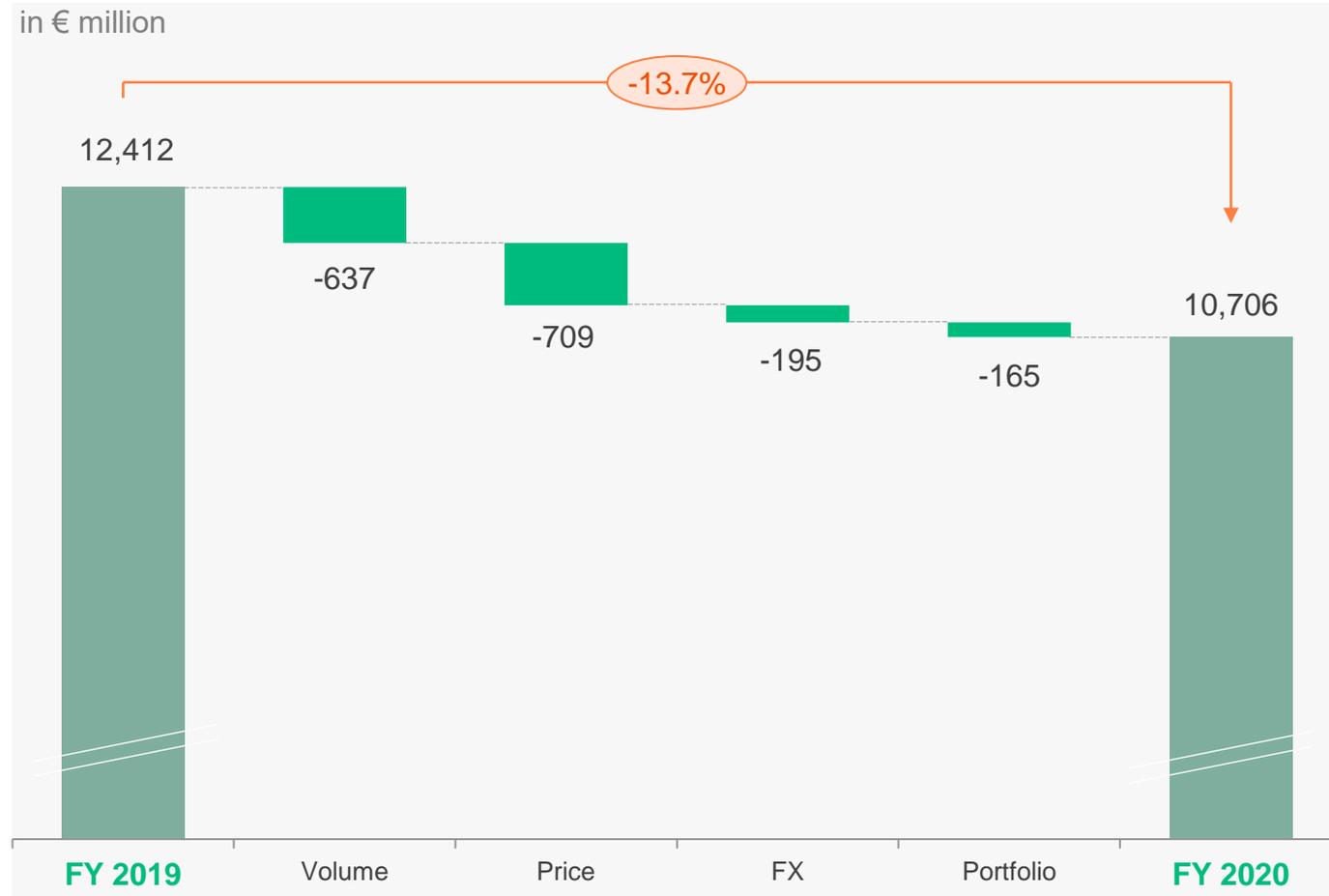
### CORE VOLUME GROWTH Y/Y

- Globally broad-based recovery in H2 after severe negative impact from coronavirus pandemic in Q2:
  - Furniture/wood c. -6%, while NAFTA up 2%
  - Construction c. -2%, while APAC up 2%
  - Auto/transport c. -14%, while China virtually flat
  - Electro c. -3%, while EMLA up 3%
  - Divers c. -3% including medical c. +13%
- APAC: low to mid-single digit declines in all key industries, except growth in construction
- EMLA: mixed dynamics, with double-digit declines in auto and furniture/wood, while electro grew; volumes in Germany driven by double-digit declines in auto and construction
- NAFTA: double-digit decline in auto, while furniture/wood grew

# Sales burdened by lower prices and volumes



## FY 2020 – Sales bridge



### HIGHLIGHTS

#### Volume negative

- Volume decline of -5.1% Y/Y (in €) driven by PUR and CAS

#### Negative pricing

- Lower selling prices, mainly in PUR and PCS, negatively impacted sales by -5.7% Y/Y

#### Negative FX

- FX affected sales by -1.6% Y/Y mainly driven by weaker BRL, USD, CNY and MXN

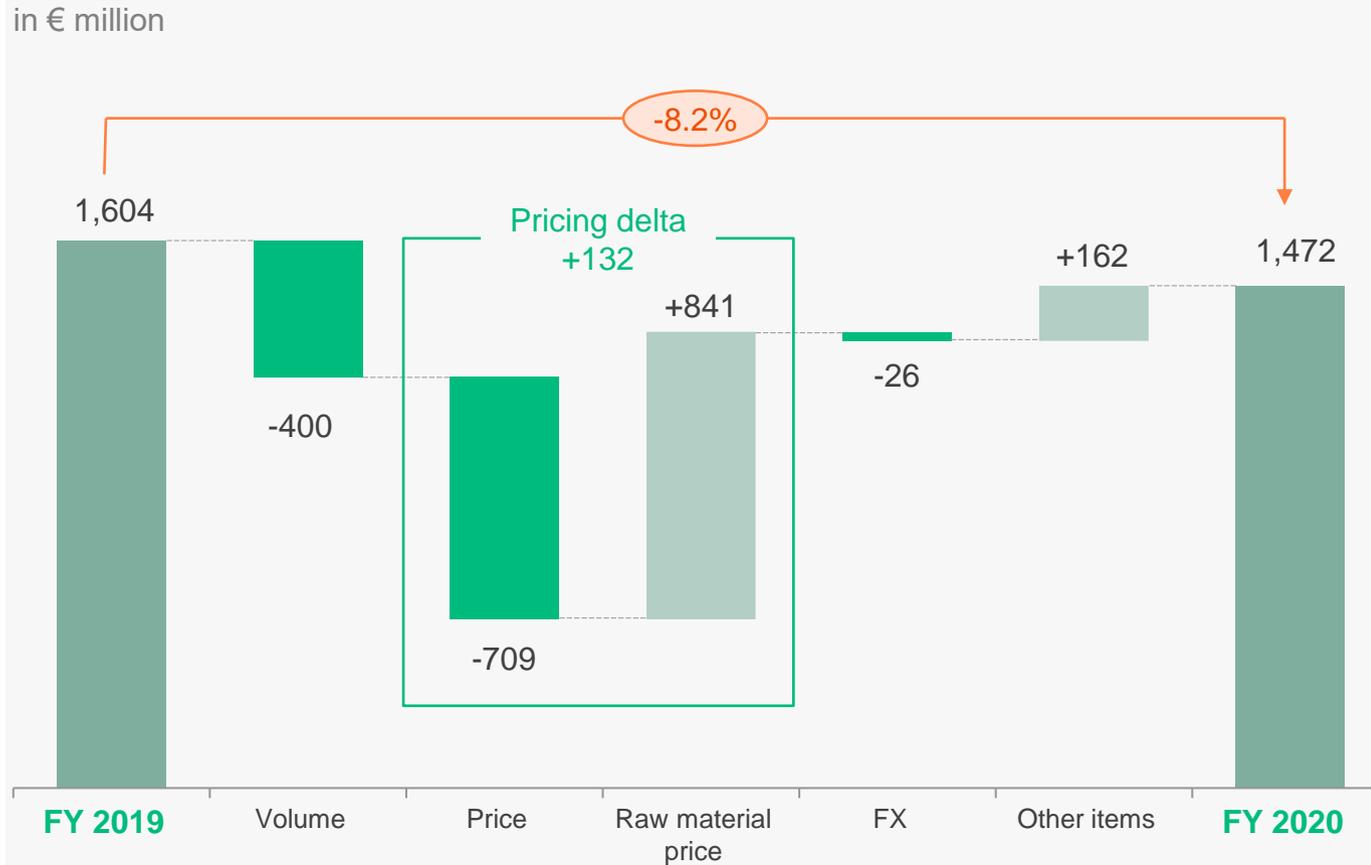
#### Portfolio changes

- Negative impact of -1.3% Y/Y
- PCS: European sheets divested as of 2<sup>nd</sup> January 2020 (FY 2020: €-115m)
- PUR: European systems houses divested as of 1<sup>st</sup> November 2019 (FY 2020: €-56m)
- CAS: Thermoplastic PU business DCP fully consolidated as of 1<sup>st</sup> April 2019 (FY 2020: €+7m)

# Cost saving measures as largest positive EBITDA contributor



## FY 2020 – EBITDA bridge



### HIGHLIGHTS

#### Negative volume leverage<sup>(a)</sup>

- Negative volume leverage of 63% due to unfavorable product mix effect

#### Positive pricing delta

- Main contribution from PUR, PCS slightly positive whereas CAS slightly negative

#### Slightly negative FX

- Mainly translational effects

#### Other items

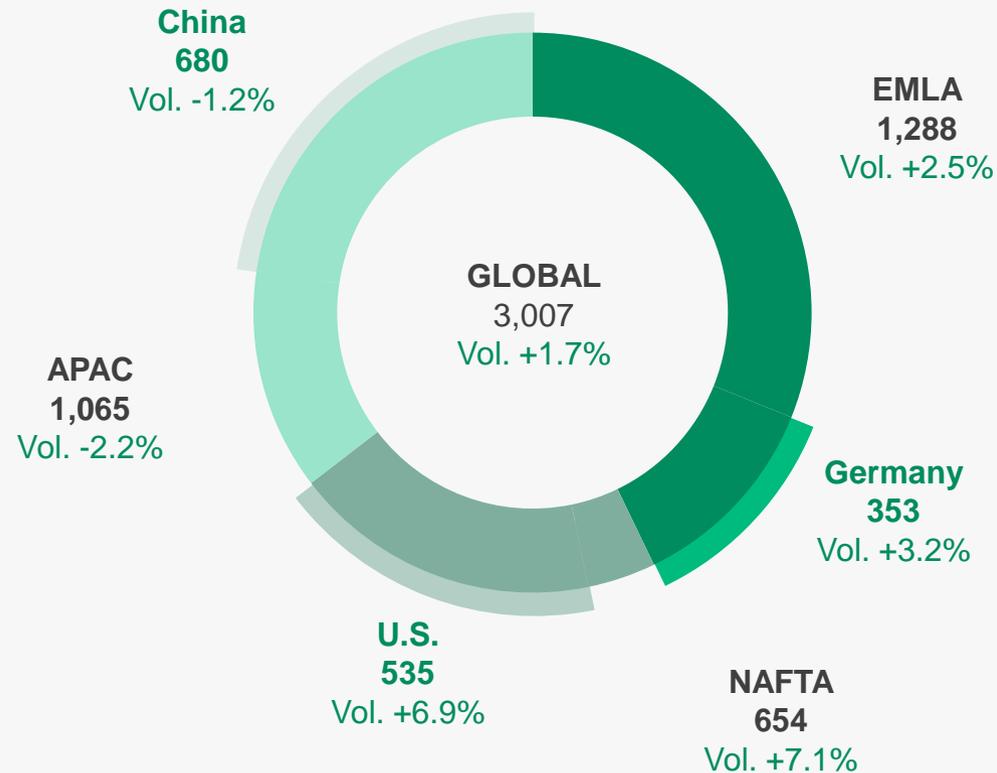
- €+350m net contribution of short-term savings and Perspective efficiency program
- €-128m net impact of one-time effects: 2020 €-12m (€-33m RFM acquisition, €+21m insurance reimbursements) vs. 2019 €+116m
- €-60m various items including merit increase

