Lanxess Stock Analysis

I think I look at least a few dozen investment ideas a week, I try to look everywhere for those, on various platforms, search, Value Investing Club and you name it. The Sohn Conference is one where many fund managers pitch their idea. David Einhorn's pitch is interesting, so here is a deeper dive on the risk and reward.

[David Einhorn's Sonh 2025 Presentation Video - Lanxess]

I'll first show the stock, then summarize Einhorn's vid and consequently make my standard analysis of the business.

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Lanxess Stock ETR: LXS - Germany

Lanxess AG

ETR: LXS

Market Summary > Lanxess AG

25,72 EUR

+10.77 (72.04%) ↑ all time

13 Jun, 13:14 CEST • Disclaimer

+ Follow

1D 5D 1M 6M YTD 1Y 5Y Max

Open	25,74	Mkt cap	2,22B	52-wk high	33,93
High	25,90	P/E ratio	-	52-wk low	20,42
Low	25,38	Div yield	0,39%	Qtrly Div Amt	0,03

Chemical business, currently down as most chemicals are plus as a European business, it also suffered from high input prices in the last few years, but we are here now, market capitalization 2.22 billion, yesterday it was 2.36 billion EUR but oil spiked today. Currency EUR, but as a chemical business, 30% US, it is mostly done in USD, like all commodities.

LANXESS stock has been listed in the Prime Standard segment of the Frankfurt Stock Exchange since January 31, 2005.

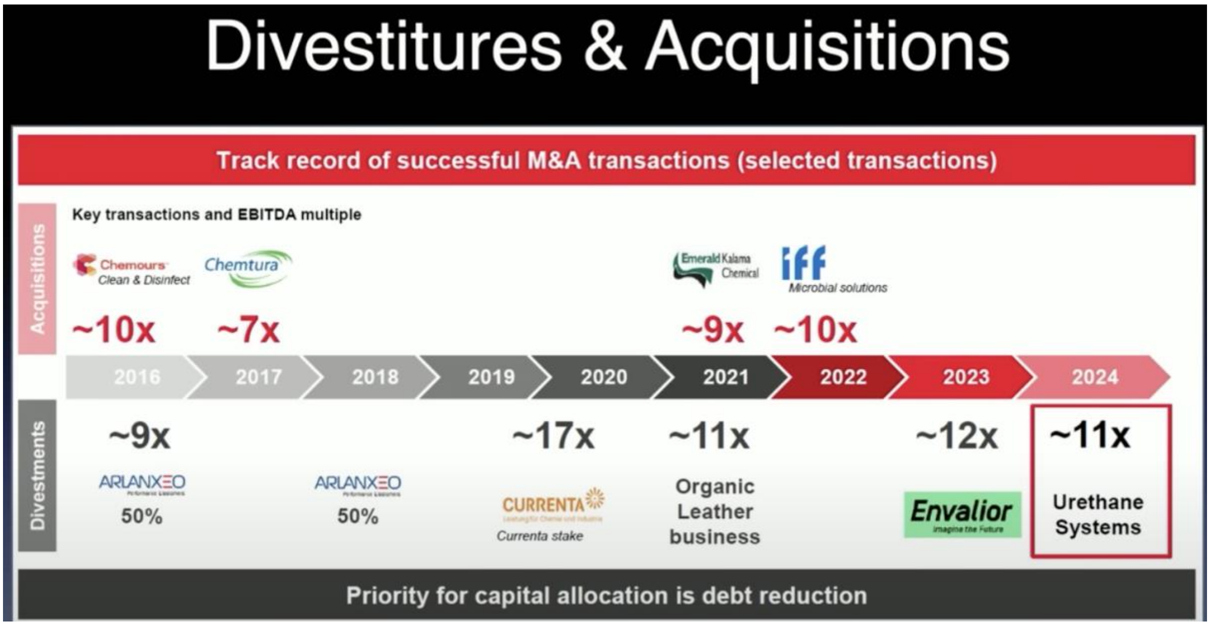
Capital Market Data	
Share class	86,346,303 no-par shares
Listing code	LXS
WKN (German securities identification number)	547040
ISIN	DE0005470405
Reuters/Bloomberg codes	LXSG.DE/LXS:GR
Market segment	Prime Standard
Trading venues	XETRA, Frankfurt, Munich, Stuttgart, Düsseldorf, Hamburg, Hanover, Berlin

David Einhorn's Pitch

Here is David's video: David Einhorn's Sonh 2025 Presentation Video - Lanxess

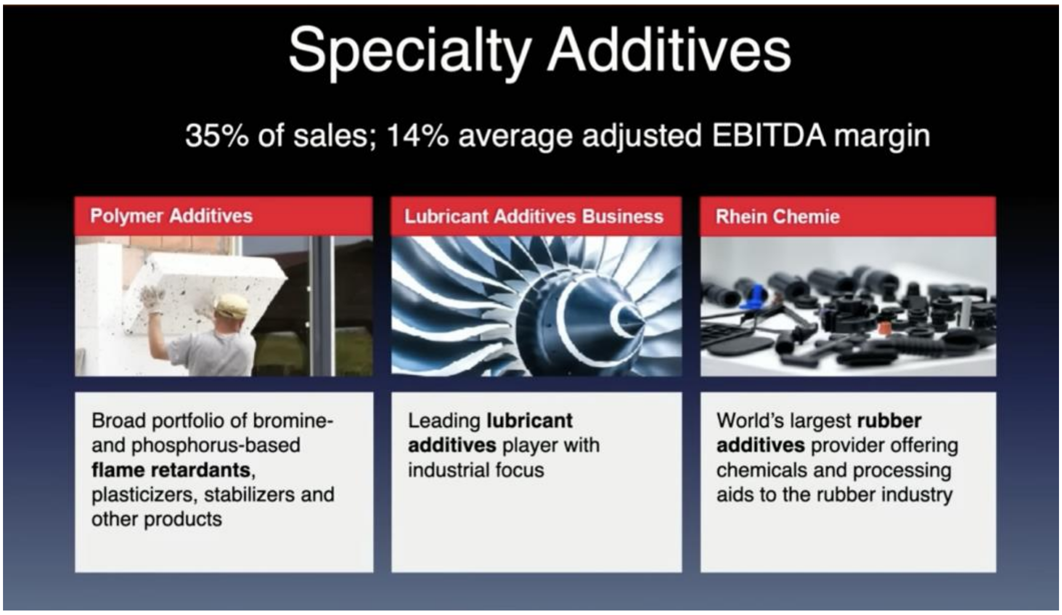
Good strategy but bad luck pressures the stock:

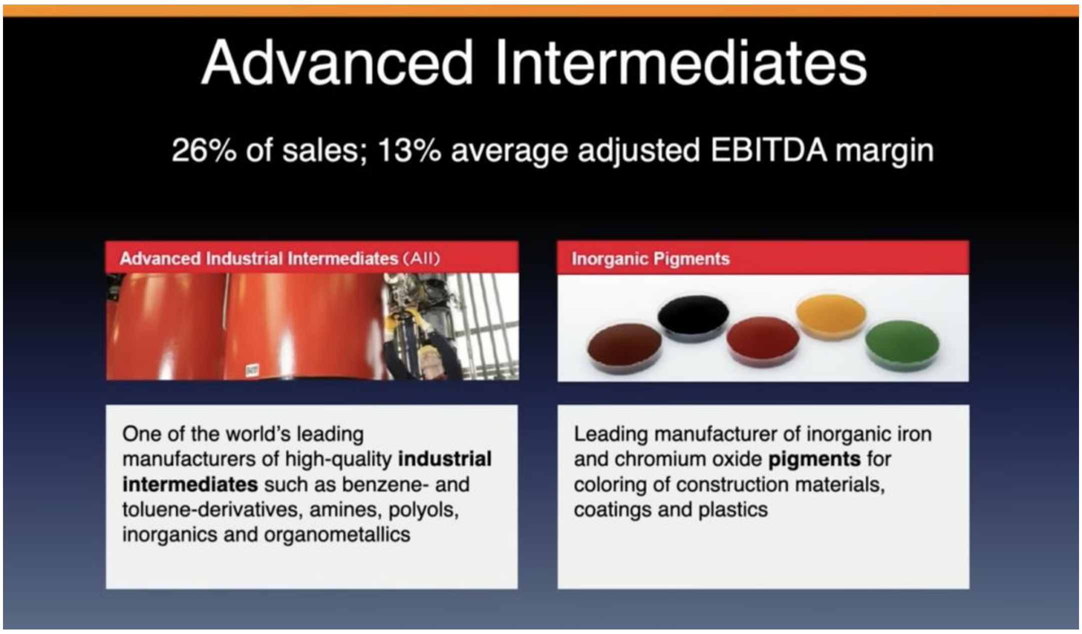
Lanxess divested commodity chemicals and focused on specialty niche businesses.

