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Third quarter 2019: Full-year forecast confirmed and ranges narrowed

Covestro generates strong volume growth in a continuing challenging environment

- **Core volumes up by 5.3%**
- **Group sales total approximately EUR 3.2 billion (–14.6%)**
- **EBITDA forecast achieved at EUR 425 million (–50.5%)**
- **Earnings per share drop to EUR 0.80 (–69.1%)**
- **Free operating cash flow at EUR 243 million (–58.0%)**
- **Ranges for 2019 narrowed in existing forecast**

In the third quarter of 2019 Covestro was able to achieve core volume growth of 5.3% over the prior-year period in a continuing challenging economic environment. At the same time, Group sales declined as expected by 14.6% to EUR 3.2 billion due to continued lower selling prices. At EUR 425 million, EBITDA forecast was achieved for the quarter but was down 50.5% from the prior-year quarter as a result of negative price effects. Net income fell to EUR 147 million (–70.4%), whereas free operating cash flow (FOCF) came in at EUR 243 million (–58.0%). This was primarily because of reduced cash flows from operating activities as well as scheduled investments.

“After generating solid volume growth in the second quarter, demand once again grew in the third quarter,” CEO Dr. Markus Steilemann reported. “The economic climate remains challenging, which we notice particularly in the automotive sector. However, our volume growth indicates that our business is well diversified across various industries,” he said. Growth was attributable mainly to the construction, furniture, electrical and electronics industries.



Outlook for the year confirmed and ranges narrowed

Based on the results of the third quarter, CFO Dr. Thomas Toepfer confirmed the outlook for the year as a whole. “We remain confident we will reach the targets we have set for the fiscal year,” emphasized Toepfer. “Margins were unusually high in the prior-year quarter, which is why the year-on-year decline in sales and earnings is in line with our expectations.”

After the third quarter, the Group narrowed the forecast for fiscal year 2019 within the published ranges: Covestro anticipates core volume growth in the low-single-digit percentage range for 2019. The Group’s FOCF is expected to be between EUR 300 million and EUR 500 million, with ROCE between 8% and 10%. EBITDA for the fiscal year is forecast to be between EUR 1,570 million and EUR 1,650 million.

New circular economy program launched

In order to remain successful in the long run with its sustainable and innovative solutions, Covestro aims to narrow its focus on circular economy going forward and has launched a new strategic program to this end. In its production processes in particular, the Group is aiming for the greatest possible use of raw materials from sustainable sources, such as plants, waste and CO₂. This should eliminate the use of fossil resources such as crude oil as far as possible. Above all, used plastics must be recycled systematically and to the greatest possible extent.

Sustainability and innovation were also the keywords at K2019, the world’s largest plastics trade show held in Düsseldorf (Germany). Covestro showcased many different products and technologies there that offer solutions to urgent global challenges. For instance, it presented high-tech materials that use carbon in more environmentally friendly textiles, improve the performance of wind turbines, and accelerate the expansion of the 5G technology.

Volume growth in the third quarter in the Polyurethanes and Polycarbonates segments

Core volumes in the Polyurethanes segment increased by 5.1%. The increased demand in the furniture and electrical and electronics industries, especially in household appliances, as well as in the construction sector more than offset weaker demand from the automotive industry. However, sales in this segment decreased by 20.1% to EUR 1,478 million due to lower selling prices stemming



from increased competitive pressure. This development was also reflected in EBITDA, which fell to EUR 196 million (–54.6%).

Core volumes in Polycarbonates even rose by 9.3% over the prior-year quarter. The electrical and electronics industry and the construction sector were the main contributors to this growth. Sales in this segment decreased by 13.2% to EUR 901 million in the third quarter of 2019. EBITDA fell by 58.1% to EUR 132 million, mostly on account of a negative development in selling prices.