# Volume growth despite constrained supply

## Q4 2020 – Regional split



Sales in € million  
Core volume growth Y/Y in %

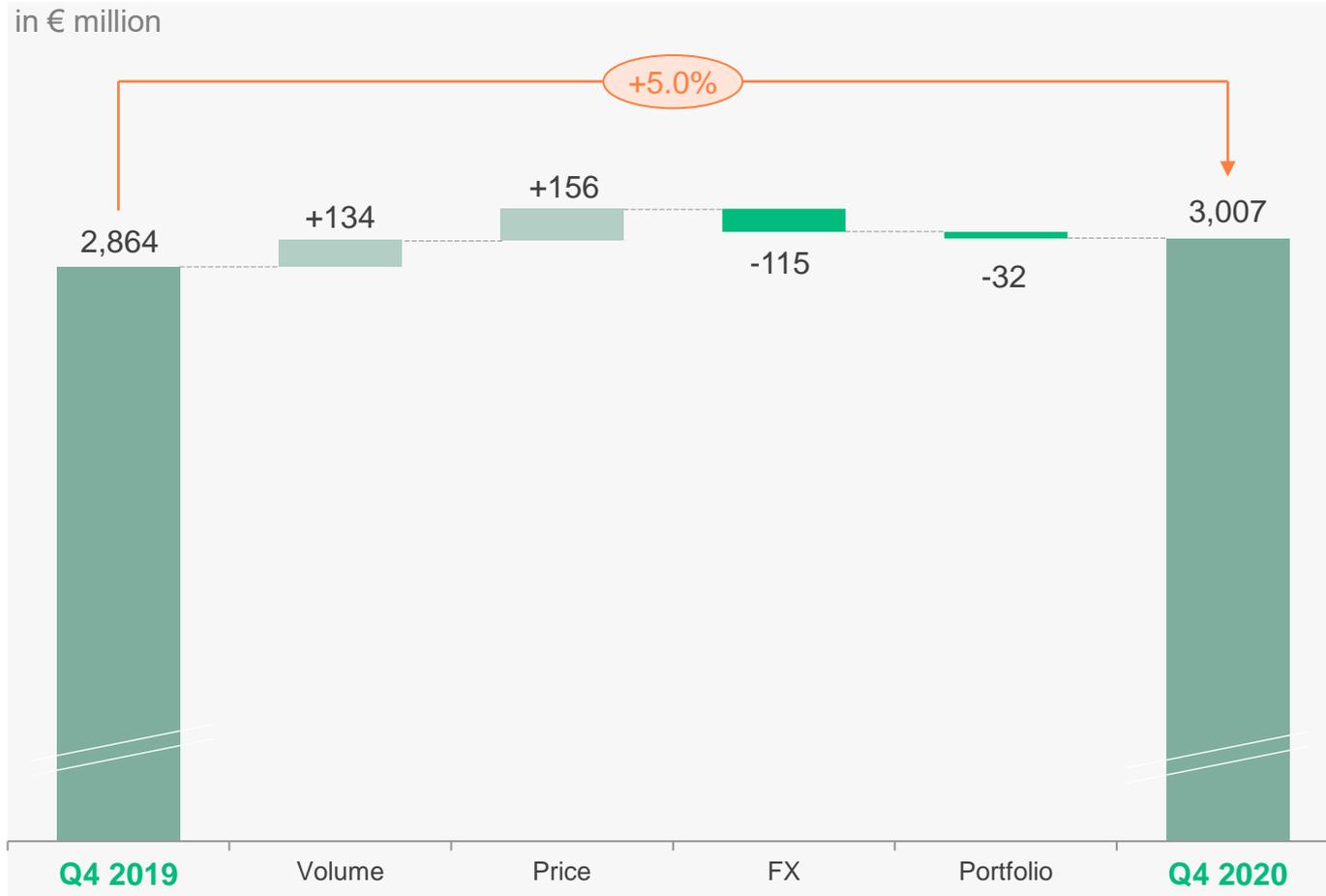


### CORE VOLUME GROWTH Y/Y

- While demand in Q4 was robust globally, supply was constrained and limited volume growth:
  - Furniture/wood c. -1%, while NAFTA up double-digit
  - Construction c. +2%, driven by EMLA
  - Auto/transport c. +6%, growth in all regions
  - Electro c. +8%, growth in all regions
  - Divers c. -3% including medical c. +11%
- APAC: declining volumes in furniture/wood and diverse industries, while volumes in auto and electro grew
- EMLA: all key industries grew, except furniture/wood
- NAFTA: highest growth of all regions, with positive contributions from all key industries; double-digit growth rates in furniture/wood and electro

# Higher prices and volumes push sales growth

## Q4 2020 – Sales bridge



### HIGHLIGHTS

#### Volume positive

- Growth of +4.7% Y/Y (in €) driven by all three segments, with largest contribution from PCS

#### Positive pricing

- Higher selling prices in PUR were partly compensated by lower prices in PCS and CAS, positively impacted sales by +5.4% Y/Y

#### Negative FX

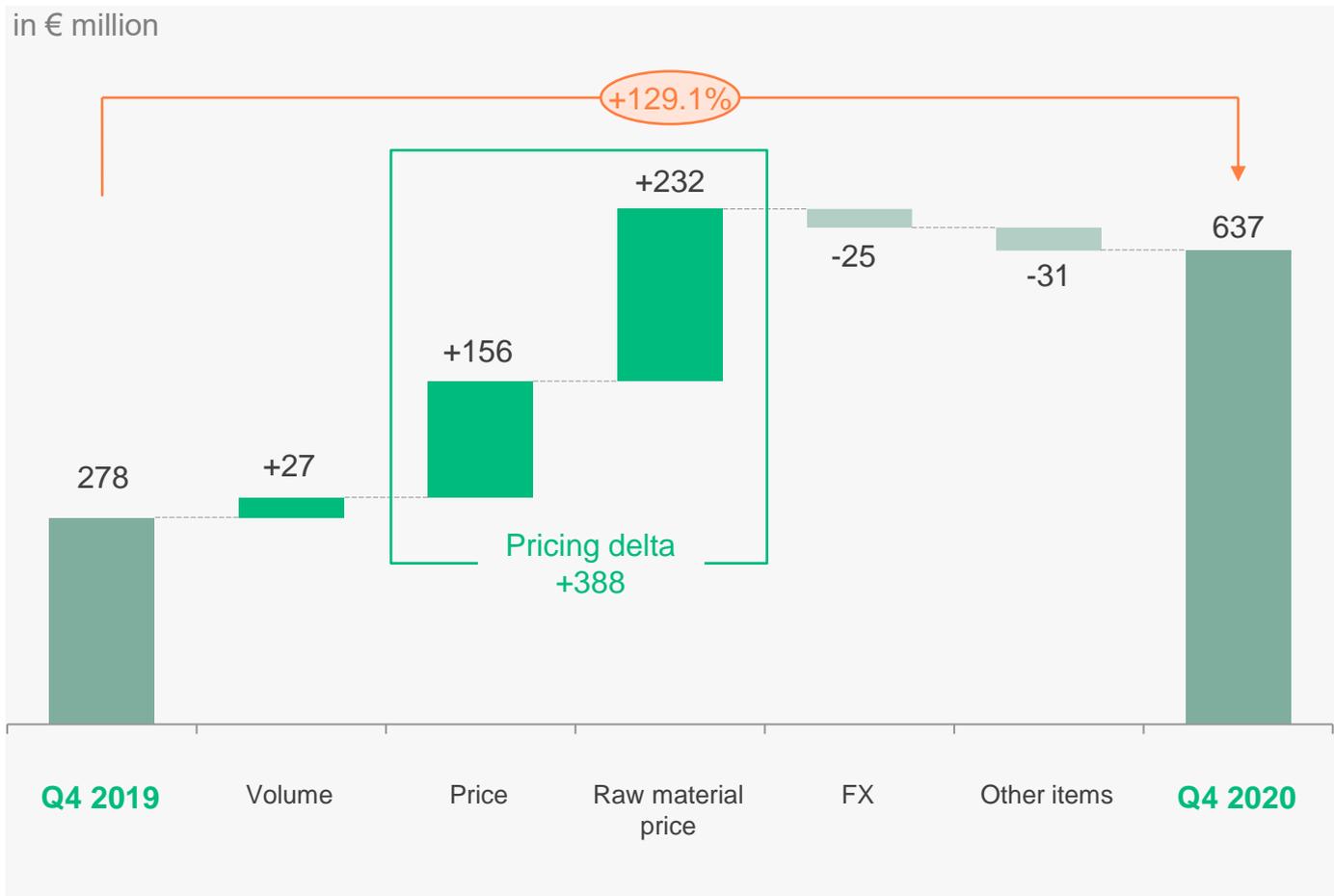
- FX affected sales by -4.0% Y/Y mainly driven by a weaker USD

#### Portfolio changes

- Slightly negative impact of -1.1% Y/Y
- PUR: European systems houses divested as of 1<sup>st</sup> November 2019 (Q4 2020: €-8m)
- PCS: European sheets divested as of 2<sup>nd</sup> January 2020 (Q4 2020: €-24m)

# Strong positive pricing delta drives EBITDA growth

## Q4 2020 – EBITDA bridge



### HIGHLIGHTS

#### Positive volume leverage<sup>(a)</sup>

- Relatively low volume leverage of 20% due to unfavorable product mix effect

#### Contribution margin largely increased

- Strong positive pricing delta as a result of lower raw material prices and higher selling prices, with majority contribution from PUR

#### Slightly negative FX

- Mainly translational effects

#### Other items

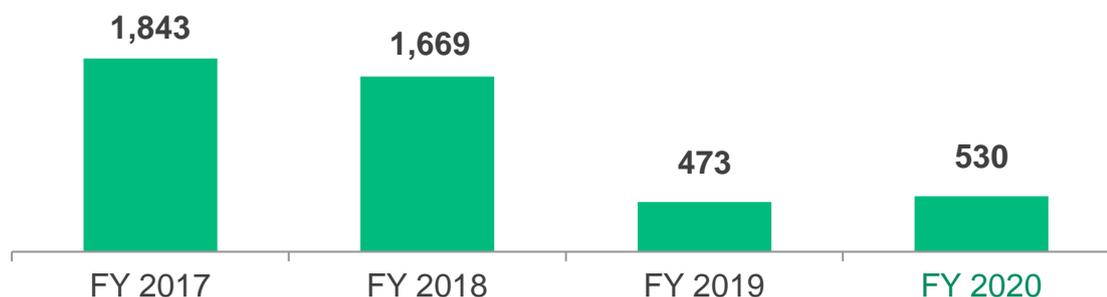
- Cost saving measures contributed positively
- Negative one-time effect of €-33m related to announced RFM acquisition
- Previous year included positive one-time effect of book gain from PUR divestment (€+34m)

# Strong cash performance in a tough environment



## Historical FOCF development

in € million



	FY 2017	FY 2018	FY 2019	FY 2020
<b>EBITDA</b>	3,435	3,200	1,604	1,472
<b>Changes in working capital</b>	-475	-167	+437 <sup>(c)</sup>	-100
<b>Capex<sup>(a)</sup></b>	-518	-707	-910	-704
<b>Income tax paid</b>	-510	-574	-296	-155
<b>Other effects</b>	-89	-83	-362 <sup>(c)</sup>	+17

### HIGHLIGHTS

- In FY'20, FOCF increased by 12.1% to €530m despite lower earnings, supported by €206m lower Capex
- In Q4'20, FOCF up by 19.4% to €394m (€330m in Q4'19) driven by significantly higher earnings, while positive effects from trade working capital were significantly lower than previous year
- Working capital to sales ratio<sup>(b)</sup> at 18.2%, temporarily above 15-17% target corridor
- Compared to previous full year, trade accounts receivable tied up €344m more cash, cash released from inventories was €162m lower
- Capex of €704m in line with FY 2020 guidance
- Income tax paid of €155m in line with P&L income taxes of €151m

Note:

Working capital includes changes in inventories, trade accounts receivable and trade accounts payable

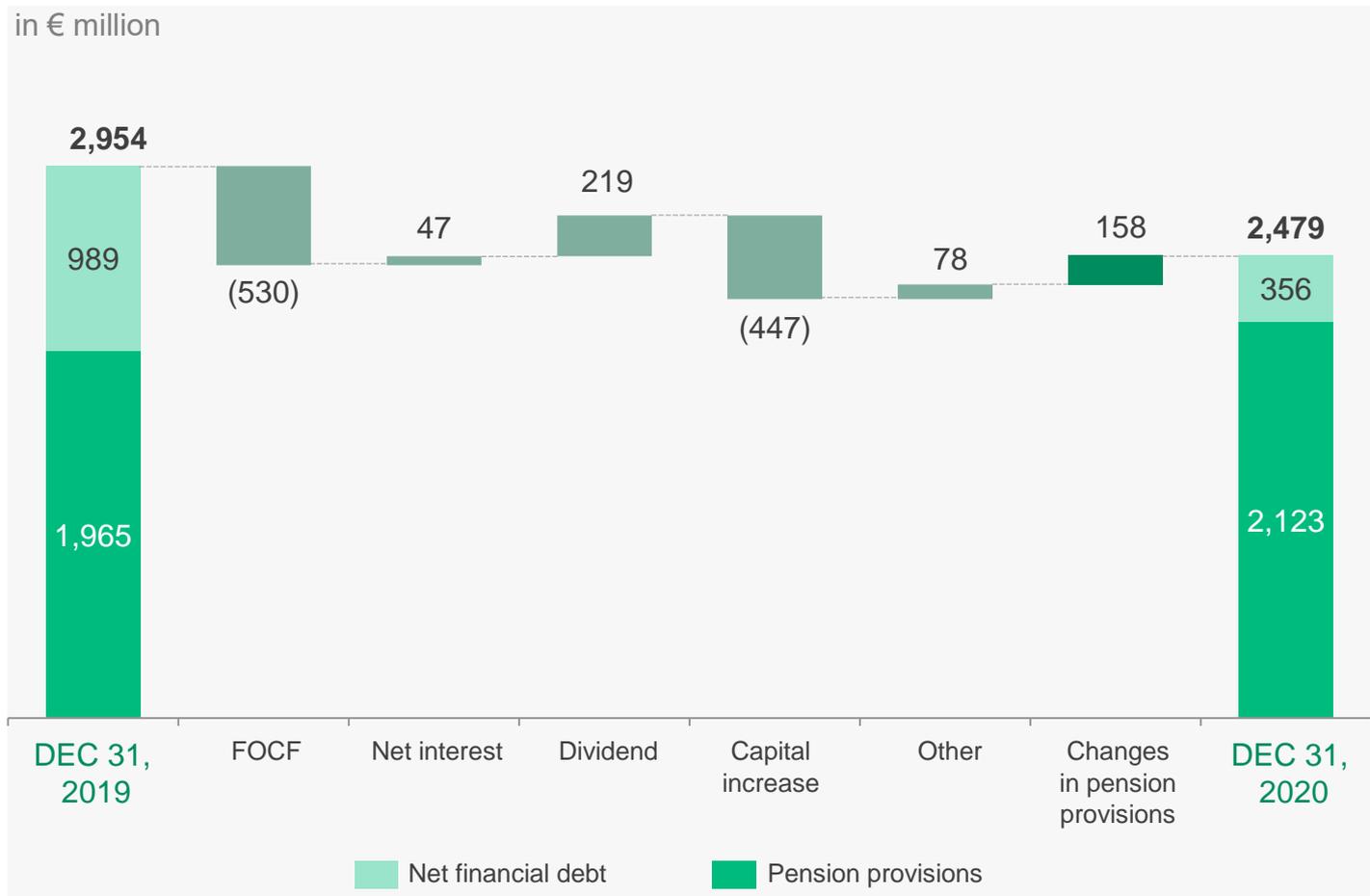
(a) Cash-relevant capex

(b) Method of calculation: Working Capital on December 31, 2020, divided by sales of last four quarters