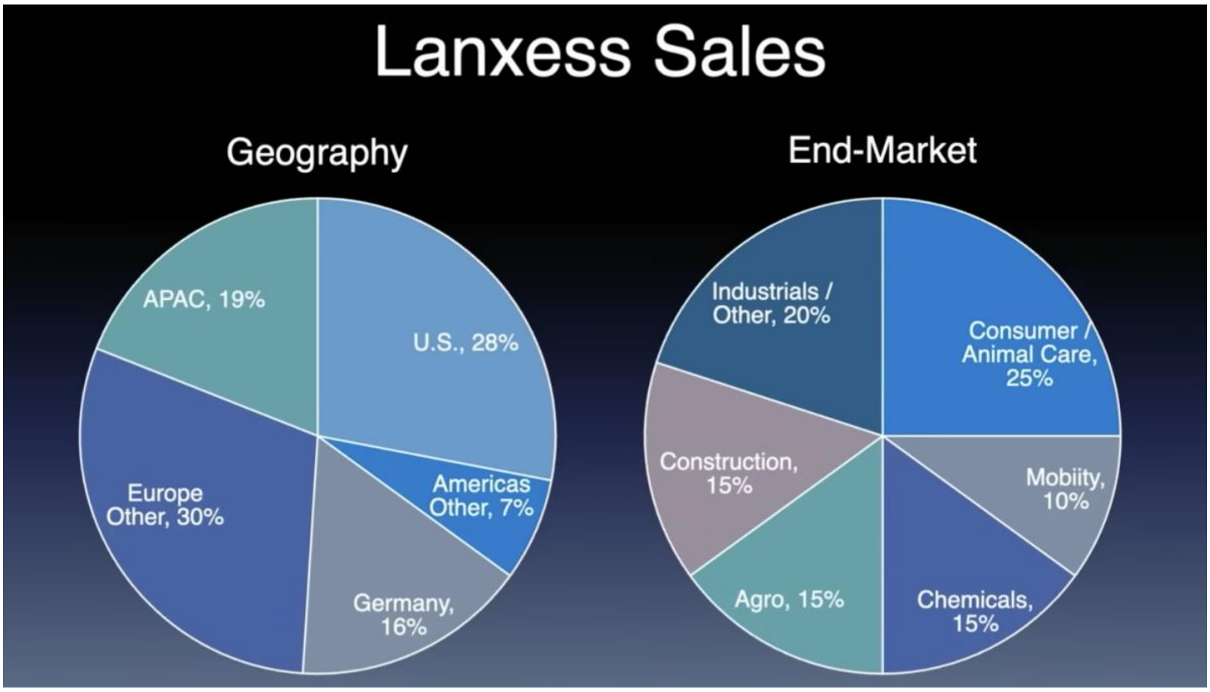


Lanxess sold its bad businesses at EBITDA levels of 11x while the market values it now at 5 to 6 times EBITDA. Strong portfolio, reduced complexity, focused on cash generation. Quality improved but not recognized. 3 segment businesses, top in niche markets, an agglomeration of businesses:


Consumer Protection
35% of sales; 16% average adjusted EBITDA margin
Material Protection Products
Flavors & Fragrances
Saltigo
Liquid Purification Technologies
Global leader in Biocides for biosecurity and industrial consumer protection
Leading manufacturer of benzoate-based preservatives, and flavors & fragrances
Leading contract developer and manufacturer with focus on agrochemicals, pharmaceuticals and specialty chemicals
One of the leading global suppliers of water treatment and purification


Specialty Additives
35% of sales; 14% average adjusted EBITDA margin
Polymer Additives
Lubricant Additives Business
Rhein Chemie
Broad portfolio of bromine- and phosphorus-based flame retardants, plasticizers, stabilizers and other products
Leading lubricant additives player with industrial focus
World's largest rubber additives provider offering chemicals and processing aids to the rubber industry

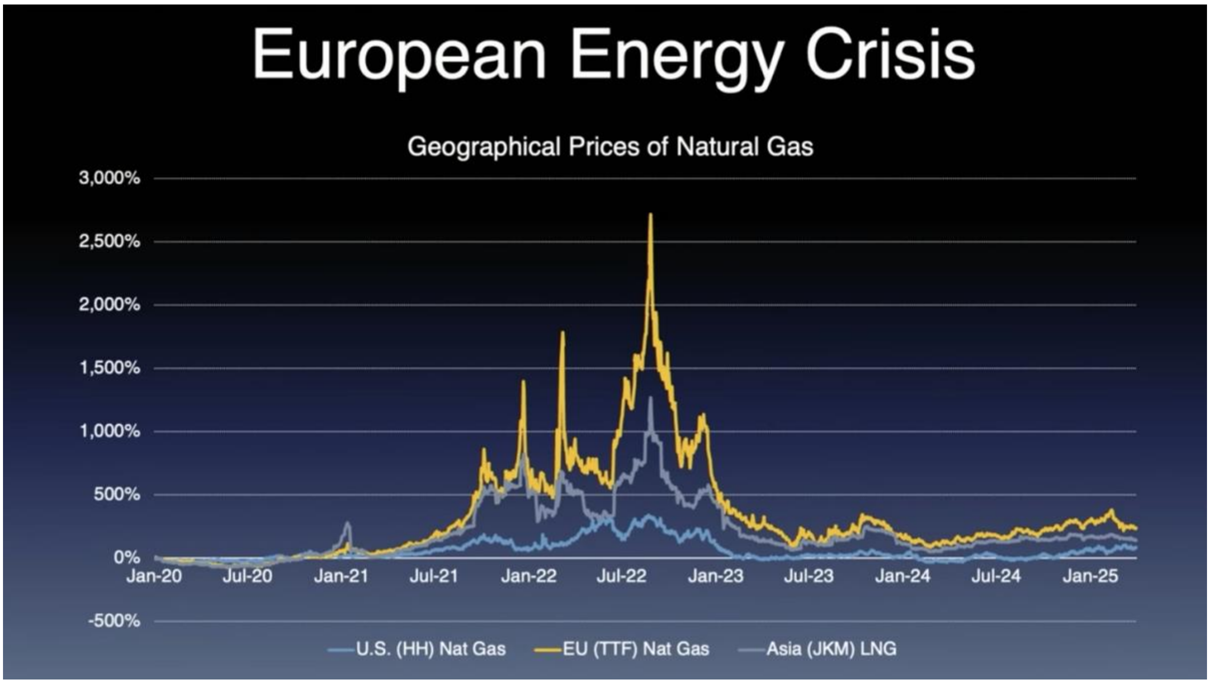

Advanced Intermediates
26% of sales; 13% average adjusted EBITDA margin
Advanced Industrial Intermediates (AII)
Inorganic Pigments
One of the world's leading manufacturers of high-quality industrial intermediates such as benzene- and toluene-derivatives, amines, polyols, inorganics and organometallics
Leading manufacturer of inorganic iron and chromium oxide pigments for coloring of construction materials, coatings and plastics