The Coatings, Adhesives, Specialties segment reported a drop in core volumes by 4.0% as a result of weaker demand for coating raw materials from all key industries, particularly the automotive sector. Sales therefore decreased by 3.0% to EUR 588 million. In the third quarter of 2019, EBITDA was down by 11.9% to EUR 111 million, driven by declining volumes and lower margins.

Greater competition and new price level hallmarks of the first nine months

As expected, the first nine months were marked by growing competition and a pricing shift. Core volume growth amounted to 1.5%. Group sales decreased by 15.8% to EUR 9,548 million, mainly as a result of lower selling prices. EBITDA declined by 54.4% to EUR 1,326 million. Net income stood at EUR 515 million (–70.5%). Free operating cash flow was down by EUR 143 million (–89.1%).

About Covestro:

With 2018 sales of EUR 14.6 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 16,800 people (calculated as full-time equivalents) at the end of 2018.

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Covestro Group Key Data

	3rd quarter 2018	3rd quarter 2019	Change	First Nine Months 2018	First Nine Months 2019	Change
	€ million	€ million	in %	€ million	€ million	in %
Covestro Group						
Core Volume Growth	+0.2%	+5.3%		+1.5%	+1.5%	
Sales	3,702	3,162	-14.6	11,344	9,548	-15.8
Change in Sales						
Volume	+3.0%	+2.1%		+2.1%	+1.3%	
Price	+3.1%	-18.5%		+9.1%	-18.5%	
Currency	-0.6%	+1.9%		-4.1%	+2.0%	
Portfolio	-0.7%	-0.1%		-0.2%	-0.6%	
EBITDA	859	425	-50.5	2,907	1,326	-54.4
EBIT	707	221	-68.7	2,440	759	-68.9
Net Income	496	147	-70.4	1,744	515	-70.5
Free Operating Cash Flow	578	243	-58.0	1,306	143	-89.1
Polyurethanes						
Core Volume Growth	-2.0%	+5.1%		+0.3%	+1.9%	
Sales	1,849	1,478	-20.1	5,765	4,443	-22.9
Change in Sales						
Volume	+0.1%	+2.5%		+0.2%	+2.1%	
Price	-0.5%	-24.4%		+8.6%	-26.9%	
Currency	-0.8%	+1.8%		-4.2%	+1.9%	
Portfolio	0.0%	0.0%		0.0%	0.0%	
EBITDA	432	196	-54.6	1,652	525	-68.2
EBIT	346	97	-72.0	1,385	226	-83.7
Free Operating Cash Flow	340	38	-88.8	750	(82)	.
Polycarbonates						
Core Volume Growth	+2.6%	+9.3%		+3.5%	+2.4%	
Sales	1,038	901	-13.2	3,127	2,659	-15.0
Change in Sales						
Volume	+5.1%	+6.8%		+3.6%	+3.1%	
Price	+9.6%	-20.7%		+13.7%	-17.4%	
Currency	-0.6%	+2.0%		-4.6%	+2.1%	
Portfolio	-2.8%	-1.3%		-0.9%	-2.8%	
EBITDA	315	132	-58.1	903	441	-51.2
EBIT	272	57	-79.0	773	261	-66.2
Free Operating Cash Flow	136	134	-1.5	303	284	-6.3
Coatings, Adhesives, Specialties						
Core Volume Growth	+7.2%	-4.0%		+3.7%	-3.0%	
Sales	606	588	-3.0	1,827	1,836	+0.5
Change in Sales						
Volume	+9.7%	-4.7%		+4.3%	-2.7%	
Price	-0.5%	-2.1%		+0.8%	-0.3%	
Currency	-0.4%	+2.2%		-3.5%	+2.5%	
Portfolio	0.0%	+1.6%		0.0%	+1.0%	
EBITDA	126	111	-11.9	401	407	+1.5
EBIT	103	82	-20.4	332	320	-3.6
Free Operating Cash Flow	93	90	-3.2	132	76	-42.4