(c) Prior year figure restated following change in presentation for rebates granted to customers, affecting trade accounts payable

# Strong liquidity position in preparation for RFM closing

December 31, 2020 – Total net debt



## HIGHLIGHTS

- Total net debt to EBITDA ratio<sup>(a)</sup> of 1.7x end of 2020 vs. 1.8x end of 2019
- Equity ratio of 44% end of 2020 vs. 46% end of 2019
- Committed to a solid investment grade rating
- 2019 dividend of €219m paid out in Aug. 2020
- Capital increase of €447m executed in Oct. 2020 in context of announced RFM acquisition

### Liquidity at attractive rates

- Balance sheet with ~€2.5bn in cash, cash equivalents and current financial assets
- Strong liquidity position in preparation for closing of announced RFM acquisition
- Undrawn syndicated revolving credit facility (RCF) of €2.5bn in place with ESG element



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# Number one producer globally and inventor of PU<sup>(a)</sup>

## Polyurethanes (PUR) at a glance



### PRODUCTS

Polyurethane rigid foam is an excellent insulation material and adds to high energy efficiency in cooling units and buildings.

As soft foam polyurethane provides comfort, for example in mattresses, car seats and upholstery.

Covestro develops and produces the components of this versatile material.

### KEY CUSTOMER INDUSTRIES:



### SAMPLE APPLICATIONS



For comfortable cars



For sustainable houses



For cozy furniture



For highly efficient appliances

1.4%

Core volume  
CAGR in 2015 - 2020<sup>(b)</sup>

€5.0bn

Sales  
2020

€625m

EBITDA  
2020

# Polyurethanes – earnings strongly up on higher margin



## Segment results

### SALES AND CORE VOLUME GROWTH

in € million / changes Y/Y

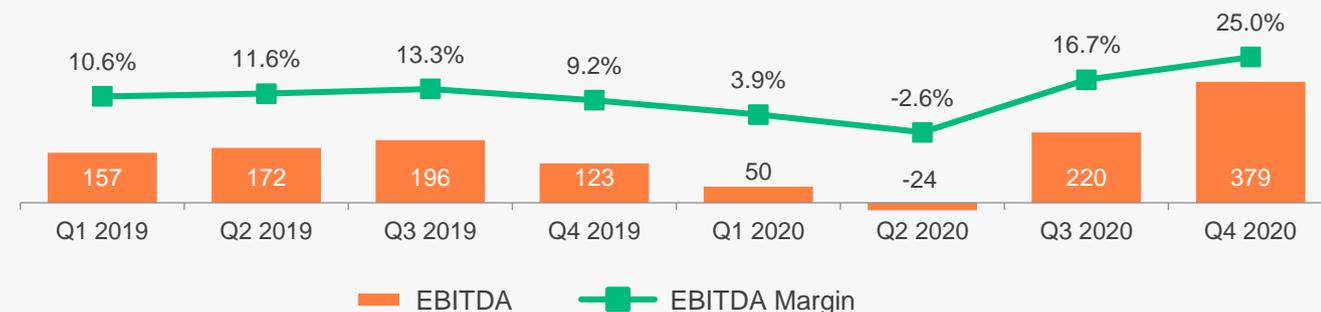


### HIGHLIGHTS

- Core volume growth (in kt) of +0.8% Y/Y, driven by polyols while MDI and TDI supply was constrained
- Core volume growth in auto and appliances, while furniture/wood and construction declined slightly
- Sales increased by 13.7% Y/Y as price (+16.2%) and volume (+2.9%) contributed positively, while FX (-4.8%) and portfolio (-0.6%) were negative

### EBITDA AND MARGIN

in € million / margin in percent



### HIGHLIGHTS

- Strong sequential EBITDA and margin development
- Compared to prior year, EBITDA increased mainly due to a strong positive pricing delta in all three product groups MDI, TDI and polyols
- Effects from FX slightly negative (Y/Y)

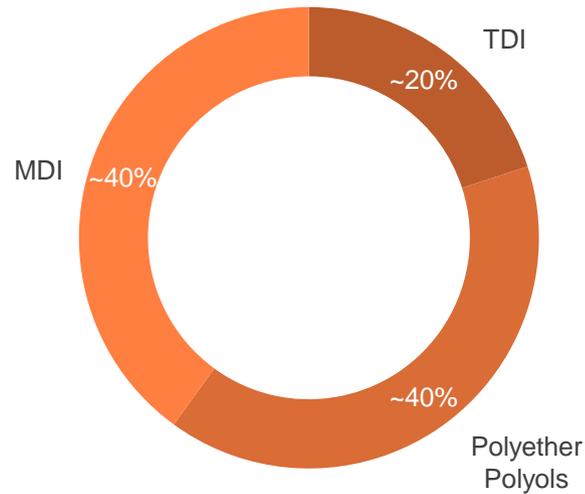
# Polyurethanes broadly positioned for growth



## Sales by business, end-markets and regions

### SALES SPLIT BY BUSINESS

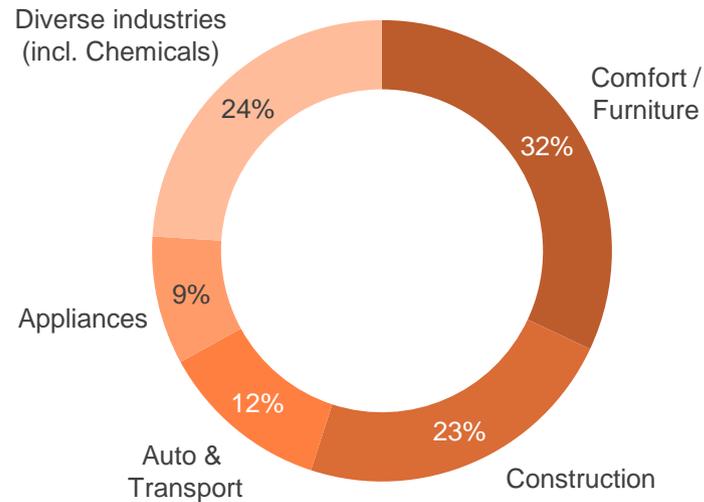
% of 2020 PUR sales



Growth driven by MDI and TDI

### SALES SPLIT BY END-MARKETS

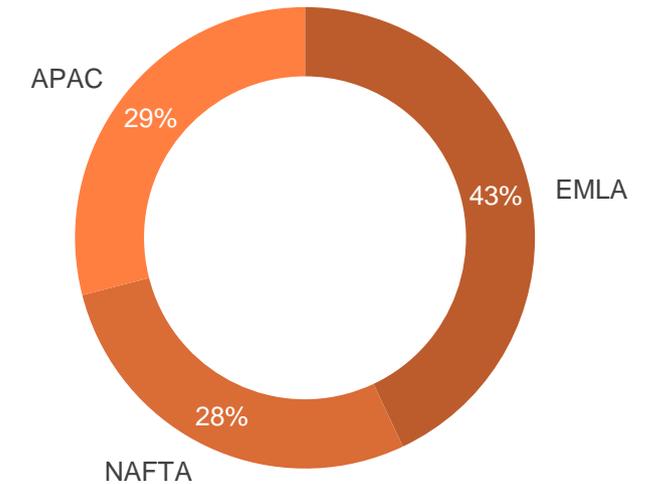
% of 2020 PUR sales



Growth driven by several industries

### SALES SPLIT BY REGIONS

% of 2020 PUR sales



Growth driven by all regions

# MDI industry supply and demand ongoing favorable

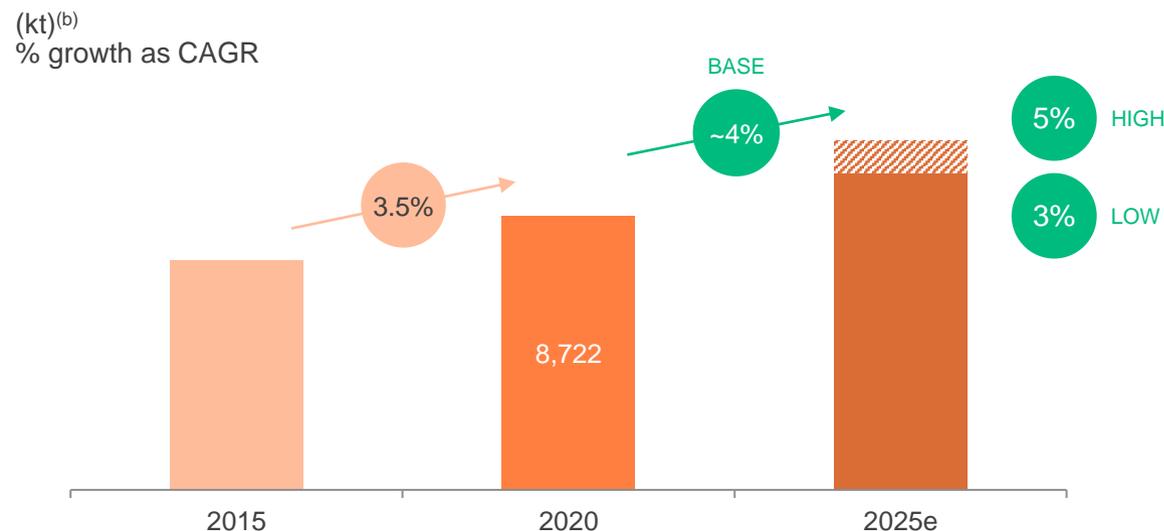


## Historical industry development and outlook

### MDI DEMAND DEVELOPMENT (2015 - 2025e)



### MDI SUPPLY DEVELOPMENT (2015 - 2025e)



### INDUSTRY HIGHLIGHTS

- Structurally sound demand of ~5% based on global GDP growth and substitution trends, European Green Deal could add another percentage point to annual demand growth once fully materializing
- Additions<sup>(c)</sup> expected until 2025e: Wanhua/Connel/BorsodChem (1,300kt), Juli Heshan (400kt in China) and BASF (200kt in USA)
- Covestro additions: Caojing, PRC (100kt, 2021e) and Tarragona, Spain (50kt, 2023e)

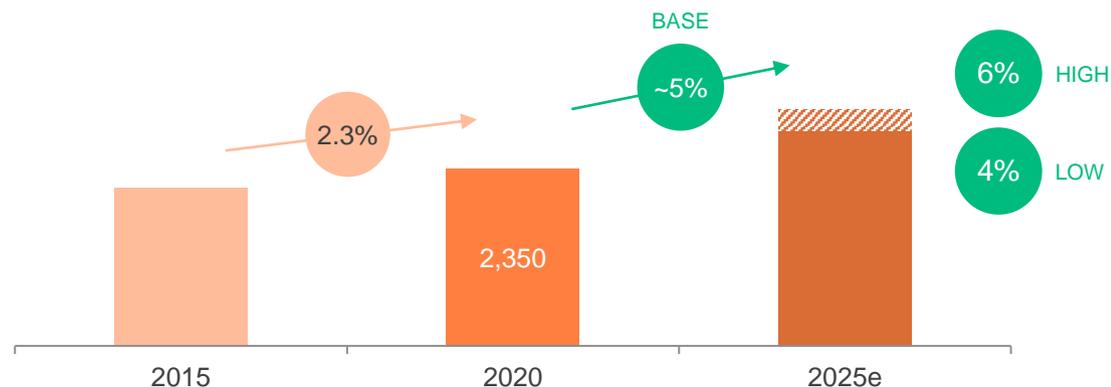
# TDI industry absorbing oversupply over time

## Historical industry development and outlook



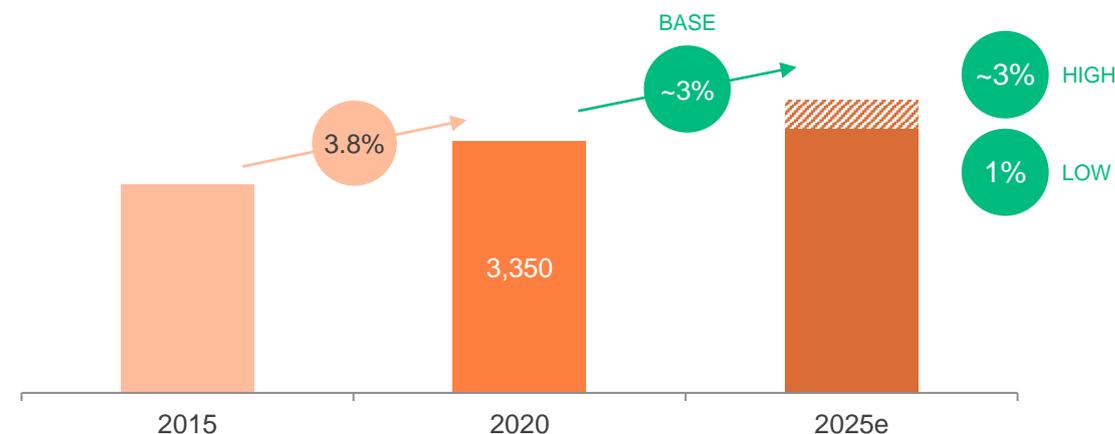
### TDI DEMAND DEVELOPMENT (2015 - 2025e)

(kt)<sup>(a)</sup>  
% growth as CAGR



### TDI SUPPLY DEVELOPMENT (2015 - 2025e)

(kt)<sup>(b)</sup>  
% growth as CAGR



### INDUSTRY HIGHLIGHTS

- Structurally sound demand of ~5% based on global GDP growth supported by low basis due to Coronavirus pandemic in 2020
- Major additions<sup>(c)</sup> expected until 2024e: Wanhua-Fujian (150kt in China)
- Announced Cangzhou Dahou plant (+200kt) expected as of 2025e



# Number one producer globally and inventor of PC<sup>(a)</sup>

## Polycarbonates (PCS) at a glance

### PRODUCTS

As a true high-tech material, polycarbonate is not only very robust, break-proof and light-weight, but also offers a high degree of design flexibility.