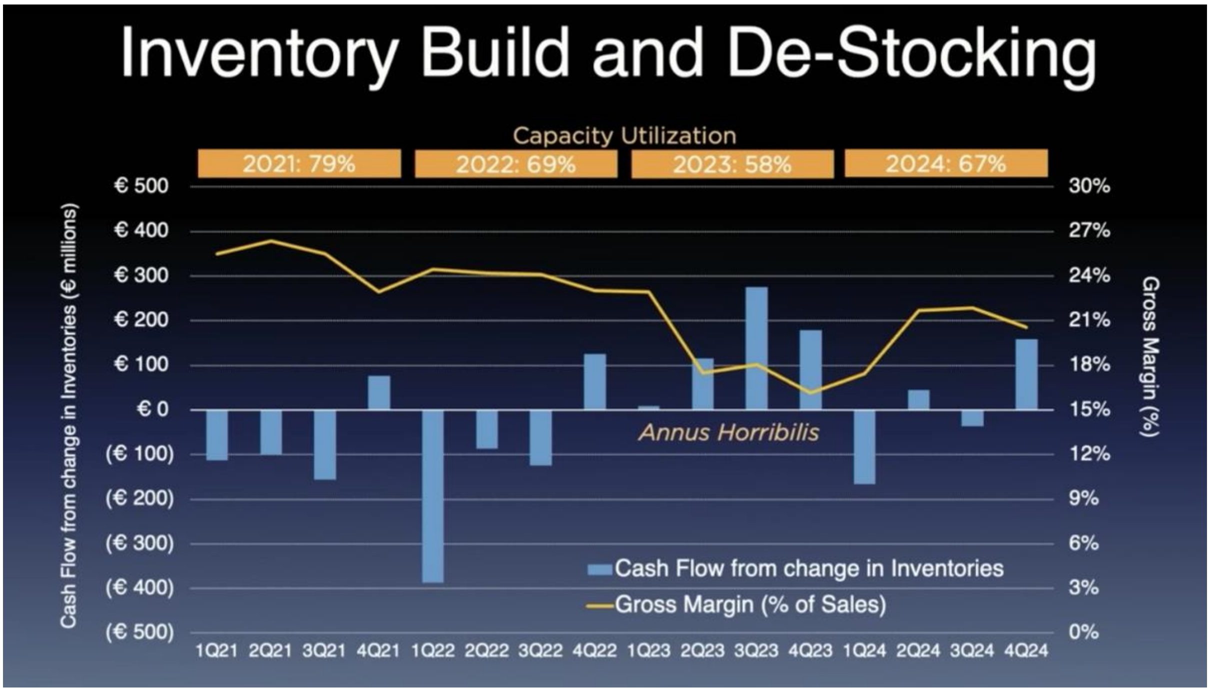
Automotive was 40% of sales 10 years ago, now is 10%.

Why is the stock down?

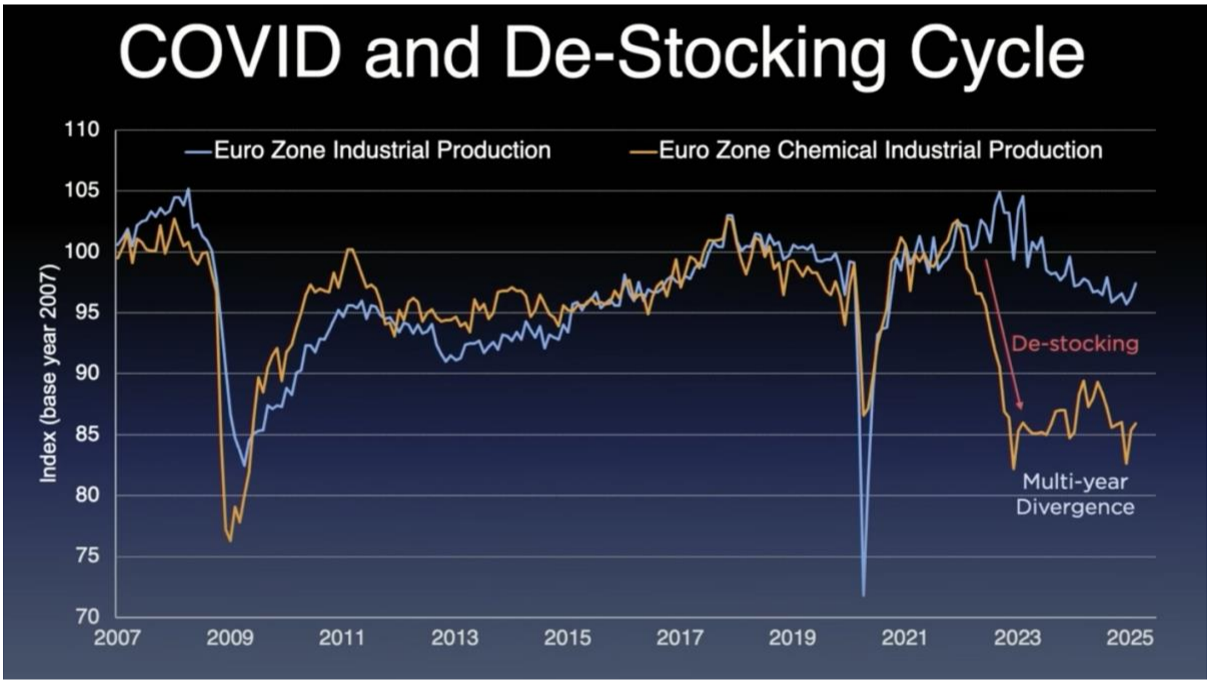
Natural gas price input price increased after Russia invaded Ukraine:



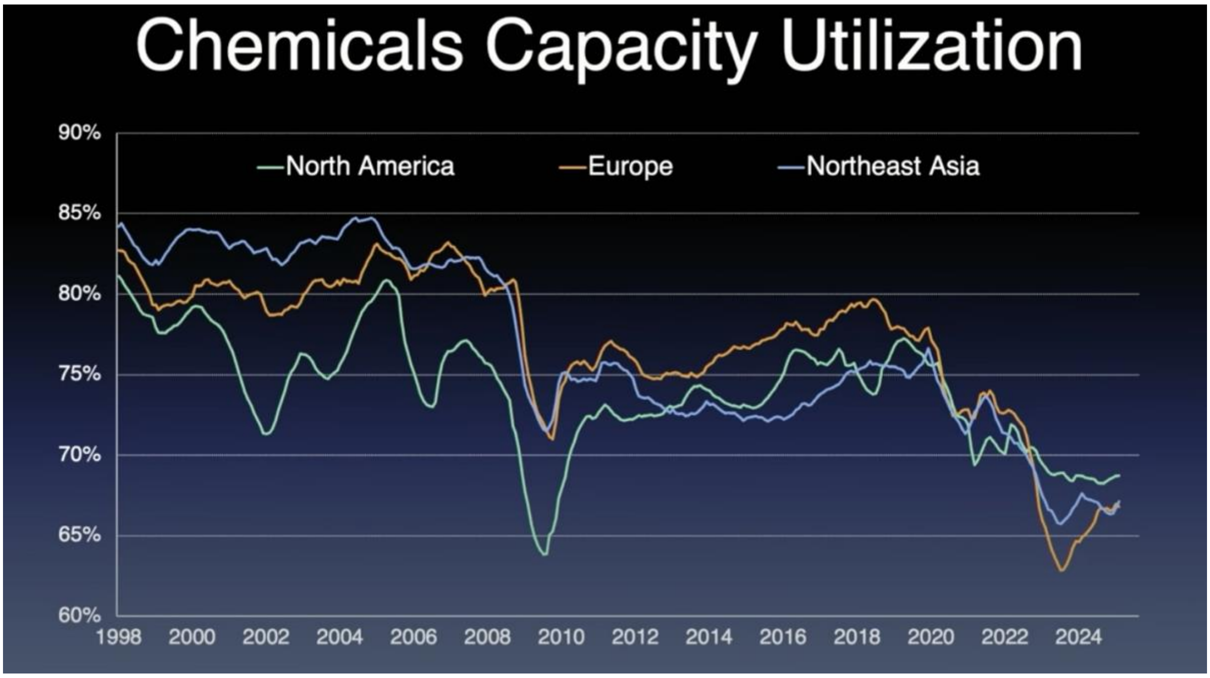
There have also been issues with the implementation of ERP SAP system. SAP to be fully implemented 2025. Due to a buildup in inventory they had to sell it at lower prices:



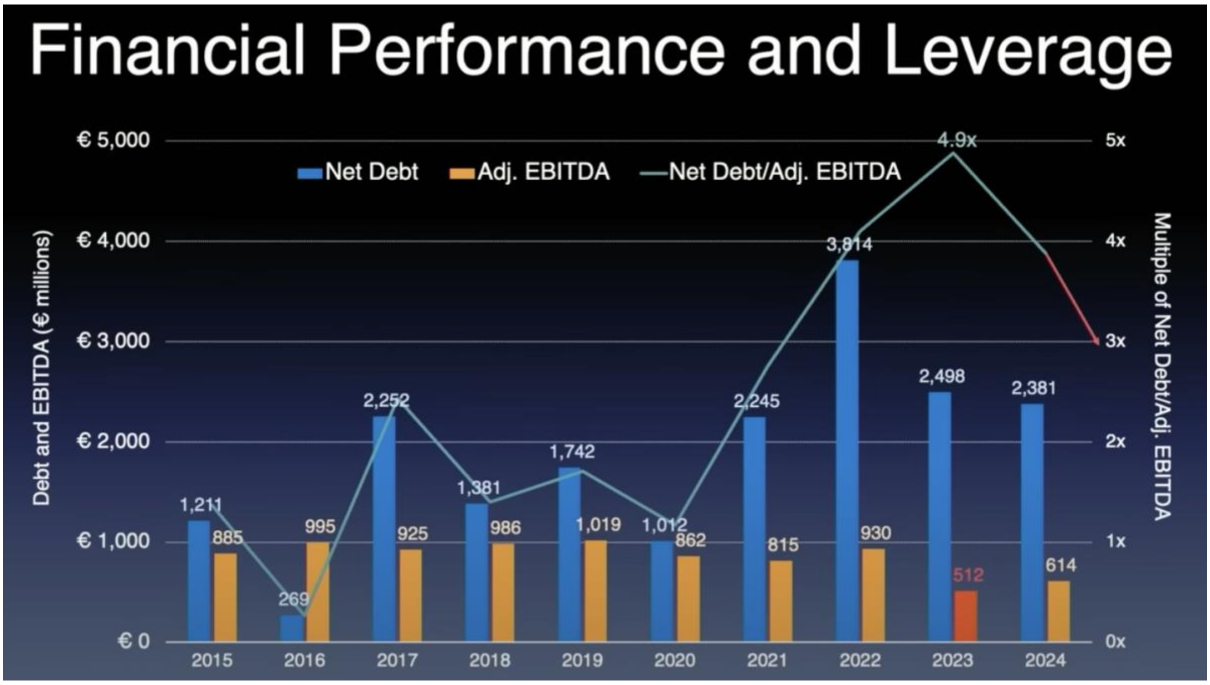
Europe is still de-stocking the high inventory:



Recession level capacity utilization for chemicals:

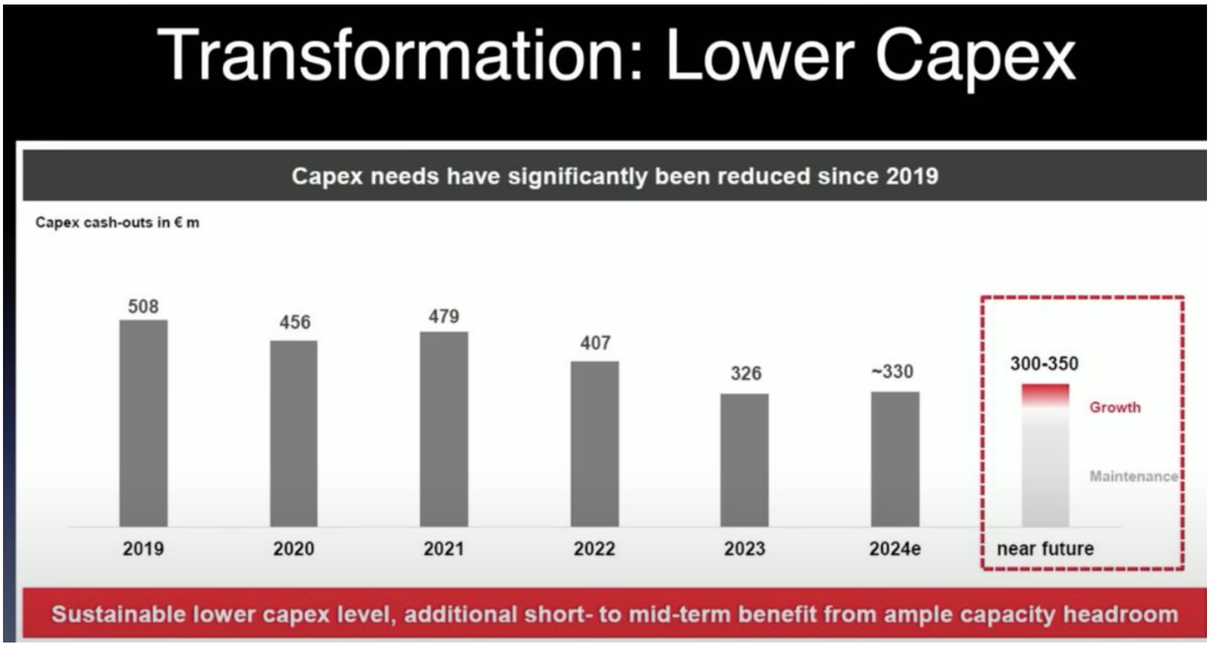


Stable EBITDA around 800m to 1 billion EUR over the yearly. Dropped 45% after 2022 due to the above issues, just after Lanxess racked up debt to make acquisitions. Dividend cut of 90% forced.

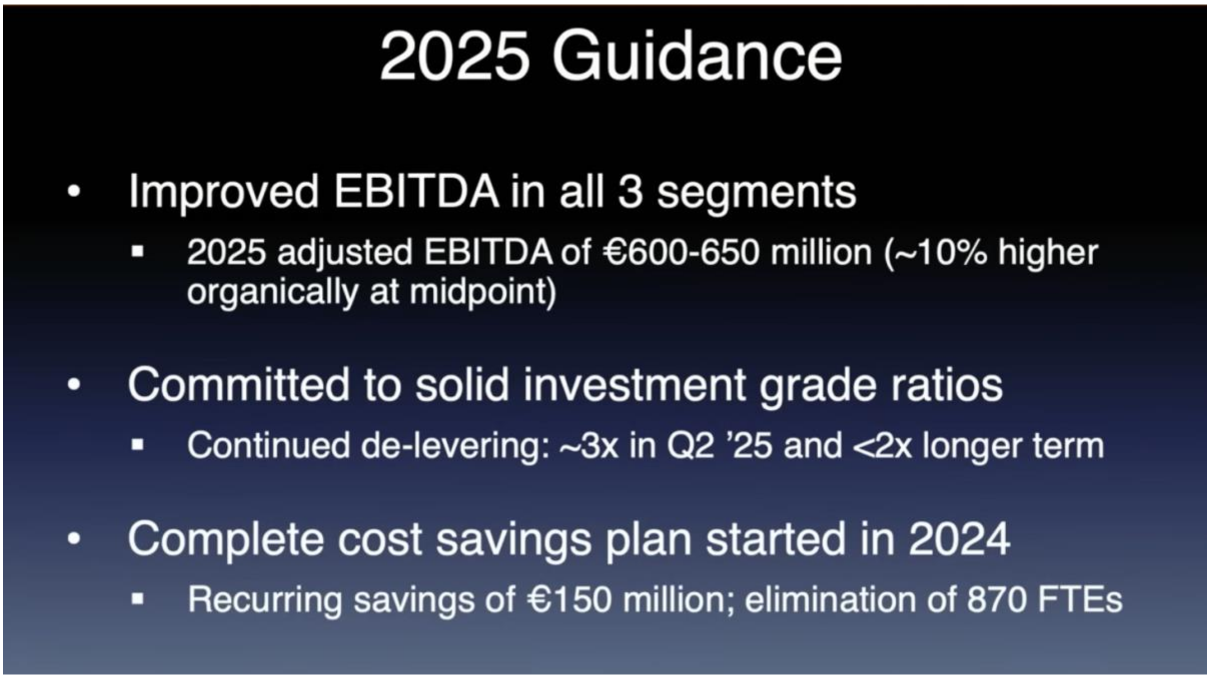


Leverage down since 2023, using proceeds from sale of Urethane to further delever.

