

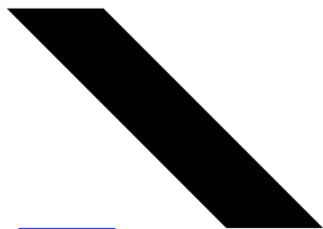


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Q3 2024 COVESTRO AG EARNINGS CALL

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CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

- **Operator**
- **Christian Faitz** Kepler Cheuvreux - Analyst
- **Geoffery Haire** UBS - Analyst
- **Chetan Udeshi** JPMorgan India Pvt Ltd - Analyst

PRESENTATION

Ronald Koehler Covestro AG - Head - Investor Relations

Welcome to the Covestro earnings call on the Q3 results. The company today is represented by Christian Baier, CFO. You have to excuse the absence of our CEO, Markus Steilemann; he currently attends an economic summit convened by the German Chancellor, Olaf Scholz, in Berlin. Markus is attending this summit in a double function as the CEO of Covestro and also as a President of the German Chemical Association.

(Event Instructions). You will find the quarterly statement and the 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

Thank you, Ronald, and hello, and a warm welcome to our third-quarter call. Before coming to the business of the last quarter, let me update you on the status of the announced transaction with ADNOC. The signing of the investment agreement on October 1 marked the beginning of a multistep takeover process, which we believe is in the best interest of our shareholders, the company, and all stakeholders. Last Friday, ADNOC published the offer document. The publication of the offer document marked the start of the initial acceptance period, which will last until November 27, 2024. A potential additional acceptance period might last from December 3 until December 16, 2024. The Board of Management, together with the Supervisory Board, will issue their reasoned statement in due course.

But now let us focus on the highlights of the third quarter. We delivered a continued strong volume growth of 6.1% year on year. However, lower prices are still affecting sales, which came in at EUR3.6 billion. In line with our guidance, we achieved an EBITDA of EUR287 million. Free operating cash flow turned positive with EUR112 million and was in line with our expectations. As usual, with the Q3 call, we are narrowing our EBITDA guidance range.

But let's now come to another topic. While the discussions with ADNOC might be the primary focus of the media and the financial community, we should not forget about our mid- and long-term sustainable future strategy. One part of the strategy is climate neutrality on Scope 1 and 2 emissions until 2035 with a reduction of 60% until 2030. We have made significant progress to achieving our targets.

Let me start with our Scope 1 emissions. Beginning of August, we successfully installed a new catalyst in our nitric acid plant in Caojing, China that will eliminate the laughing gas and nitrous oxide emissions. The catalyst will reduce both greenhouse gases to nitrogen, oxygen, and water. The impact of this new catalyst installation is significant as it will reduce the CO₂ emissions by 60,000 tons per year once the project is completed end of 2024.

Moving on to Scope 2. We have been talking about our renewable electricity purchase agreements already a couple of times. In Q3, we have made another step to become more independent of fossil produced electricity and increase our share of renewable electricity by signing a PPA with bp for solar power. This PPA increases our renewable electricity share in Spain from 10% to 30% and will mostly be used in our MDI side in Tarragona. On a global scale, it will increase our renewable electricity share from 16% end of 2023 to approximately 18% in 2024.

Furthermore, the first breakthrough on renewable steam has been achieved by partnering with Rondo Energy to install an innovative heat battery for the first time. The heat battery will store intermittent renewable electricity as heat.

Simultaneously, it will deliver continuous high pressure, high temperature steam for industrial production. This is a sustainable alternative to steam generation with fossil fuels. The heat battery will be installed at our site in Brunsbuettel, Germany, by end of 2026 and will produce 10% of the steam required at the site, leading to savings of 13,000 tons of CO₂ emissions per year. The Breakthrough Energy Catalyst Foundation set up by Bill Gates and the European Investment Bank are financially supporting this installation of the Rondo Heat Battery.

Turning back to the business and the volume development in the third quarter of 2024. Year on year, the global sales volume continued to increase by 6.1%. This is driven by an improving demand but also constantly delivering on our reliability ambition after the issues in Europe in 2022 and 2023. The volume growth rate has slowed slightly compared to H1 2024 due to a baseline effect as we were able to ramp up production already during H2 2023.

Going through the different industries. Construction showed the highest growth rate, with a low teens percent increase and furniture with a mid-single-digit percent volume increase. Electro developed flattish and auto exhibited a low single-digit volume reduction.

