



Investor News

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Bayer plans IPO for Covestro

- Listing on Frankfurt Stock Exchange intended in Q4 2015
 - Capital increase in the form of new shares issued by Covestro
 - Potential for growth in profitability and cash generation
 - Covestro targets investment-grade credit rating
 - Dividend payout ratio of 30 to 50 percent of net income envisaged
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Leverkusen, Germany, September 4, 2015 – Bayer has taken the decision to proceed with an Initial Public Offering (IPO) of Covestro AG (“Covestro”), a world-leading polymers company formerly known as Bayer MaterialScience. Covestro will seek a listing in the regulated market segment (Prime Standard) of the Frankfurt Stock Exchange. The offering will consist solely of new shares issued by Covestro by way of a capital increase. They will be offered publicly in Germany and Luxembourg to private and institutional investors. Outside of these countries, shares will be offered by way of private placements. Subject to capital market conditions, Covestro’s IPO is expected to be completed in the fourth quarter of 2015.

Covestro intends to use the proceeds from the IPO primarily to repay intercompany debt to Bayer and in this way to establish its target capital structure. With net debt including pension liabilities at 2.5 to 3.0 times adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) for fiscal 2015, Covestro is seeking an investment-grade credit rating.

Dekkers: “Clear benefits for Bayer and Covestro”

Dr. Marijn Dekkers, CEO of Bayer AG, said: “We have been evaluating the optimal way for the separation of the MaterialScience business and believe that an IPO delivers clear benefits for both Bayer and Covestro and their stakeholders. This transaction will allow both businesses to pursue their strategic goals.”

“Covestro’s IPO is a further step in the transition to an independent company. It will give us the opportunity to build our position as a pure-play polymers producer with strong competitive advantages,” said Patrick Thomas, CEO of Covestro. “We are confident that investors will welcome the opportunity to invest in a market-leading, focused business through this transaction.”

Positive growth perspective

Based on independent research, Covestro’s markets are expected to grow at rates above global GDP on the back of macro trends such as climate change, growing mobility and increasing urbanization. To address these trends, the company provides and will continue to develop for example products for the insulation of buildings and cooling devices, for lightweight construction in the transportation sector and for the production of solvent-free coatings and adhesives.

The company’s leading process technology as well as its extensive and well-invested asset base provide it with a highly competitive cost position. Customer proximity is ensured by its eight world-scale plants in Europe, Asia and the Americas and its global network of technical centers offering customized solutions.

Covestro is aiming for mid-term growth of its net sales and adjusted EBITDA. According to the Combined Financial Statements, the company achieved net sales of EUR 11.761 billion and adjusted EBITDA of EUR 1.161 billion in fiscal 2014. Its financial outlook is driven by increasing utilization of its asset base and a disciplined cost focus. The anticipated growth in demand is expected to result in higher utilization of recently expanded capacities.

A limited need for new asset investment should further support growth in free cash flow. In addition, Covestro plans to align overall costs with best-in-class chemical industry

benchmarks. This together with targeted asset optimization is expected to generate total gross savings of around EUR 420 million by 2019.

Strong financial performance in the first half of 2015

The company's competitiveness is illustrated by its strong financial performance in the first half of 2015. Covestro's volumes grew by 4.3 percent compared to the first half of 2014, resulting in net sales growth of 9.5 percent to EUR 6.264 billion according to the Combined Financial Statements. Adjusted EBITDA increased significantly by 46.2 percent to EUR 914 million, also supported by positive currency effects. This resulted in an adjusted EBITDA margin of 14.6 percent, up 3.7 percentage points on the same period last year. Free operating cash flow rose to EUR 321 million, from a negative EUR 85 million during the year-earlier period.

Breaking down these results shows that all three business units contributed to this strong performance. At Polyurethanes, net sales were up by just over 5 percent in the first six months of 2015, lifting the adjusted EBITDA margin by 1.3 percentage points to 12.1 percent. Net sales at Polycarbonates rose by almost 18 percent, more than doubling this business unit's adjusted EBITDA margin to 16.7 percent (H1 2014: 6.5 percent). In the Coatings, Adhesives and Specialties business unit, net sales grew by 14.5 percent and the adjusted EBITDA margin increased to 24.6 percent from 23.2 percent in the prior-year period.

Sustainable dividend policy envisaged

Covestro intends to share its business success with its investors. The company envisages a dividend policy with a payout ratio of 30 to 50 percent based on net income (IFRS) from 2016 onwards. "Our efficient capital structure and strong free cash flow are expected to support a sustainable dividend policy," Thomas said. For fiscal 2015, Covestro envisages proposing a total dividend payment of around EUR 100 million to EUR 150 million at the Annual Stockholders' Meeting in 2016 provided that the IPO is successfully executed in the fourth quarter of 2015.

Covestro has a workforce of more than 16,000 highly skilled and motivated employees and is led by a strong management team with a proven track record and a clear commitment to long-term value creation.

Leading industry positions, focused portfolio

As a long-standing partner of choice for its customers worldwide, Covestro has an 80-year history of developing market-driven, innovative polymers used across a wide range of industries. The company holds prime and defensible global industry positions across its entire portfolio. It operates in businesses that are characterized by distinct entry barriers resulting from significant investment requirements, close customer relationships and long-term research and development collaborations.

Among Covestro's inventions are polyurethanes and today the company is the world's largest producer of components for these versatile materials. They are mainly used as flexible and rigid foams in many industries such as the furniture, appliances and construction sectors. The company is also the inventor and one of the biggest suppliers of polycarbonates – a high-tech plastic used in key industries such as automotive, electronics and medical technology.

An increasingly important pillar of Covestro's business and a solid platform for future development are high-value specialty polymers derived from polyurethanes. These are used to produce coatings, adhesives and specialty chemicals (CAS) for the automotive, construction, textile, cosmetics and other key industries. Covestro is the world's leading developer and manufacturer of these substances, offering more than 2,300 customized products to over 4,300 customers.

Joint global coordinators for the envisaged transaction are Deutsche Bank and Morgan Stanley. They are acting as joint bookrunners together with Bank of America Merrill Lynch, Citi, Credit Suisse, JP Morgan and UBS. BNP Paribas and Unicredit / Kepler Cheuvreux have been mandated as co-lead managers.

Bayer AG, Investor Relations contacts:

Dr. Alexander Rosar (+49-214-30-81013)

Dr. Jürgen Beunink (+49-214-30-65742)

Peter Dahlhoff (+49-214-30-33022)

Judith Nestmann (+49-214-30-66836)

Constance Spitzer (+49-214-30-33021)

Dr. Olaf Weber (+49-214-30-33567)

Covestro AG, Investor Relations contacts:

Ronald Köhler (+49-214-6009-5098)

Ilia Kürten (+49-214-6009-7429)

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