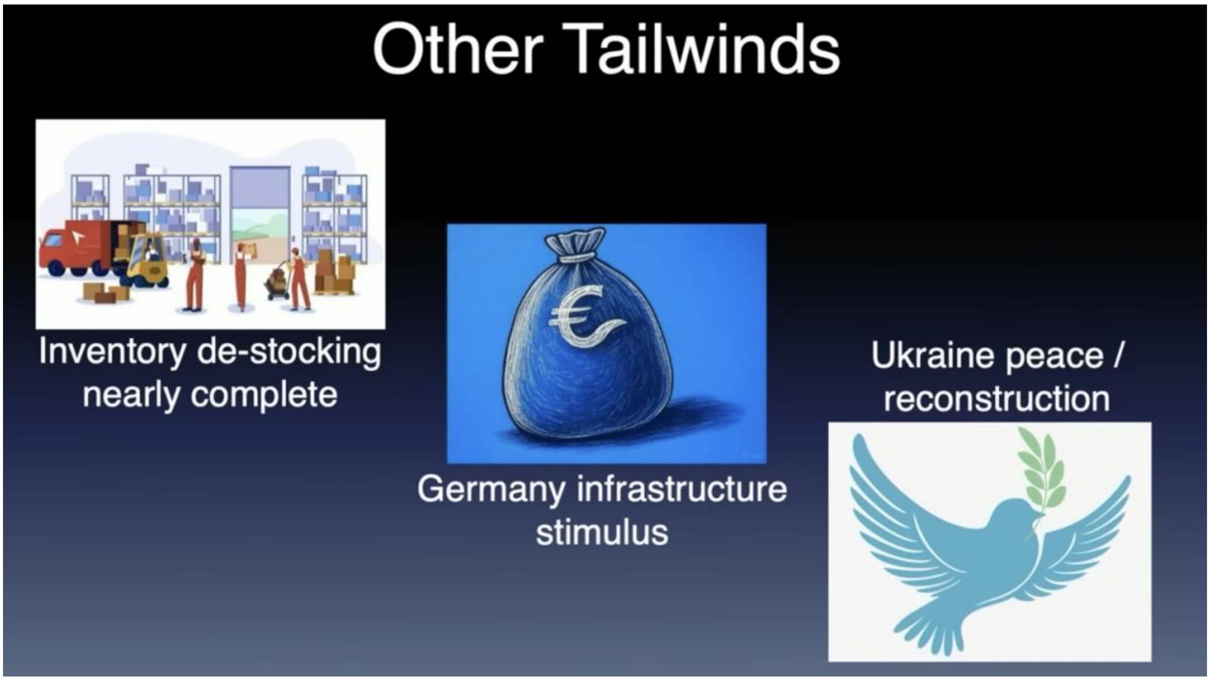
No need for high capex in the next years:



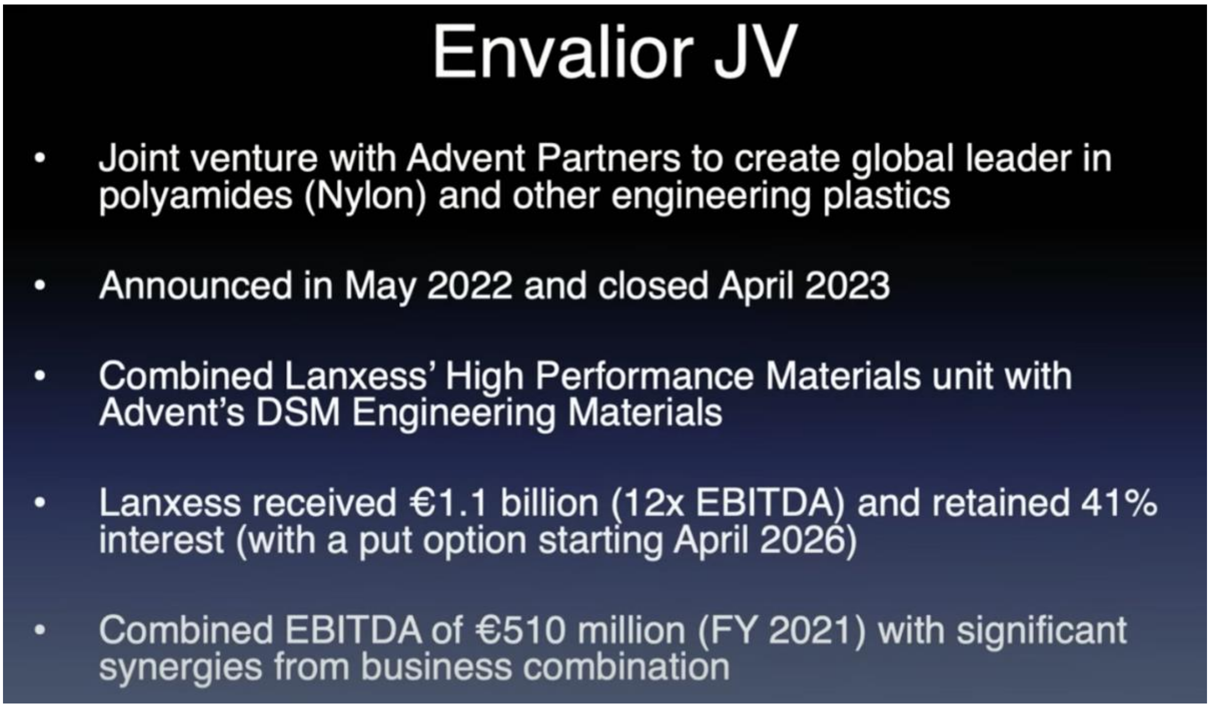
Goal to maximize profitability:



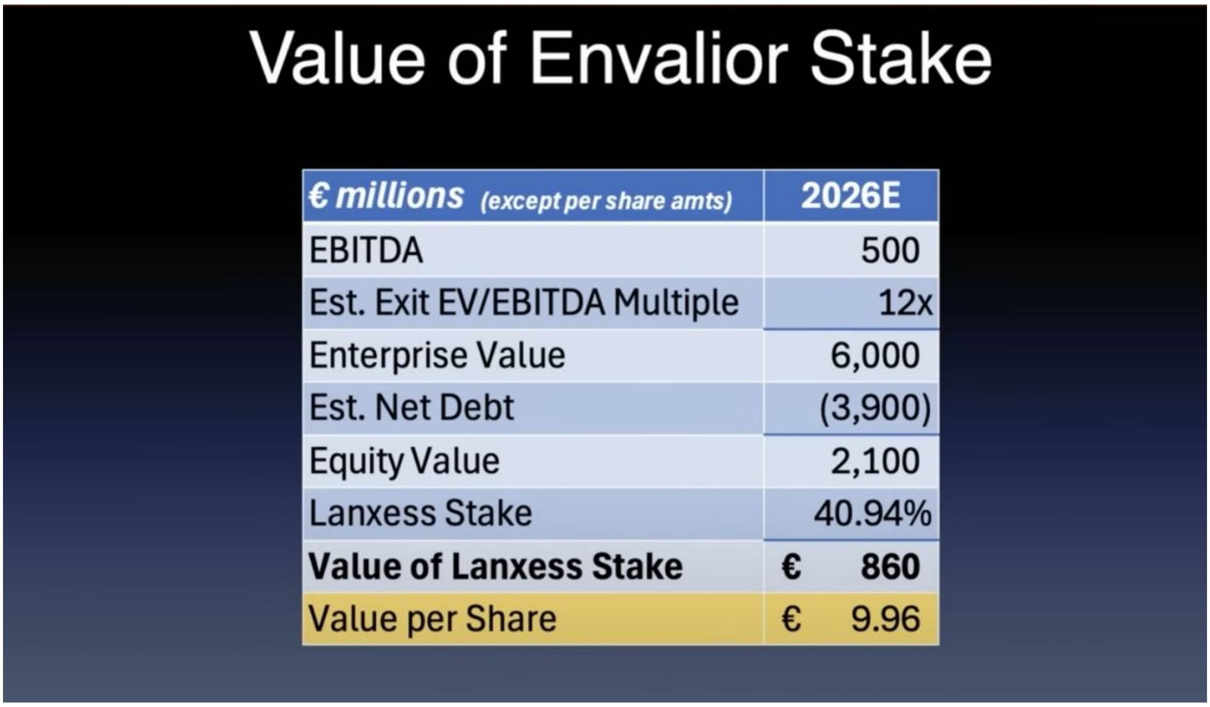
Could be a tariff beneficiary as 30% of manufacturing is in the US, and in the advanced industrial intermediates business Lanxess is the only US manufacturer remaining. Other tailwinds are:



On top of the above, there is another 41% stake in Envalior with a put option it to sell the stake at 12 times EBITDA available from 2026 onward - Lanxess can select when to make the sale:

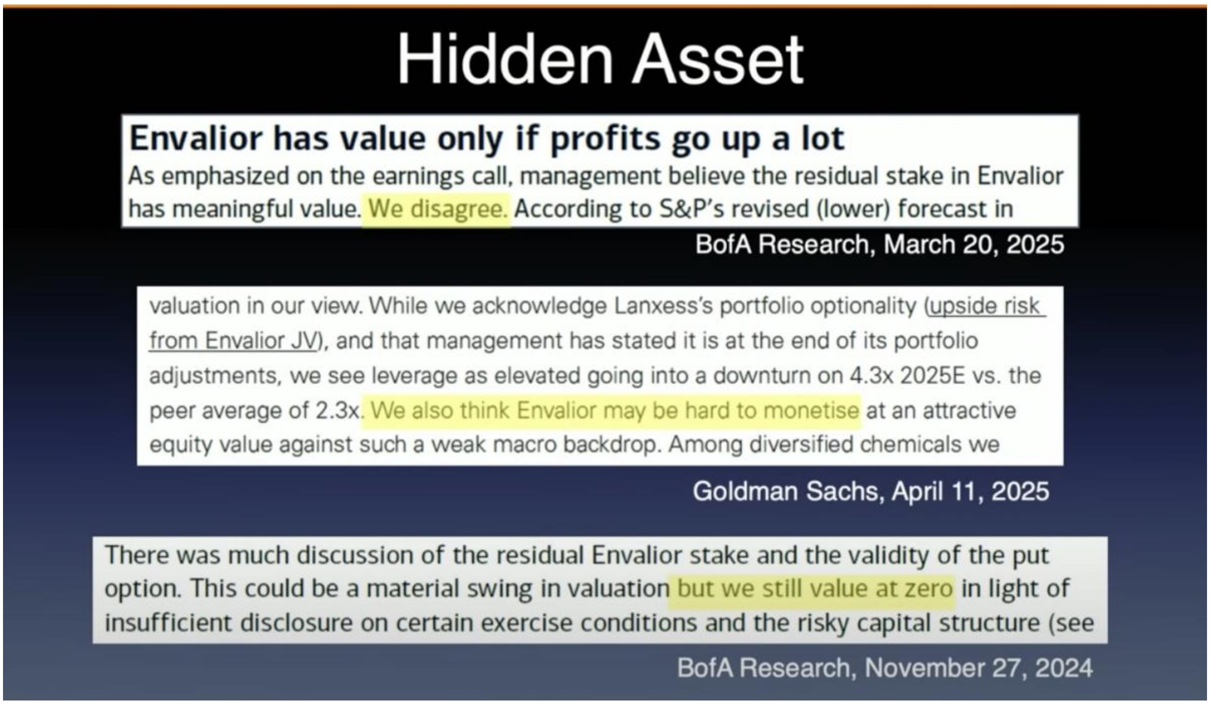


Here is the valuation that might be even higher in 2025 or 2026, stake could be sold by more than 860 million:



€ millions (except per share amts)	2026E
EBITDA	500
Est. Exit EV/EBITDA Multiple	12x
Enterprise Value	6,000
Est. Net Debt	(3,900)
Equity Value	2,100
Lanxess Stake	40.94%
Value of Lanxess Stake	**€ 860**
Value per Share	€ 9.96

Analysts value it at zero:



Using FCF and Envalior stake sale to lower debt, the company would have little debt. A return to normal capacity utilization could bring EBITDA to 900 million EBITDA by 2028.

Lanxess Forecast

€ millions	2025E	2026E	2027E	2028E
Revenues	2,105	2,200	2,266	2,334
Adj. EBITDA	623	719	819	902
FCF after Capex	126	160	185	251
Net Debt / Pension	2,309	2,149	1,104	853
Enterprise Value	4,726	4,567	3,521	3,271
Multiples				
EV/Sales	0.7x	0.7x	0.6x	0.6x
EV/EBITDA (Adj.)	7.6x	6.3x	4.3x	3.6x
P/FCF	19.1x	15.2x	13.0x	9.6x

A 6 times EBITDA multiple would push things higher:

Lanxess Valuation

€ millions *(except per share amts)*	2028E		
	6.0x	7.0x	8.0x
Adj. EBITDA	902	902	902
EV/EBITDA Multiple	6.0x	7.0x	8.0x
Enterprise Value	5,411	6,313	7,215
Net Debt / Pension	(1,104)	(1,104)	(1,104)
Market Cap	4,308	5,210	6,111
Share Price	**€ 49.89**	**€ 60.33**	**€ 70.78**

In case of buybacks:

Share Buyback

€ millions (except per share amts)	2026E	2027E	2028E
Net Debt to EBITDA (Adj.) Target	3.0x	2.0x	2.0x
Net Debt - Capacity	2,158	1,638	1,804
Net Debt - Forecasted	1,708	848	1,638
Net Debt - Excess Capacity	450	789	166
Free Cash Flow	160	185	251
Share Repurchase Capacity	**610**	**975**	**417**
millions (except per share amts)			
Lanxess Shares Outstanding - BoP	86.3	68.2	44.0
Assumed Repurchase Price	€ 33.60	€ 40.32	€ 48.38
Est. Shares Repurchased	18.1	24.2	8.6
% of Shares Repurchased			59%
EPS on Reduced Share Count			€ 6.44
Share Price (13x P/E Multiple)			**€ 83.78**

To summarize, my opinion on Einhorn's presentation; the stock price is now 26 EUR, even if it hits just 52 by 2027, that is a great return. Further, Einhorn knows very well as he first invested in this company 20 years ago, but as always when people disagree on YouTube, the comments are always how poor the research is, I don't think that can be said about Einhorn but let's see:

@hadrienbouquet6450 2 weeks ago
Would interesting to know why it's poorly researched ?
From my side I am wondering how commoditised is the portfolio. Many Chem business are not really recovering bc of Chinese manufacturers which have built capacity over the past few years.
3 Reply