Let's now look into the different regions. In EMLA, construction and furniture are showing continued strong growth based on improved availability of MDI and TDI since the resolved internal availability issues. However, auto is on a slight decline and Electro on a significant decline. An almost comparable industry picture can be observed in North America. Construction developed positively with a significant increase; furniture is flat, but like in EMLA, electro and auto are showing a slight decline. APAC again continues with stable to positive growth across all industries, important to Covestro. Construction exhibited significant growth, furniture and electro slight growth, and auto was flattish.

Let's move to the sales bridge on Page 5 of the presentation. Sales for Q3 2024 were slightly up at EUR3.6 billion. The price decline of 4.2% could be more than compensated by the volume increase of 6.1%. This marks a turnaround after six quarters where volume growth could not fully counterbalance declining prices. The negative FX effect of minus 0.9% was slightly higher than in previous quarters and mainly driven by the weaker Mexican peso, Brazilian real, and US dollar.

After sales, we are moving on to the Q3 2024 EBITDA bridge. Year on year, we increased EBITDA by 3.6% to EUR287 million, which is well in our Q3 guidance range of EUR250 million to EUR350 million. Selling prices declined stronger than raw material costs due to the ongoing unfavorable industry supply-demand ratio.

Consequently, EBITDA was impacted again with a negative pricing delta of minus EUR126 million. However, this is a lower number compared to previous quarters, but still an indication of the low demand and low margin environment we are operating in. The volume increase could only partially compensate the negative pricing delta. The volume leverage was clearly below the long-term average due to the historically low margins. FX was neglectable and other items contributed positively.

On Slide 7, we are breaking down the details for the different segments, starting with solutions and specialties. In S&S, the year-over-year price decline of 4.9% was leading to a sales decline of 2.0% despite increasing volumes of 3.9%. Sequentially, sales growth was only recorded in APAC, while North America and EMLA were declining. The EBITDA in Q3 2024 was lower year over year due to a negative pricing delta and slightly higher fixed costs. The quarter-over-quarter EBITDA increase reflects lower bonus provisions.

With that, the EBITDA margin increased to 11.7%. We are now expecting S&S EBITDA to contribute slightly below the 2023 level. This adjustment compared to the previous guidance of a stable earnings situation is mainly driven by a weaker development in our auto-related business.

After solutions and specialties, we are now looking at the segment performance materials. Year over year, sales increased by 4.1%, driven by 8.6% volume growth, minus 3.6% from pricing, and minus 0.9% from FX. Quarter over quarter, sales in North America

were flattish, while APAC and EMLA declined. The Q3 '24 EBITDA of EUR125 million is 46% above last year, mainly due to volume increases and lower bonus provisions. However, the pricing delta remains negative.

Sequentially, the EBITDA in Q3 '24 decreased based on a negative pricing delta, mainly reflecting a weaker development in TDI and polyols. In line with the overall narrowing of our FY 2024 guidance, we are also narrowing our EBITDA guidance for performance materials to now EUR400 million to EUR600 million instead of EUR400 million to EUR700 million.

We are now coming to the free operating cash flow development. As you can see from the graph, the free operating cash flow for 9M 2024 was negative with minus EUR164 million. However, Q3 turned positive with a free operating cash flow of EUR112 million. The 9M free operating cash flow declined year on year driven by lower EBITDA, higher working capital, and the bonus payout for FY23 in Q2 2024. Changes in working capital of minus EUR265 million after nine months of 2024 are mainly resulting from a buildup of inventories due to higher volumes.

Given the sharp reduction of inventories end of last year, we anticipated an inventory increase for the full-year 2024. 9M CapEx of EUR422 million was slightly lower year over year. We increased the CapEx into maintenance to further improve the reliability of our assets and avoid issues like we have seen in 2023. The growth CapEx has been reduced and focuses on selected expansion projects. Income tax paid of EUR153 million was significantly below prior year, reflecting a different geographical mix.

The minus EUR204 million in "other effects" are mainly the bonus payout. Our planning assumes a positive free operating cash flow in Q4 with an unchanged guidance for fiscal year 2024 of minus EUR100 million to plus EUR100 million. We assume a positive working capital contribution in Q4.

However, given the higher volumes, the working capital is expected to remain negative for the full-year 2024. CapEx is on track towards our guidance of around EUR800 million with a figure slightly below EUR800 million more likely. The cash out for taxes is now expected to be only EUR150 million to EUR200 million based on a different geographical earning mix.

Let's now look at our balance sheet on Page 10. Our total net debt increased by EUR159 million compared to end of 2023. The increase was partly caused by the seasonally negative free operating cash flow of minus EUR164 million after the bonus payout in Q2 2024 and negative others. The decrease in the net pension liability of EUR142 million was driven by an increase of the pension discount rates in Germany and the return on plan assets. This comprises pension provisions of EUR374 million and net defined benefit assets of EUR118 million.