Polycarbonate is available in all colors ranging from crystal clear to deep black. It is an excellent substitute for traditional material such as glass or metal.

This allows for a wide variety of application possibilities ranging from vehicles to smartphones and laptops as well as lenses or large roofs.

### KEY CUSTOMER INDUSTRIES:



### SAMPLE APPLICATIONS



For trendy smartphones



For bright buildings



For light-weight cars



For safe medical products

3.5%

Core volume  
CAGR in 2015 - 2020<sup>(b)</sup>

€3.0bn

Sales  
2020

€553m

EBITDA  
2020

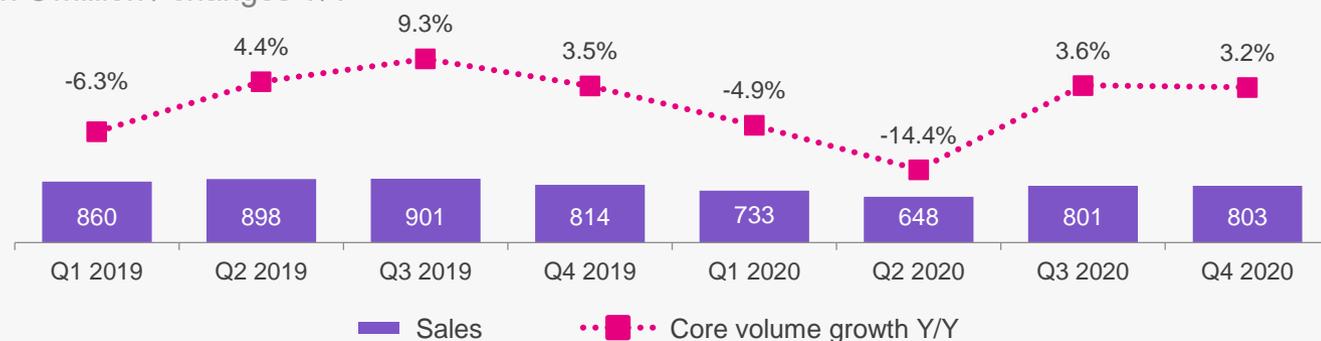
# Polycarbonates – margin driven by improving product mix



## Segment results

### SALES AND CORE VOLUME GROWTH

in € million / changes Y/Y

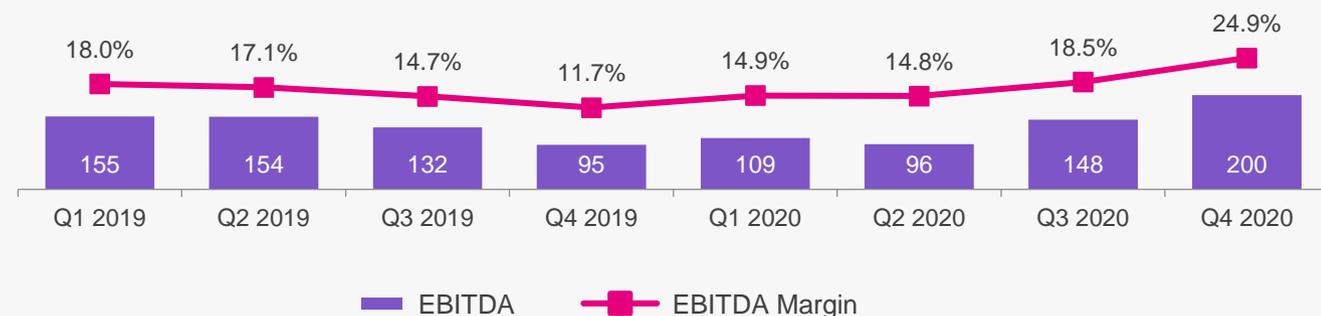


### HIGHLIGHTS

- Core volume growth (in kt) of 3.2% Y/Y driven by all key industries; double-digit growth in construction including protective gear
- Sales decreased by -1.4% Y/Y as positive volume effect (+7.4%) was compensated by FX (-3.7%), portfolio (-3.0%) and price (-2.1%)
- Difference of core volume growth and volume effect in sales due to favorable product mix

### EBITDA AND MARGIN

in € million / margin in percent



### HIGHLIGHTS

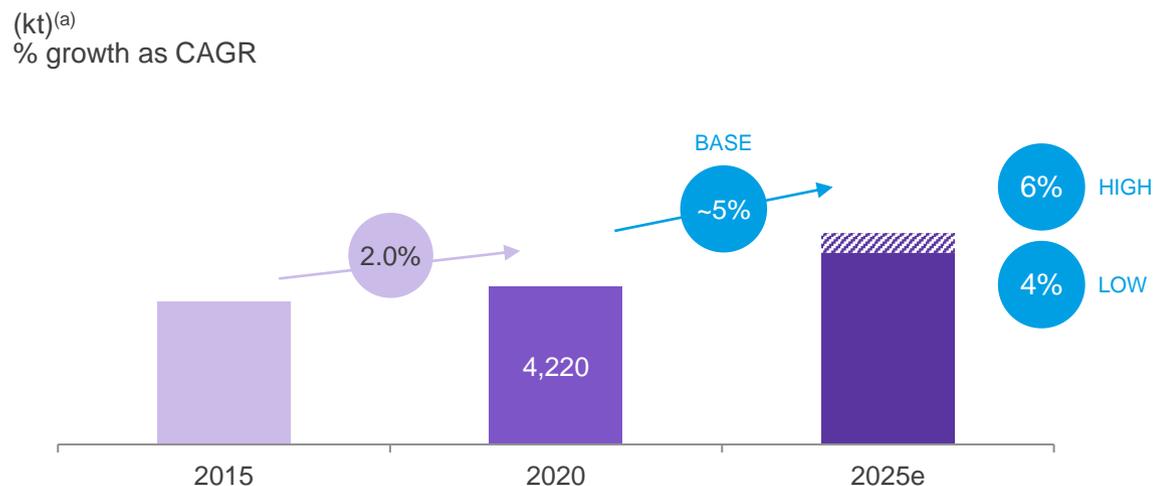
- Strong sequential EBITDA growth, margin further improved driven by improving product mix
- Compared to prior year, EBITDA increased Y/Y mainly as a result of (i) positive pricing delta due to lower feedstock prices and (ii) higher volumes

# Execution risks may limit future capacity additions

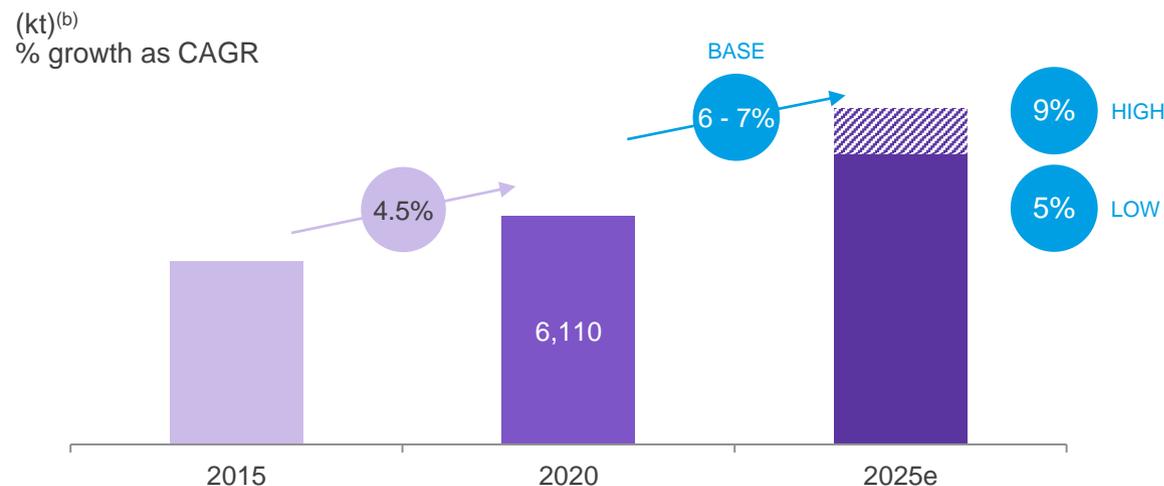


## Historical industry development and outlook

### PC DEMAND DEVELOPMENT (2015 - 2025e)



### PC SUPPLY DEVELOPMENT (2015 - 2025e)



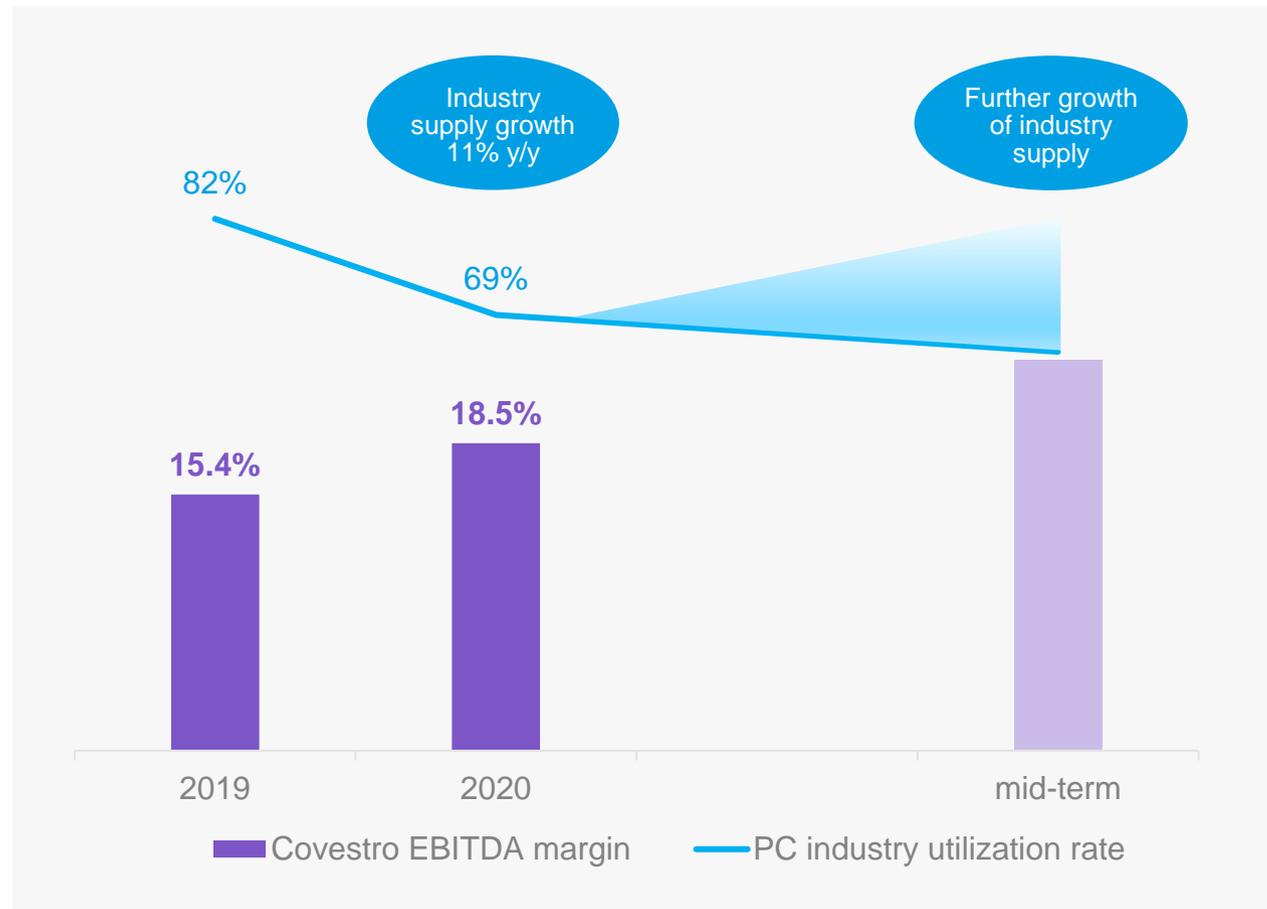
### INDUSTRY HIGHLIGHTS

- Structurally sound demand growth of ~5% based on global GDP growth supported by low basis due to Coronavirus pandemic in 2020
- Major additions<sup>(c)</sup> expected until 2025e: Hainan Huasheng, ZPC, SABIC-Sinopec, Wanhua, Shemna
- Numerous announced projects with high uncertainties regarding actual timing and scope
- Covestro additions: Mid-term expansion plans generally accomplished, current focus on strengthening differentiated business

# EBITDA margin increase despite industry utilization deteriorating



## PCS portfolio management



### PRODUCT PORTFOLIO IMPROVEMENT

- Covestro performance detaching from development of overall PC industry utilization by outgrowing the industry in differentiated (high-value) applications
- Differentiated business with more than 500 different PC grades and prices ranging up to eight times higher than standard grades
- Industry newcomers need – if they succeed at all – many years to enter the differentiated segment
- Possibility to reallocate volumes among customer industries allows high asset utilization and EBITDA margin also in case of single industry's weakness like automotive in 2020
- Mid-term, goal to further increase differentiated portion of PC volumes with structural improvement of average contribution margin and standard business as remainder for high asset utilization
- Focus on differentiated business with further detachment from mid-term further declining industry utilization

# Performance materials for coatings, adhesives and specialties



## Coating, Adhesives, Specialties (CAS) at a glance

### PRODUCTS

There is a vast application range of coatings and finishes made of Covestro polyurethane raw materials. They are used for protection and decoration.