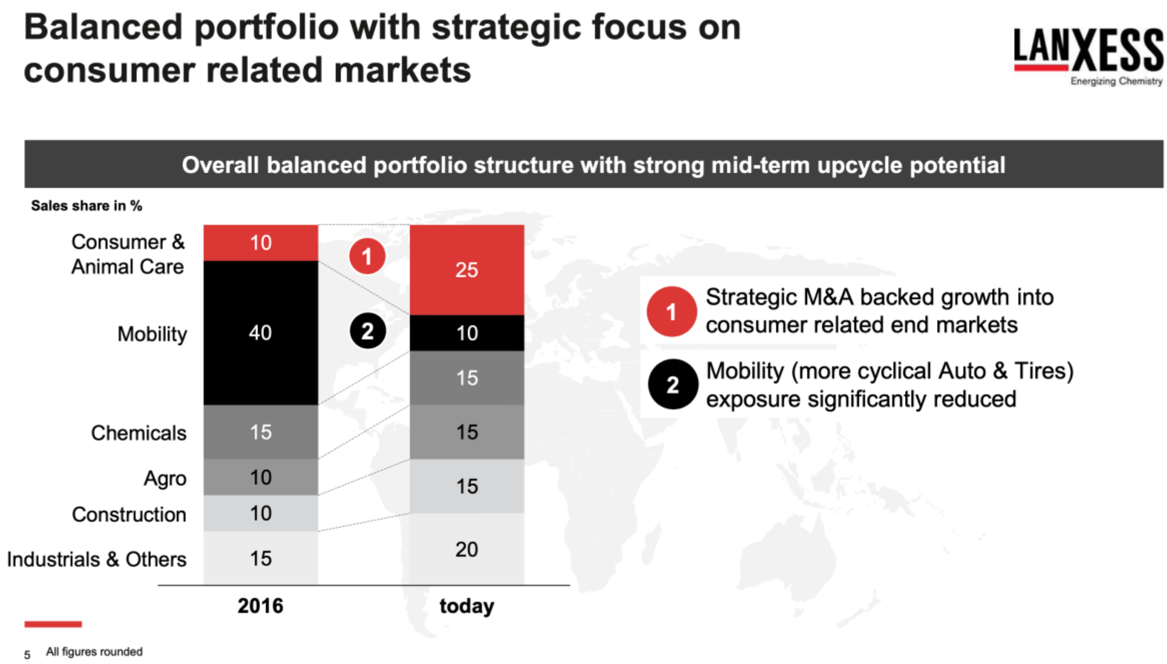
@jroig824 2 days ago
Cash flow is still negative
Reply

@kunalmehta1553 2 weeks ago
Extremely poorly researched.
2 Reply

Also, to keep in mind is Einhorn's long/short investing strategy. We know he is long Lanxess but we don't know what he is short where he might or not be hedged for this in a way. (since the Tesla short debacle, Einhorn is not disclosing his shorts or discussing them in public anymore) Anyway, Einhorn has been doing 13% per year since 1996, and therefore it is always good to learn something from him.

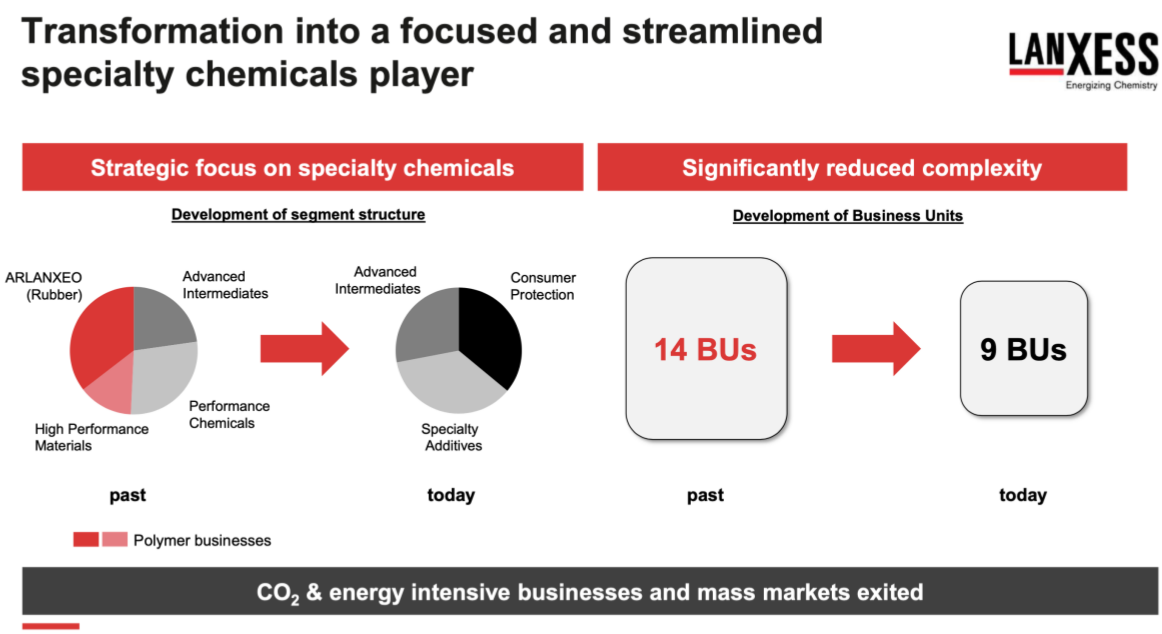
Lanxess Business Overview

Apart from doubling US sales over the last decade, Lanxess also drifted away from automotive and increased sales into more specialty markets.