Summarizing our net debt situation, the total net debt-to-EBITDA ratio is at 3.0x based on a four-quarter rolling EBITDA of EUR1 billion. Covestro remains committed to a solid BAA2 investment-grade rating that was confirmed by Moody's in May 2024.

We are now coming to the outlook for Covestro's core industries on Page 11 of the presentation. The global GDP expectation has been almost flat for the fiscal year 2024 and is estimated to be 2.7%. This positive development did not apply to most of the industries important to Covestro. After positive growth during the past two years, the automotive development will be at best flattish.

Also, the subcategory EV, BEV has observed a significant decrease in growth rates, but is overall still positive with almost 12%. The outlook for the construction industry remains negative, minus 2.5%. Residential construction is expected to decline by 5.8%. The reasons for this trend remain elevated interest rates and high cost of building materials. The furniture industry is set for a stabilization after two consecutive years of strong decline. We assume a flattish development in 2024.

The electro industry has also seen a contraction in the past two years, with declines of up to 2%. The projection for 2024 has been the positive surprise with an upgrade to 4.2% from initially 1.5%. The appliance sector follows a similar upgraded outlook pattern and is expected to increase by 4.8%.

Summarizing this outlook, we see some very limited green shoots with the developments in electro but observe the development in automotive and construction with concern. During the past two years, we experienced longer-than-normal durations of negative growth in furniture and electro. With this experience in mind, we expect the ongoing construction weakness to continue into 2025 and might see automotive joining a similar negative pattern.

With this, let us now turn to the Covestro outlook for FY 2024. As usual, in Q4, we are narrowing our EBITDA guidance for the full year. We are now expecting the EBITDA for fiscal year 2024 to come out between EUR1.0 billion and EUR1.25 billion. The mark-to-market EBITDA is calculated at around EUR1.1 billion based on September 2024 margins, flat forward and our current budget assumptions for '24. The economic outlook gives little hope for a rebound of margins from the historically low levels we are currently at, and the updated guidance now incorporates this assumption for the remainder of fiscal year 2024.

Let's now switch to the additional guidance elements for FY 2024. In line with EBITDA, also ROCE above WACC has been narrowed to minus 7 to minus 5 percentage points. Guidance for free operating cash flow as well as greenhouse gas remain stable at minus EUR100 million to plus EUR100 million for free operating cash flow, and greenhouse gas emissions in Scope 1 and 2 are between 4.4 million and 5.0 million tons.

We are narrowing down our sales expectation to EUR14 billion to EUR14.5 billion, the income tax to EUR250 million to EUR300 million, and the financial result to be between minus EUR100 million and minus EUR130 million. The other KPIs remain stable.

So let me quickly summarize our Q3 2024 highlights. We have seen continued strong volume growth of 6.1%, which was driven mainly by higher demand and an improved internal availability. We are seeing sales going slightly up to EUR3.6 billion, which was caused by the continued strong volume increase, while, on the other hand, lower prices and an unfavorable FX.

With an EBITDA of EUR287 million, well in the guidance range of EUR250 million to EUR350 million, we have developed an improvement on the EBITDA side, burdened still by negative pricing delta. We have narrowed our guidance range for fiscal year 2024 with an expected EBITDA of EUR1.0 billion to EUR1.25 billion. And we are continuously making strong progress on our path to climate neutrality with significant projects underway for Scope 1 and Scope 2 emissions.

And now Ronald and I are happy to answer any questions that remain open, and I'm happy to hand over to Carsten, who will guide us through the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Christian Faitz, Kepler Cheuvreux.

Christian Faitz *Kepler Cheuvreux - Analyst*

Beyond your Slide 11 in the presentation and your remarks on current business trends, can you please talk about some demand trends post closing of Q3? I take it that you also now see electronics going a bit weaker than previously expected, with the production into the holiday season. Is there any industry that shows somewhat of a demand revival in your current order books?

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

Yes. Thanks, Christian, for the questions. I think in general, it's important to say that October is developing broadly as we have seen also in the September month and the quarter that was surrounding it. So no relevant updates from that perspective.

You mentioned electro electronics. Indeed, there has been some improvements in the earlier parts of the year. That's why also the upgrade of the industry outlook to 4.2% but the September month and probably a little bit afterwards has been slightly weaker than one would have expected.