In addition, the company produces pre-products for adhesives, sealants and elastomers as well as specialty films.

Coating, Adhesives, Specialties (CAS) also supplies materials for cosmetics, textiles and medical goods.

### KEY CUSTOMER INDUSTRIES:



### SAMPLE APPLICATIONS



For long-lasting cosmetics



For robust floors



For fancy cars



For functional textiles

**-1.2%**

Core volume  
CAGR in 2015 - 2020<sup>(b)</sup>

**€2.0bn**

Sales  
2020

**€341m**

EBITDA  
2020

# Coatings, Adhesives, Specialties – back to volume growth



## Segment results

### SALES AND CORE VOLUME GROWTH

in € million / changes Y/Y

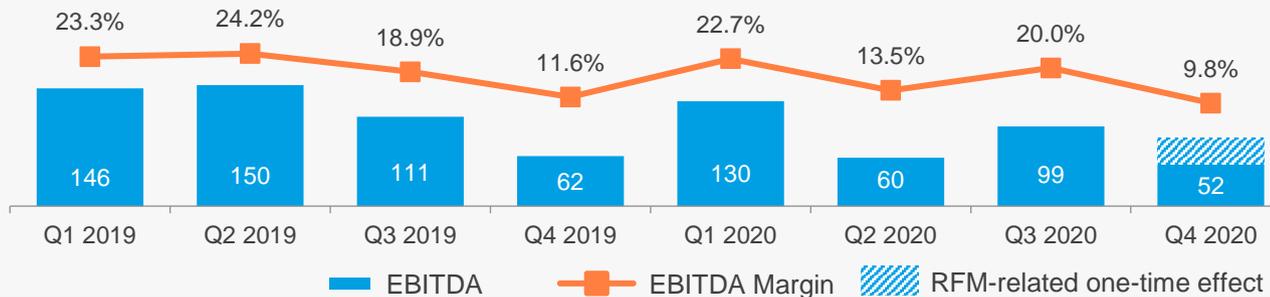


### HIGHLIGHTS

- Core volume growth (in kt) of 2.8% Y/Y driven by growth in all key industries except construction
- Sales decreased by -0.8% Y/Y, as positive volume effect (+7.5%) was compensated by price (-4.9%) and FX (-3.4%)
- Difference of core volume growth and volume effect in sales due to favorable product mix

### EBITDA AND MARGIN

in € million / margin in percent



### HIGHLIGHTS

- Q4'20 EBITDA includes negative one-time effect of €-33m related to announced RFM acquisition
- Q4'20 EBITDA of €85m and margin at 16.1% excluding RFM-related one-time effects
- Compared to prior year, volume growth contributed positively to EBITDA while pricing delta was negative

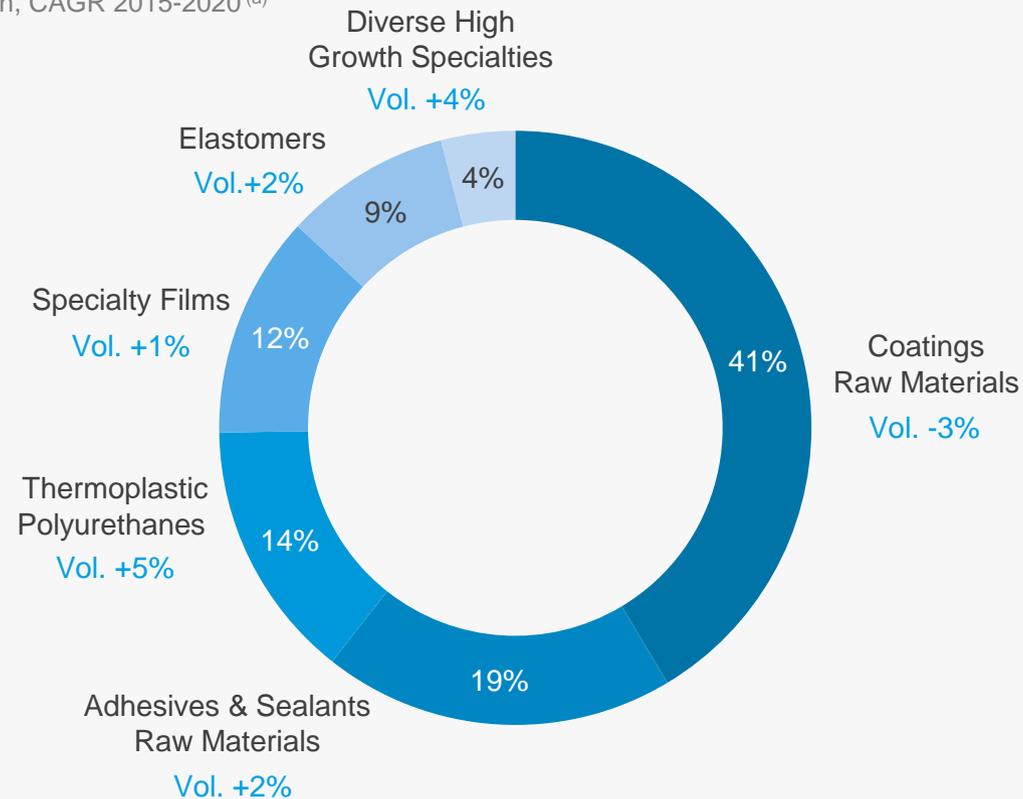
# Growth determined by coronavirus pandemic

## Outperformance of High Growth Specialties business



### CAS SALES SPLIT BY BUSINESSES

Covestro sales share FY 2020  
Core volume growth, CAGR 2015-2020<sup>(a)</sup>



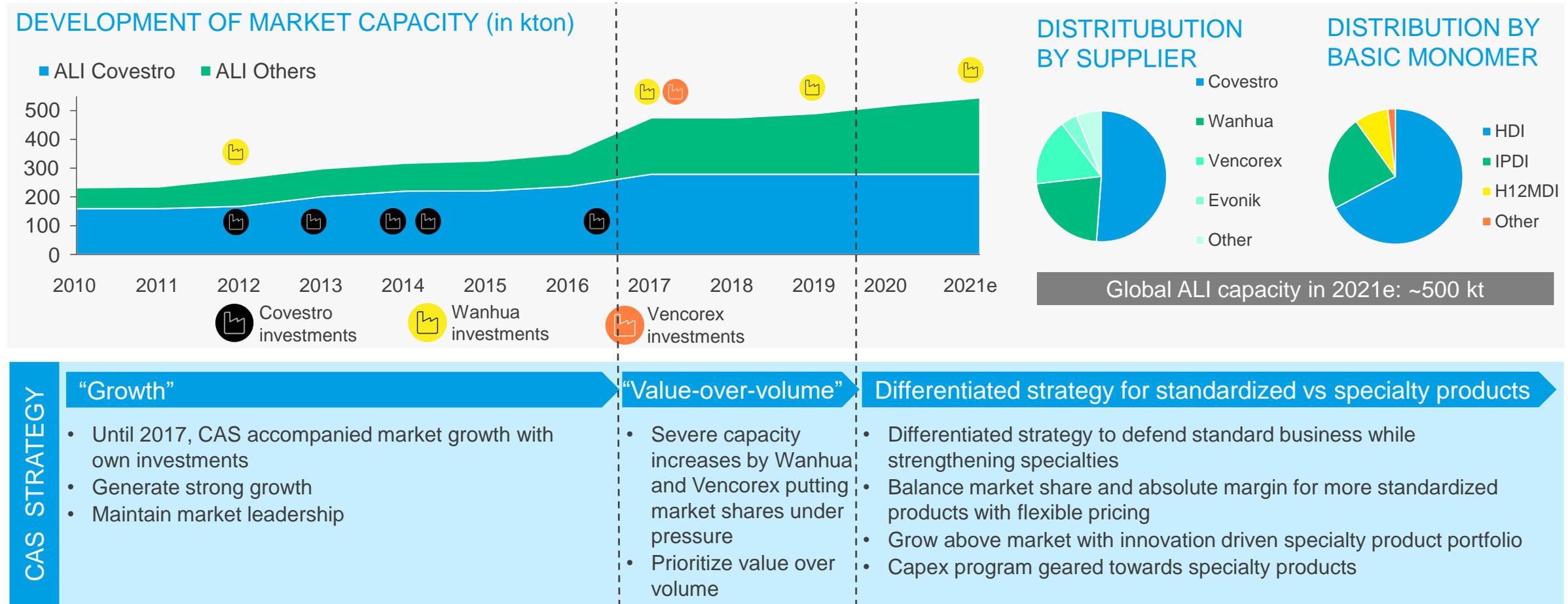
### HIGHLIGHTS

- Flat core volume CAGR in 2015-2020<sup>(a)</sup> with negative core volume growth in 2020 impacted by the Coronavirus pandemic
- Coatings Raw Materials particularly burdened by Coronavirus impact in 2020 with weak end-markets, particularly Automotive
- High Growth Specialties businesses generate ~39% of sales: Thermoplastic Polyurethanes, Specialty Films and Elastomers
- Solid growth of High Growth Specialties despite Coronavirus set-back

# Grow above market with innovative specialty products



## CAS Aliphatic isocyanates strategies





- Covestro investment highlights
- Group financials 2020
- Segment overview
- **Acquisition DSM-RFM**
- Background information

# Building a leading sustainable coating resins player



## Transaction overview

### TRANSACTION VALUE



- Enterprise value of €1.55bn
- 10x EV / 2021 Budget EBITDA
- 6x EV / 2021 Budget EBITDA including full synergies

### FINANCIAL IMPACT



- Announced acquisition of Resins & Functional Materials (RFM) and innovation ventures
- RFM sales of €909m and EBITDA of €127m in 2020
- Innovation ventures Additive Manufacturing, NIAGA and Advanced Solar Coatings with sales of €24m and EBITDA of €-13m in 2020
- €120m synergies by 2025

### FINANCING



- Covestro is committed to a solid investment grade rating (Moody's confirmed solid investment grade rating after acquisition announcement)
- Refinancing includes €447m of new equity, successfully realized on Oct 13, and own cash

### TIMING

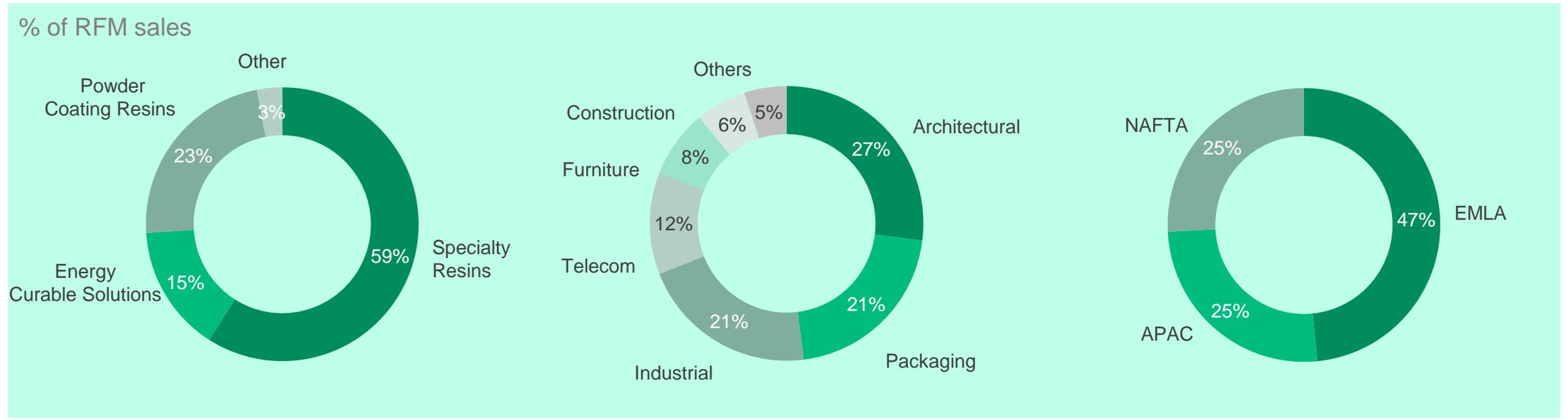
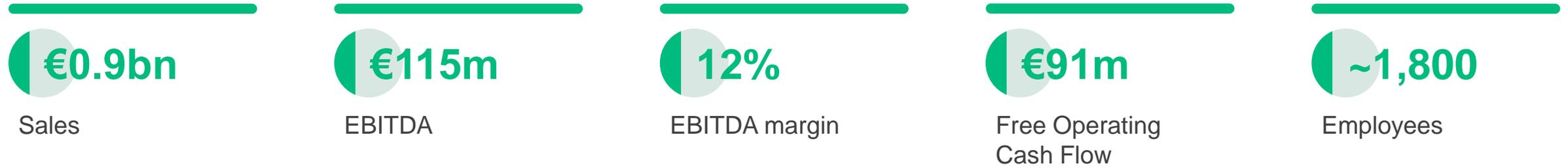


- Acquisition agreed on Sep 30, 2020
- Subject to regulatory approvals including antitrust clearance
- Closing expected end-Q1'21

# Resins & Functional Materials and innovation ventures



## Key financials in 2020

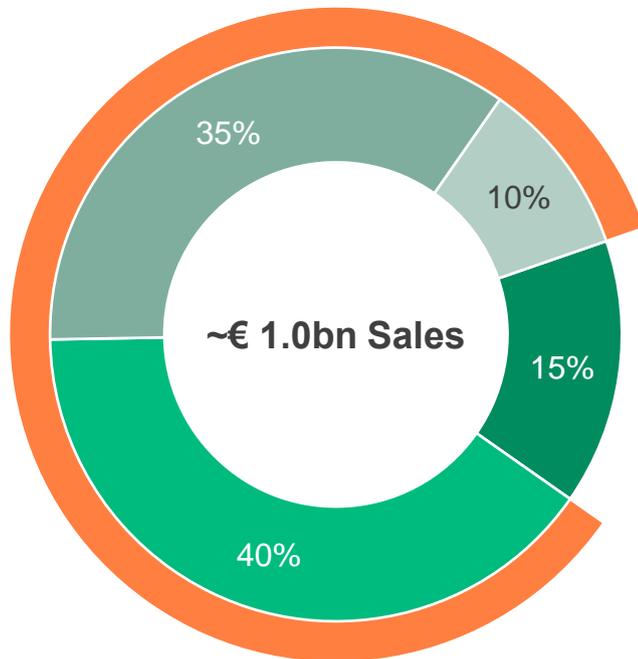


# RFM serves high growth areas driven by sustainability

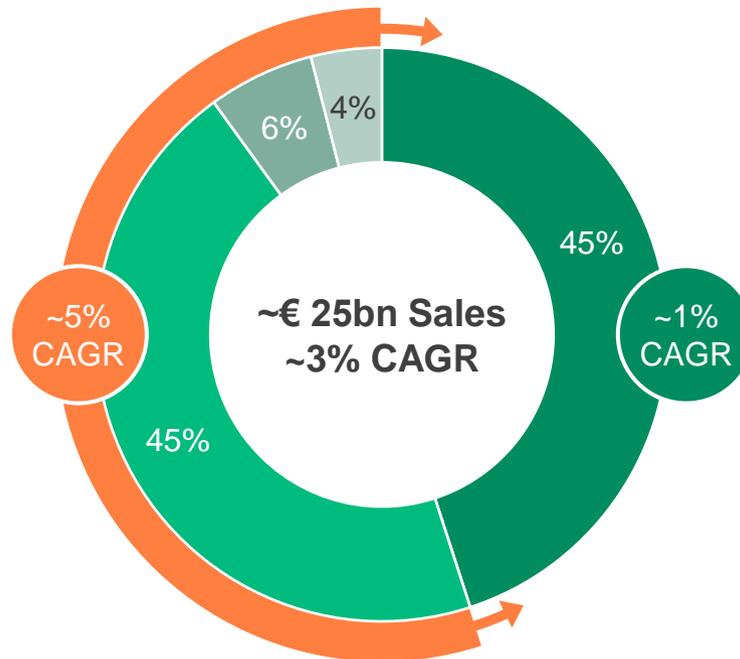


## Coating Resins market by technology in 2019

### RFM TECHNOLOGY SPLIT



### MARKET TECHNOLOGY SPLIT



### HIGHLIGHTS

- ~€25bn global coating resins market in 2019 with expected growth rate of ~3% p.a. between 2020 and 2025
- Solvent-based market share expected to decline due to VOC regulation and environmental issues
- Consumer preference for greener and non-toxic ingredients as well as stricter environmental regulations expected to lead to market growth of ~5% p.a. for sustainable coating resins (water-based, powder and UV coating resins) between 2020 and 2025
- RFM & CAS combined will be a leading supplier of sustainable and high-quality products with low environmental impact

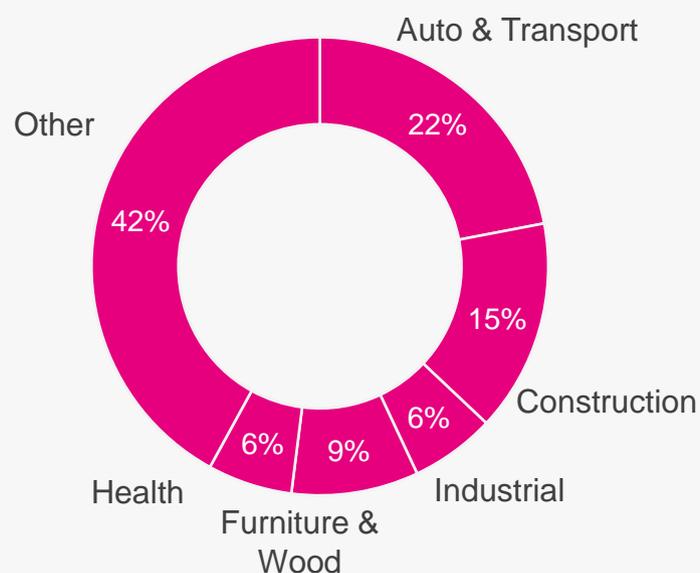
■ Solvent-based ■ Water-based ■ Powder ■ UV curing ■ Sustainable technologies

# Bolt-on acquisition diversifies industry portfolio

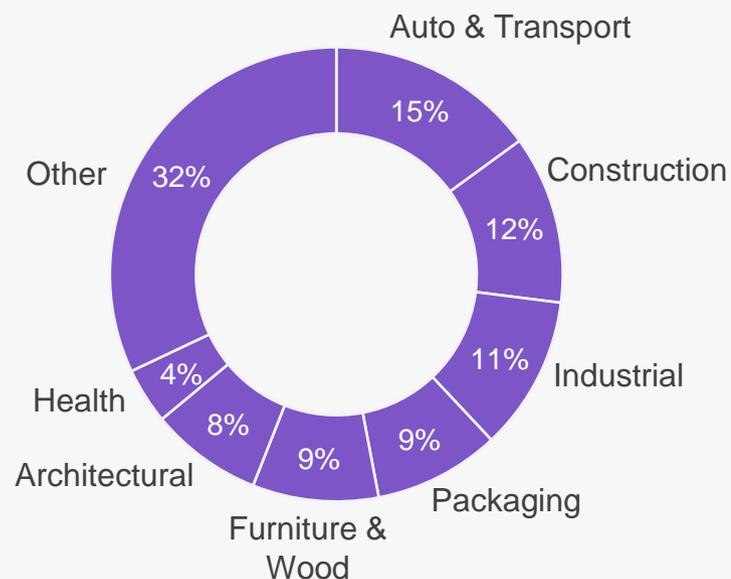
## CAS by industries



CAS SALES ~€2.0bn (2020)



CAS/RFM SALES ~€2.9bn (2020 pro-forma)



### HIGHLIGHTS

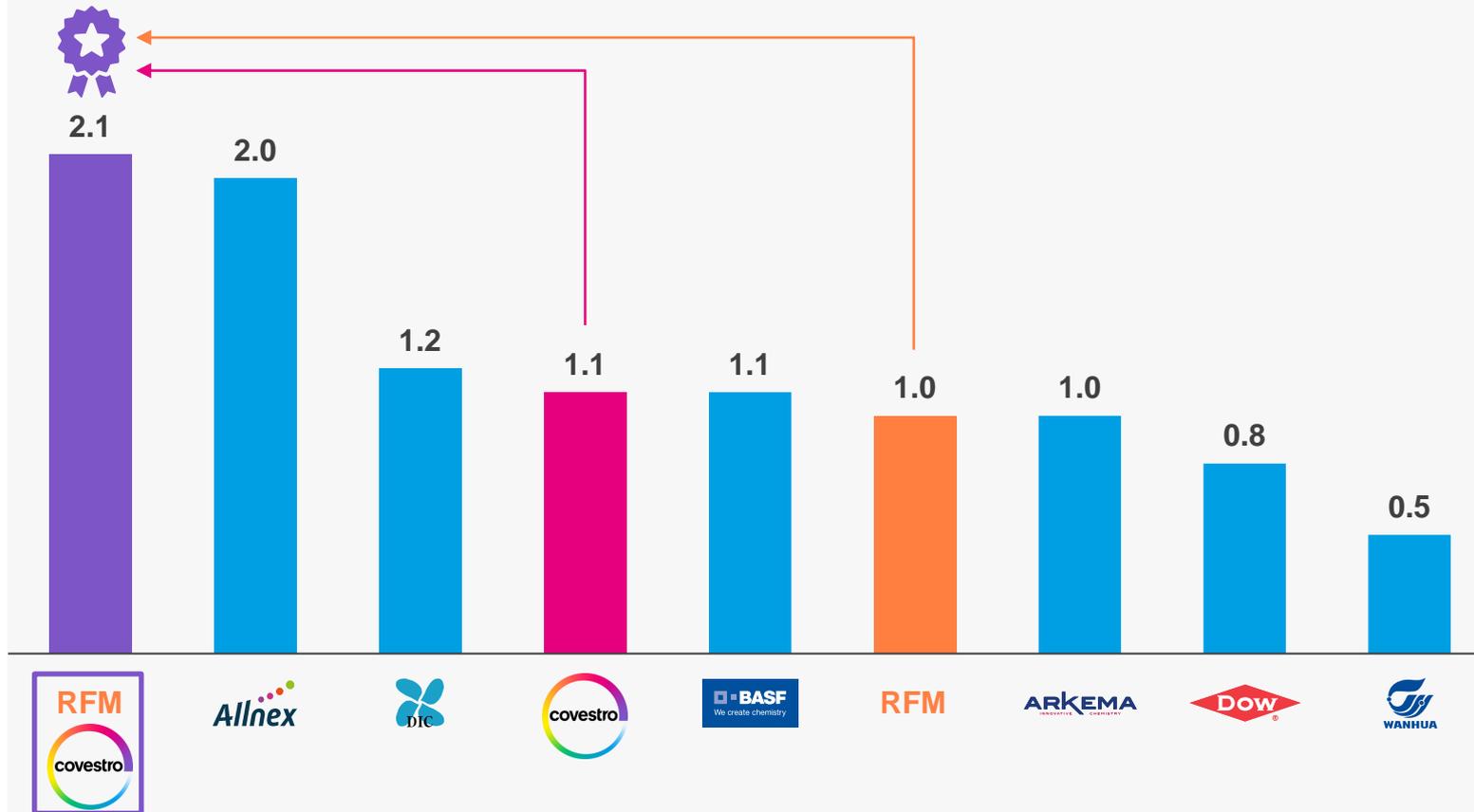
- In 2020, RFM would have increased CAS sales by 45% to €2.9bn (27% of Covestro sales<sup>(a)</sup>) with complimentary product portfolio
- Significant step in Covestro's long-term corporate strategy, strengthening sustainable and innovation-driven business
- Covestro with well established position in water-based polyurethane dispersions, acquisition adds complete range of water-based polyacrylate resins

# Creates a leading coating resins supplier

## Industry position in coating resins



Revenue est. (in € billion, 2019)



### HIGHLIGHTS

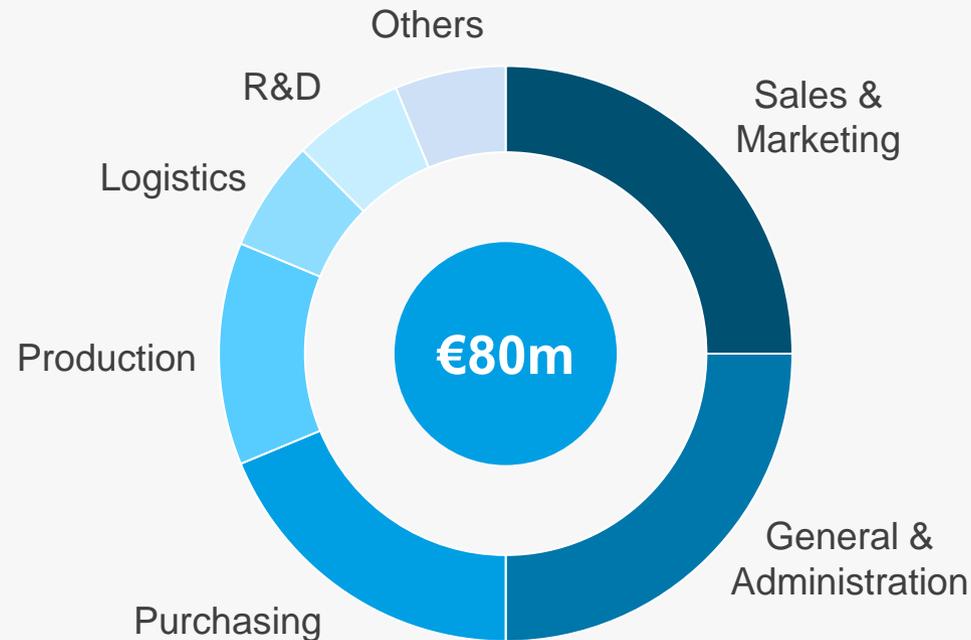
- Covestro to become a global leader in attractive growth market for coating resins
- Covestro to have one of the most comprehensive and innovative product portfolios enabling compelling customer value proposition