What we are seeing currently in October and for the remainder of the quarter is in line with our expectation also for the full-year guidance and margins development is continuously at the very low end of things. On the other hand, our production reliability is strong. And wherever there are opportunities, we are very much able to deliver into it, therefore stating our guidance at that point.

Christian Faitz *Kepler Cheuvreux - Analyst*

And maybe as a quick follow-up. Can I ask why you're also so bearish on automotive? I note your remarks on '25 that this might also be negative.

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

Well, I think first of all, we are still seeing positive development on the EV market, which obviously not only in one, but in many of our BEs is a relevant piece, including the engineering plastics perspective. So I think that's strong. And still EVs are coming down from a very significantly positive double-digit growth rate to now 12%.

And overall, I think there is a sentiment that is especially spanning North America, but particularly in Europe with respect to that. We are reasonably positive with respect to our very diverse setup of producers and the OEMs. There, we are completely diversified across players in all the regions. So I think that's the positive piece with respect to the turnout in automotive.

We remain, as you mentioned, vigilant with respect to the development early in the next year, where, as you know, also the Q1 seasonally is a rather weaker quarter from that perspective. And the remainder, we need to see how the key OEMs turn out to develop in 2025. So a little bit weak expectations, but nothing that we are worried about in terms of our customer base and the very good diversification.

Christian Faitz Kepler Cheuvreux - Analyst

Great. And good luck to Markus for dealing with the chancellor in his triple role.

Operator

Geoffrey Haire, UBS.

Geoffrey Haire UBS - Analyst

I was just wondering if I could possibly ask, and I suspect I know the answer, but would you be willing to sort of give a view as to what you're thinking for 2025 in terms of budgeting, in terms of end market growth and volume growth for the group? And then secondly, if you can tell us, can you give us an update on where acceptances are already given the offer document is out if you have that data?

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

Yes, Geoff, thanks for your questions. Indeed, for 2025, we are talking very early perspectives. We see in the expectations probably some positive volume growth development on the back of our strong reliability and also some positive market development that we have also seen in '24 and costs rather staying flattish. That's probably as much as we can say at that point of time, margins predictions are too early to tell at this point of view.

With respect to the current acceptance levels of the ADNOC offer, many of you have seen that on Friday, the offer document went live, and therefore the acceptance period started which will go until November 27. And in case there is then an additional period will be December 16 until which time this runs. As we know those periods are usually back-end loaded with respect to the acceptances. Both ADNOC and us are convinced that, jointly, we have concluded on signing a transaction that is beneficial for all parties involved, and therefore we would be confident that also our shareholders would vote positive on that and therefore see acceptance rates rising now over the next couple of weeks until the acceptance period is over.

Operator

Chetan Udeshi, JPMorgan.

Chetan Udeshi JPMorgan India Pvt Ltd - Analyst

Okay. Can I ask one thing? I saw Dow mentioned last week that they are doing a strategic review of their polyurethanes assets. And I was just curious from Covestro's perspective, is that something that Covestro can look at? Is it even practically possible from antitrust point of view? I'm just trying to explore what possibilities we might have for a possible consolidation if any, in the European

polyurethanes market, especially after what Dow said.

The second question, I was just curious and maybe this is just following up on the previous question. You said based on historical cycles, are you saying next year could also be weak for construction and auto? And I'm just curious if you can point me to what exactly -- or which historical cycles are you referring to?

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

Chetan, very happy to comment on maybe just on the last one with respect to construction and auto, we said that we have seen -- on the side of furniture and electro which have now stabilized, we have seen slightly longer periods of weakness from that overall perspective. And while this is not an academic read across into construction and auto, there is a little bit of a perspective that this could be somewhat ongoing. That's what we are properly preparing for. There is no better crystal ball that we have on those.

And certainly, when we look into construction, especially from a seasonal perspective, we'd rather see that developing from Q2 next year onwards rather than from the beginning of the year. But that's as far as it goes with respect to our expectations on that.

With respect to the topic of Dow, they have put their European PUR assets into a strategic review. We are talking here about three MDI assets that they have spread across Europe. We are talking about polyol assets on that perspective. Let's see what the outcome will be of the review that they are going forward. We certainly, in any of the movements in the overall industry, would be open-minded on the various pieces that would be developing and watching that situation closely.

Operator

So this have been all the questions. So with that, handing back to Ronald.

Ronald Koehler Covestro AG - Head - Investor Relations

If these are indeed all the questions, if there is no late entry, then we indeed might have a very quick closure of the call. So that seems to be the case. If there would be follow-up questions, the IR team will be happily answer them. And if not, let's talk latest on the next call.

Thank you, and bye-bye.

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