# Significant cost synergies of €80m

Identified cost synergies by 2025



## DISTRIBUTION OF COST SYNERGIES



## HIGHLIGHTS

### Sales & Marketing

- Bundle sales and marketing functions for same applications and customers

### General & Administration

- Integrate respective RFM functions into existing Covestro support structures

### Purchasing

- Use most favorable conditions of RFM and Covestro
- Intensify in-house sourcing

### Production

- Optimize production by efficiently using both asset bases

### Logistics

- Apply and combine best practice and processes as currently used by RFM and Covestro

### Research & Development

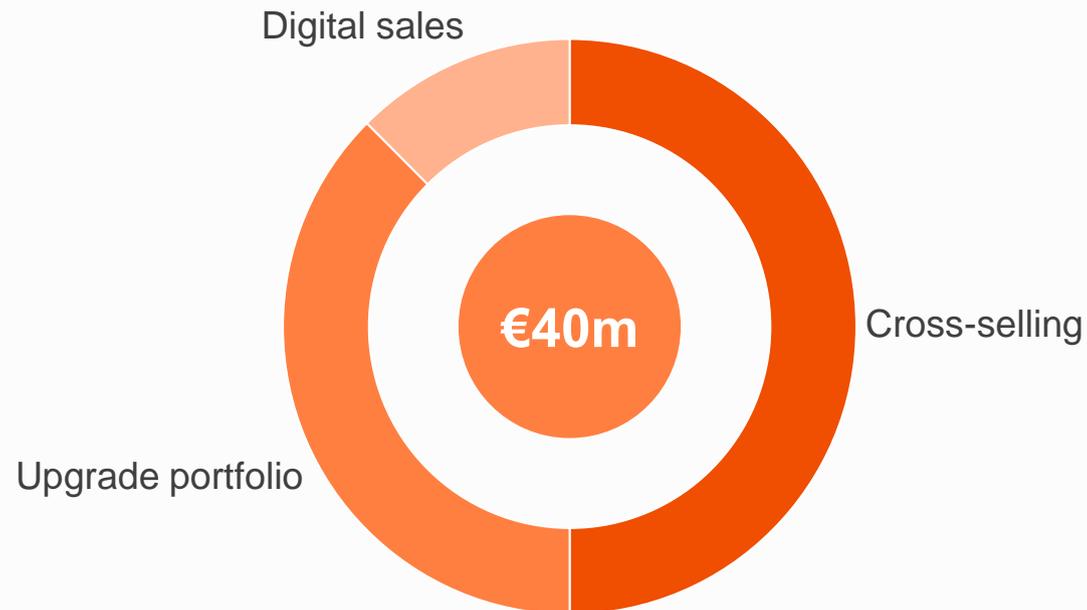
- Combine R&D activities and optimize project pipeline for overlapping topics

# Significant revenue synergies of €40m

Identified revenue synergies by 2025



## DISTRIBUTION OF REVENUE SYNERGIES



## HIGHLIGHTS

### Cross-selling

- Increase share of wallet at customers with cross-selling opportunities
- Expand regional presence of RFM by leveraging existing Covestro set-up

### Upgrade portfolio

- Combined broader portfolio of resin systems and tailor-made hardener-resin-systems
- New product developments based on combined portfolio and technologies

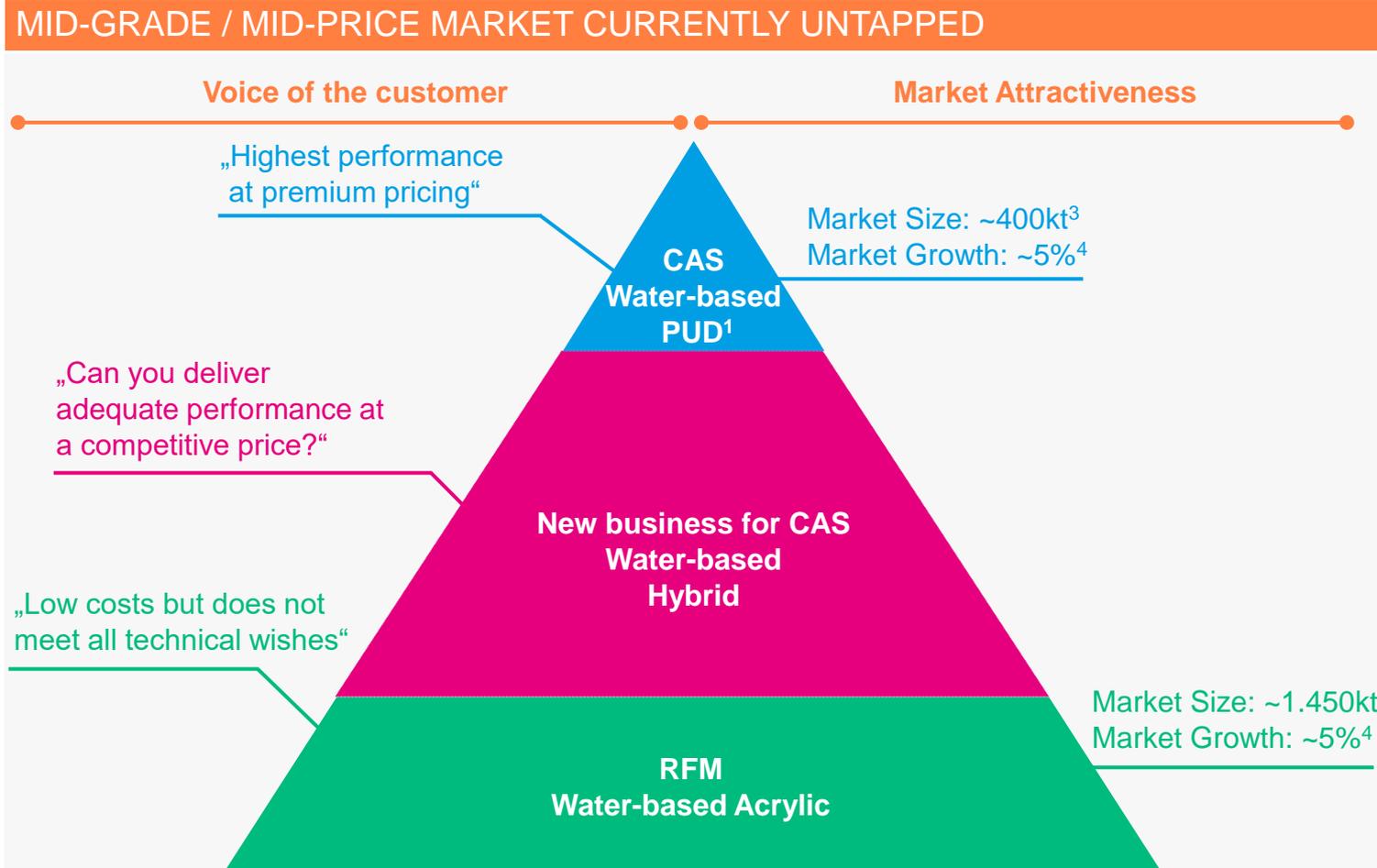
### Digital sales

- Speed up digitalization via new business models
- More attractive online store

# Combined product portfolio generates additional customer range



## Upgrade portfolio



## COMBINING CAS & RFM COATING RESINS

**COV** PUD<sup>1</sup> mainly addresses industries with higher grade requirements at higher prices

Combination of both PUD-based and Acrylate-based coating resins will create an additional business which will open a new range of customers

Serving the full range by blending PUD-based resins and Acrylate based resins at every desired ratio

Between coating resins of high price/grade and low price/grade also offering any mid price/grade combination within a so far largely untapped market for CAS

**DSM** WB<sup>2</sup> Acrylics mainly addresses industries with lower grade requirements at lower prices

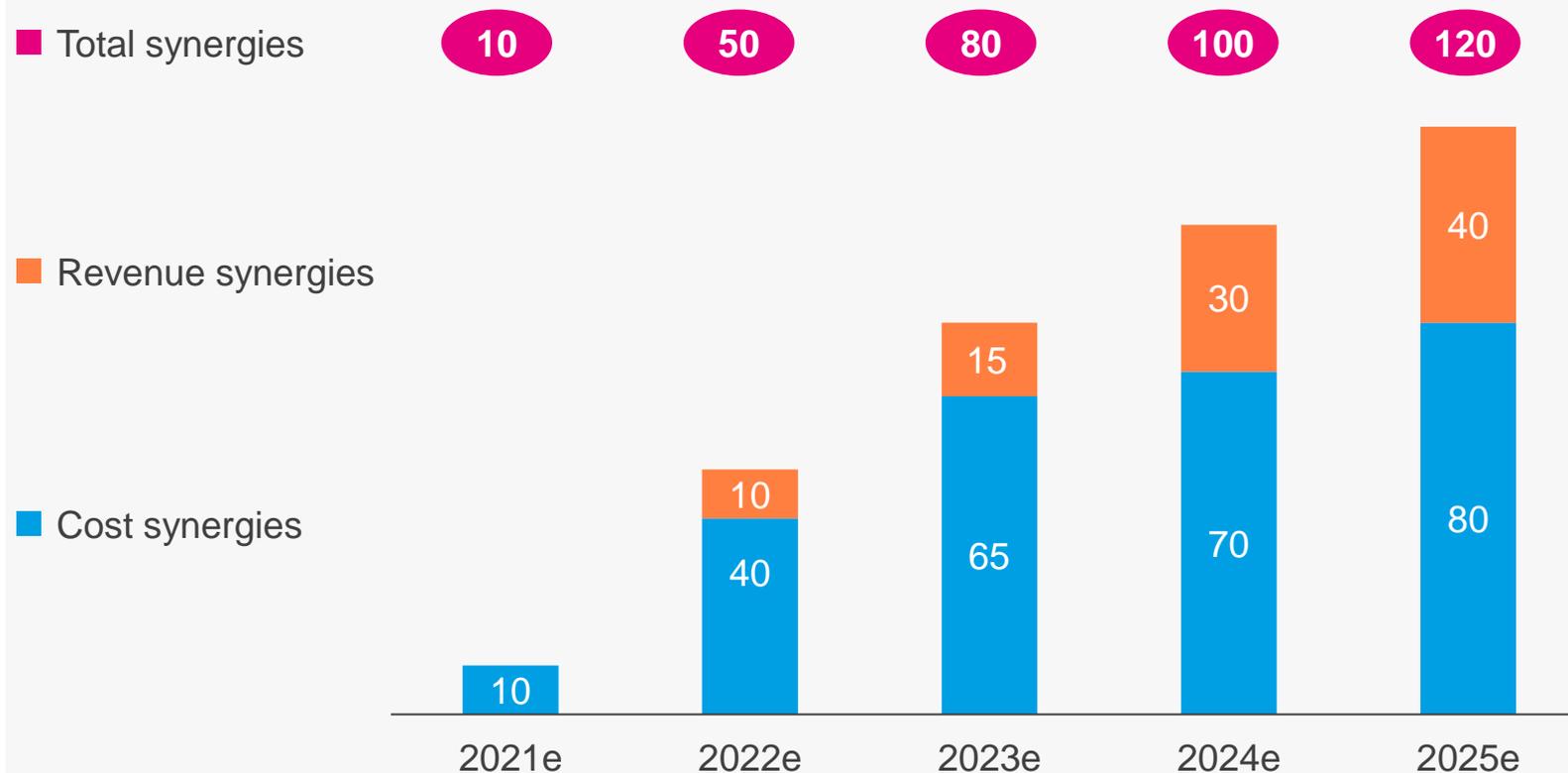
# Full synergies of €120m expected until 2025

## Synergy ramp-up



### SYNERGIES AND IMPLEMENTATION COST

In € million



### HIGHLIGHTS

- Identified synergies amount to €120m, 12% of RFM sales
- Total implementation cost of €140m (mainly in 2021) to realize annual synergies of €120m
- Realization of full synergies by 2025 with two third of synergies materializing already by 2023
- Quick realization of cost synergies while time reserved for revenue synergies from portfolio updates

# Adoption of 5G to drive significant acceleration in demand



## Further operational opportunity

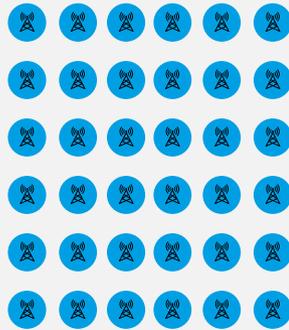
### 5G INVESTMENTS

Investments driven  
by higher frequencies



#### 4G Base Station

Baseband: 700Mhz - 2,100Mhz  
Typical range: 2km



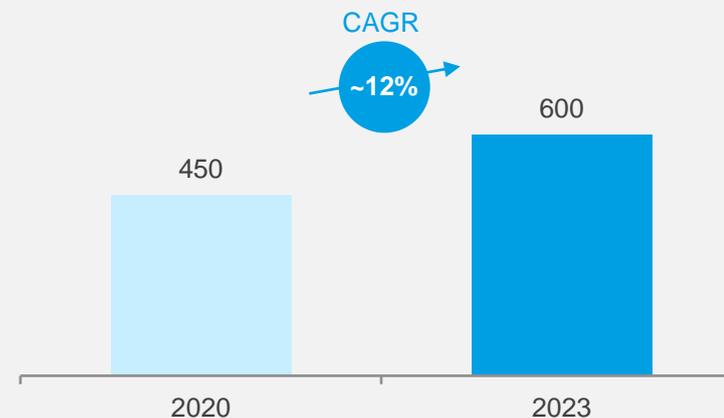
#### 5G Base Station

Baseband: ~4Ghz, ~26Ghz  
Typical range: 0.5km

### WORLD OPTICAL FIBER INSTALLATIONS

Forecast\*

Million fiber kilometers installed per year



### 5G ROLLOUT

- 4G investments tailing off in anticipation of 5G
- Implementation of 5G from telecom networks and governments
- 5G will be enabling applications like self-driving cars, IoT, AI
- Key benefits vs. 4G: Higher bandwidth (>10,000x more traffic), more devices (10-100x) and much lower latency
- Requires different network infrastructure compared to 4G (5G base stations)

# Building a leading sustainable coating resins player



## Investment highlights



Creating a global leader in coating resins

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Diversifying CAS portfolio towards a more balanced product and industry mix

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Shifting CAS portfolio to high growth markets driven by sustainability

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Significant synergies leading to attractive valuation multiple

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Committed to a solid investment grade rating



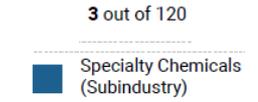
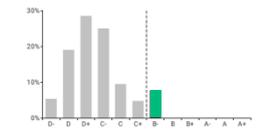
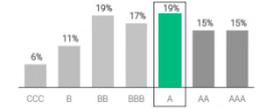
-  Covestro investment highlights
-  Group financials 2020
-  Segment overview
-  Acquisition DSM-RFM
-  **Background information**

# Covestro's rating results and index memberships

## as of February 2021



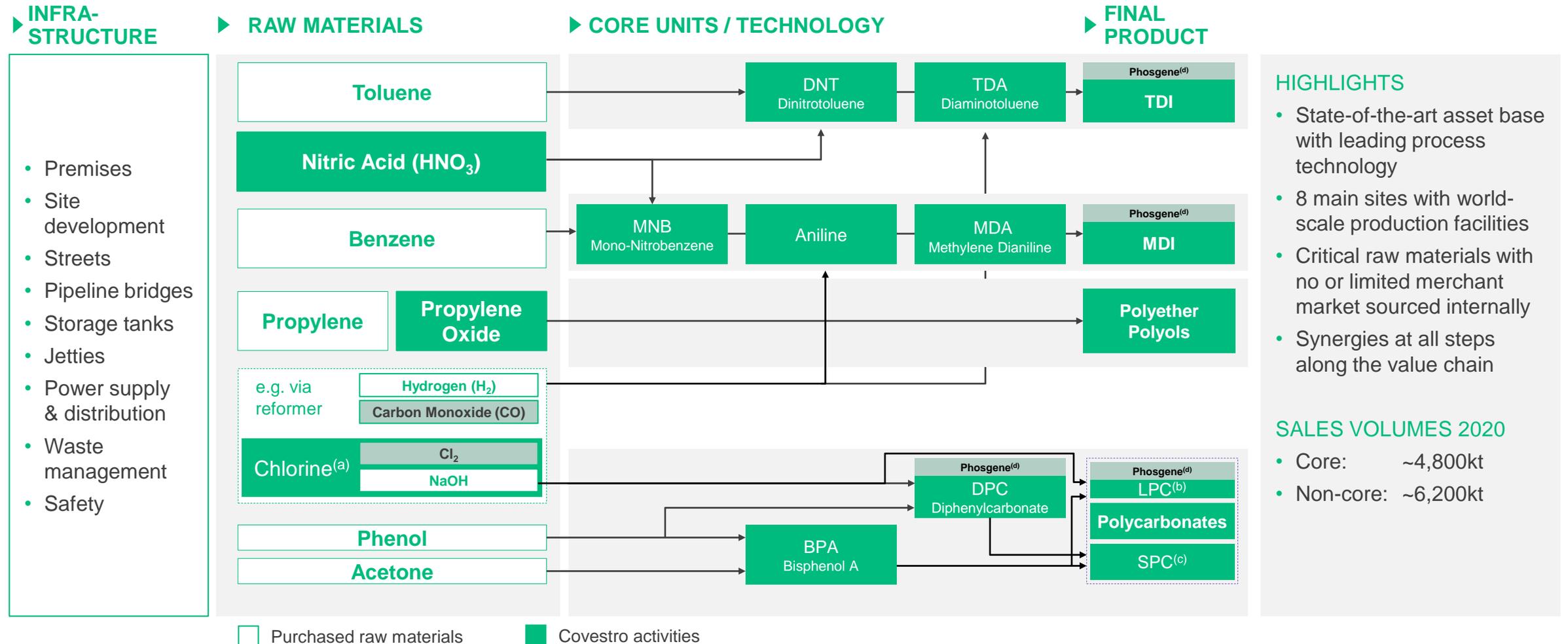
RATING / INDEX	2016	2017	2018	2019	2020	SCORING	BENCHMARK
	BBB	BBB	A	A	A	AAA - CCC	in Specialty Chemicals
	B-		B-		B-	A+ - D-	Prime Status
	74	75	80	23.3	20.0	max. 100 Points 0 - 100 Points (the lower the better)	in Specialty Chemicals
	73		80			max. 100 Points	Gold Ranking
							Inclusion in FTSE4Good Index <sup>(b)</sup>



# Synergies in scale, process technology and chemical know-how



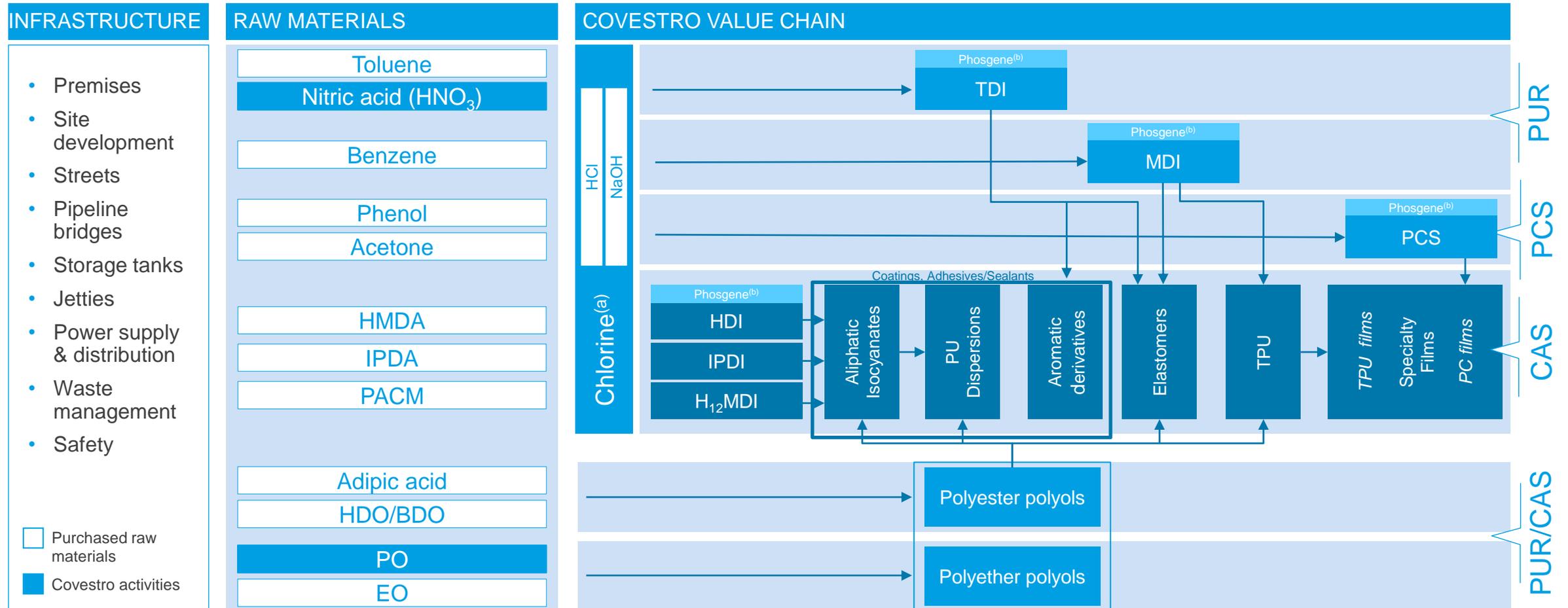
## One chemical backbone across all segments



# Significant synergies from Covestro chemical backbone



## CAS backward integration



# Become the Best of Who we are



Increase our production output by 200kt from existing assets

## TRANSFORM PRODUCTION TO EXPLOIT FULL POTENTIAL

- „Maximize Asset Availability“ to increase our production output by 200kt from existing assets until 2024 across all segments by reducing and avoiding outage times

## INCREASE EFFECTIVENESS AND EFFICIENCY OF FACILITIES

- Implementing the “right scope of work” with needed inspections, preventive maintenance and repair work
- Executing the “right scope of work” with shortest possible turnaround duration

## DIGITALIZATION AND TECHNICAL PROGRESS AS SUPPORTING LEVERS

- Eliminating recurring technical failures by technical improvements
- Implementing digital approaches for asset monitoring to early detect anomalies



“ Only assets that are available contribute to capacity utilization

“ Outstanding asset availability is essential for Covestro’s sustainable growth

# Entire organization aligned for performance

Full STI annual target achievement requires EBITDA above €2bn

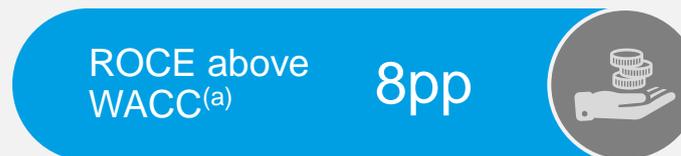


## UNIFORM BONUS SYSTEM

- Full alignment of all employees (including board) along the same KPIs
- Criteria with full focus on performance and shareholder value creation
- 100% payout, as percentage of annual base salary, linked to hierarchy level
- Total payout at Group level for 0%, 100% and 250% achievement is €0m, ~€180m and ~€450m, respectively
- Fixed hurdle rates for 2019 - 2021 reflect KPI values in mid-cycle conditions, based on historical review and expected future development

## EQUALLY WEIGHTED GROUP METRICS

- Targets for 100% achievement:



- For each metric, payout can range from 0% to 300% relating to Core Volume Growth between 1.5% and 9.0% / FOCF between €400m and €1,600m / ROCE above WACC between 0pp and 24pp
- Max. payout capped at 250%

## TRANSPARENT AMBITION

- Future core volume growth goal of 4% requires growth capex
- 100% target achievement for ROCE and FOCF implies mid-cycle EBITDA above €2bn for 2019 - 2021e

# Significant value creation since IPO

## Development of last five years



		2016	2017	2018	2019	2020
<b>Core Volume Growth</b>	(%)	7.5	3.4	1.5	2.0	-5.6
<b>Sales</b>	(€ million)	11,904	14,138	14,616	12,412	10,706
<b>EBITDA</b>	(€ million)	2,014	3,435	3,200	1,604	1,472
• <i>Polyurethanes</i>		881	2,179	1,763	648	625
• <i>Polycarbonates</i>		704	854	1,036	536	553
• <i>Coatings Adhesives Specialties</i>		500	486	464	469	341
<b>Earnings per Share</b>	(€)	3.93	9.93	9.46	3.02	2.48
<b>Capex</b>	(€ million)	419	518	707	910	704
<b>Free operating cash flow (FOCF)</b>	(€ million)	1,367	1,843	1,669	473	530
<b>ROCE</b>	(%)	14.2	33.4	29.5	8.4	7.0
<b>Net financial debt</b>	(€ million)	1,499	283	348	989	366
<b>Employees <sup>(a)</sup></b>	(FTE)	15,579	16,176	16,770	17,201	16,501

# Upcoming IR events



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

## REPORTING DATES

- |                    |                                 |
|--------------------|---------------------------------|
| • April 28, 2021   | Q1 2021 Quarterly Statement     |
| • July 27, 2021    | 2021 Half-Year Financial Report |
| • October 26, 2021 | Q3 2021 Quarterly Statement     |

## ANNUAL GENERAL MEETING

- |                  |                                  |
|------------------|----------------------------------|
| • April 16, 2021 | Annual General Meeting (virtual) |
|------------------|----------------------------------|

## BROKER CONFERENCES

- |                  |  |
|------------------|--|
| • March 11, 2021 | Goldman Sachs Annual European Chemicals Conference (virtual)               |
| • March 23, 2021 | Morgan Stanley Madrid Corporate Day (virtual)                              |
| • March 25, 2021 | Stifel German Corporate Conference Copenhagen (virtual)                    |
| • March 25, 2021 | Société Générale Energy Transition & Renewable Energy Conference (virtual) |



# Disclaimer

This presentation may contain forward-looking statements based on current assumptions and forecasts made by Covestro AG.

Various known and unknown risks, uncertainties and other factors could lead to material differences between the actual future results, financial situation, development or performance of the company and the estimates given here. These factors include those discussed in Covestro's public reports, which are available on the Covestro website at [www.covestro.com](http://www.covestro.com).

The company assumes no liability whatsoever to update these forward-looking statements or to adjust them to future events or developments.