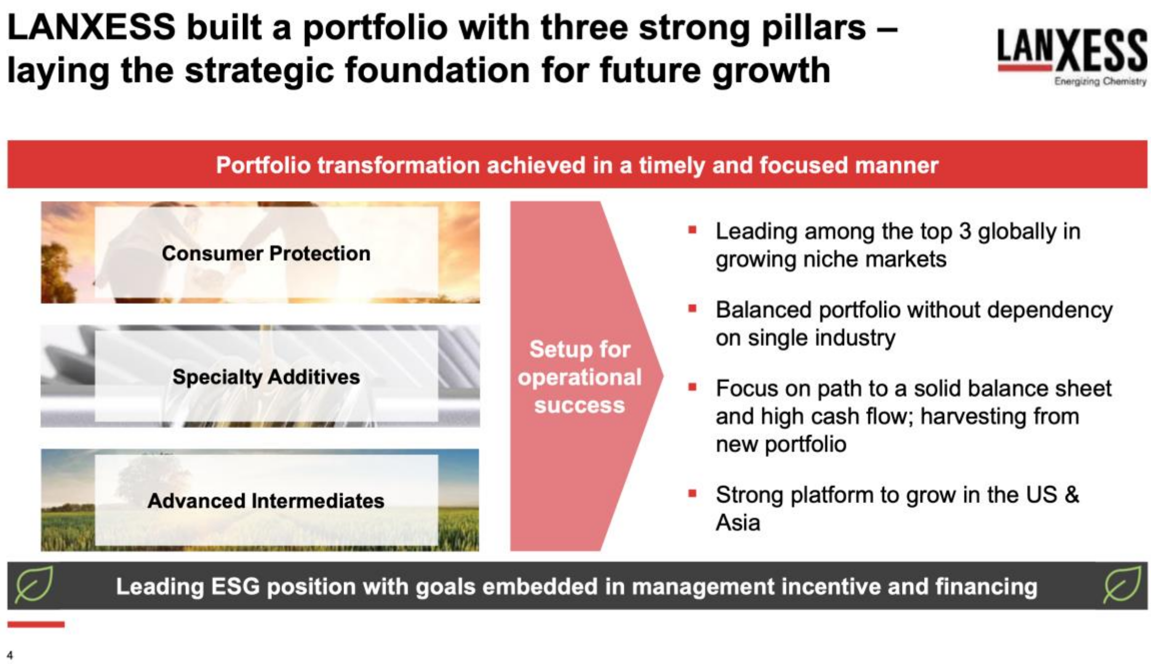


Source: November 2024 Capital Market Day

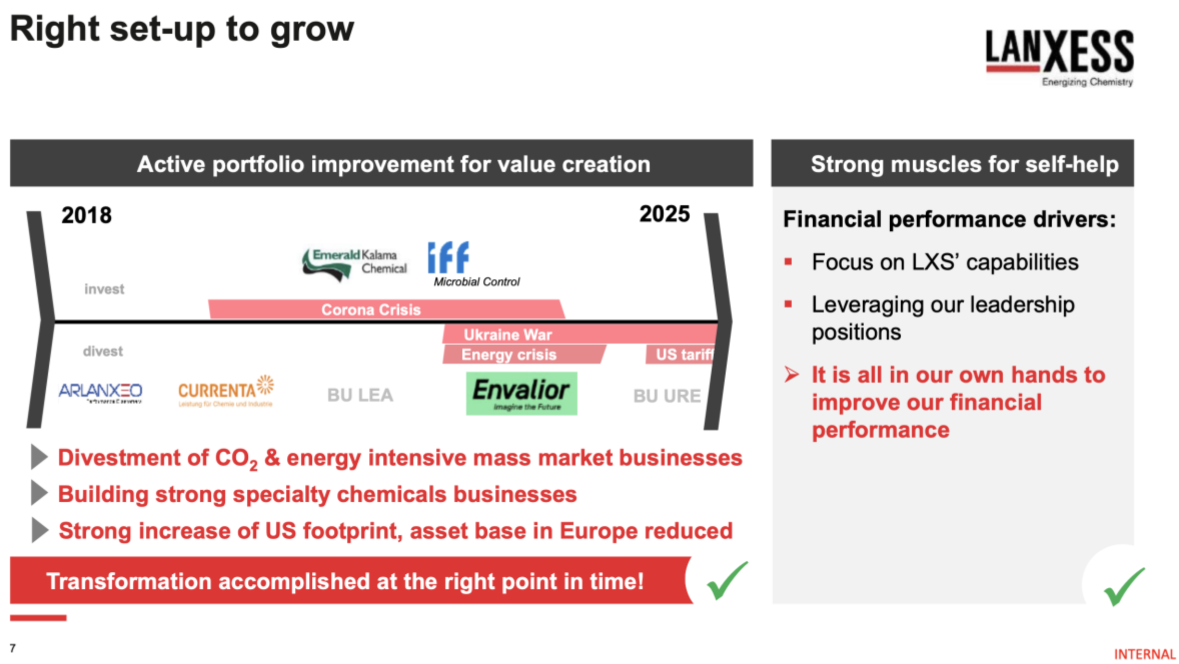
The transformation process included exiting commodity markets and going more into niche things. That should lead to higher margins.



The 3 key business segments are consumer protection, specialty additives and advanced intermediates.



They have sold a few businesses and acquired others:



The focus industries are the following:

Aroma Chemicals

We offer aroma chemicals based on conventional raw materials as well as sustainable versions called Scopeblue®. With the use of sustainable raw materials and green energy we support you to reach your sustainability goals.

Aroma Chemicals Website →

Biosecurity Solutions

Our biosecurity products provide protection against pathogens and vectors, which minimize the use of antibiotics in the agricultural business. Our products break the cycle of cross contamination between animals, plants, surfaces, and so on.

Biosecurity Website →

Microbial Control

We are a worldwide leading manufacturer of biocidal active ingredients and formulations and we offersa wide range of products for many different applications. If you are looking for a biocide or a biocidal formulation, here is where you will find it.

Microbial Control Website →

Industrial Intermediates

We are a leading supplier of industrial intermediates worldwide. Our products are at the forefront of technological advancements. Our commitment to innovation and continuous

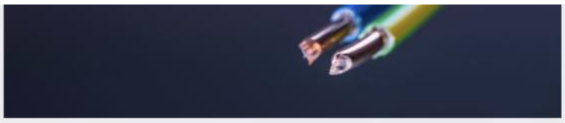
Paints & Coatings

Bayferrox® and Colortherm® pigments have been the benchmark for high-quality iron and chromium oxides in the coatings industry. You can rely on proven quality consistency in the long

Polymer Additives

Flexible, fireproof or colorful: We offer a wide range of additives such as flame retardants, plasticizers, hydrolysis stabilizers etc. for various polymers, e. g. PU, PVC, PA, PET etc. as well as

The current business overview is the following, we have several business units:



Advanced Industrial Intermediates

High-quality basic and fine chemicals enable innovative products

Flavors & Fragrances

Fragrance, Freshness, Shelf life

Inorganic Pigments

Colors for all facets of life.

Liquid Purification Technologies

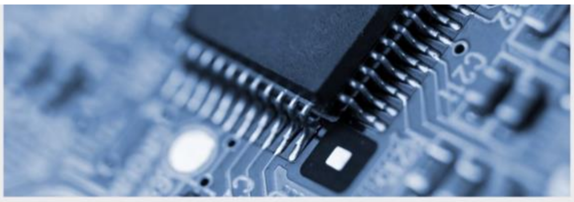
Water – an indispensable resource.

Lubricant Additives Business

Well lubricatedand high performing

Material Protection Products

Protecting Materials.



Polymer Additives
Our Polymer Additives business unit is one of the world's leading manufacturers of bromine, bromine derivatives and phosphorus chemicals.

Rhein Chemie
Largest supplier of additives for the rubber industry.

Saltigo
The specialist for Custom Manufacturing

With chemicals, pigments, lubrification, metal protection, rubber additives I would say it is an industrial business and therefore dependent on industrial demand. With water purification, flavors and fragrances, microbiome protection and things like that it is also diversified a bit. But, all in all, it can be niche, but not immune to cyclical industrial forces.

Here is the structure:

Group Structure

Segments	Consumer Protection	Specialty Additives	Advanced Intermediates
Business Units	Material Protection Products Flavors & Fragrances Saltigo Liquid Purification Technologies	Polymer Additives Lubricant Additives Business Rhein Chemie	Advanced Industrial Intermediates Inorganic Pigments
Applications	› Agrochemicals › Flavors and fragrances › Disinfection, preservation and material protection products › Products for water treatment › Pharmaceuticals	› Colorants, polymer additives › Phosphorous-based and brominated flame retardants › Lubricants and lubricant additives	› Agrochemicals › Automotive › Construction › Aromas and flavors › Semiconductors and photovoltaics › Color pigments
Market positions	Top 3 position	Top 3 position	Top 3 position

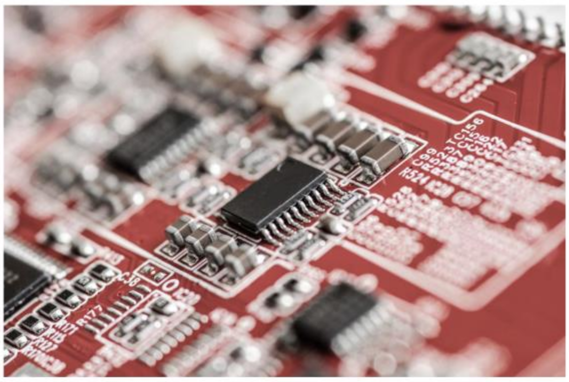
Here is a more detailed description of some of the above segment:

Advanced industrial intermediates including Aromatic network, Inorganic acids, Polyols and oxidation products, Organometallics, Phosporus Specialties & Intermediates and Bromine performance products. The applications are everywhere, from agrochemicals, semi-conductors, chemicals, other organic molecules and whatnot.

Aromatic Network

Our Aromatic Network intermediates portfolio consists of Chlorobenzenes, Chlorotoluenes, Nitroluenenes, Toluidines, Monoisocyanates, Amines, d/l-Menthol, and bio fuels antioxidants. They find application in agrochemicals, flavors and fragrances, high-tech plastics and chemicals.

Discover our aromatic networks portfolio →



Inorganic Acids

Our inorganic acids portfolio includes Hydrofluoric acid, Sulfuric acid ultra pure, Hydrazine Hydrate, Fluorosulfonic acid, Monohydrate, Anhydrite, Thionyl chloride, Oleum and Sodium bisulphite. They find application in semi-conductors, lithium batteries, crop protection, agrochemicals, and corrosion inhibitors.

Discover our inorganic acids portfolio →

This will depend on industrial demand, but as it is also the case with MMM for example, they have created these specialty combinations (120000 various products for MMM) that are tailored to the customer and not commoditized. If Lanxess can do that, we can expect a bit more stability and better margins over time. We'll see about that later in the financial overview.

Aromatic Network intermediates portfolio consists of Chlorobenzenes, Chlorotoluenes, Nitroluenenes, Toluidines, Monoisocyanates, Amines, d/l-Menthol, and bio fuels antioxidants. They find application in agrochemicals, flavors and fragrances, high-tech plastics and chemicals.

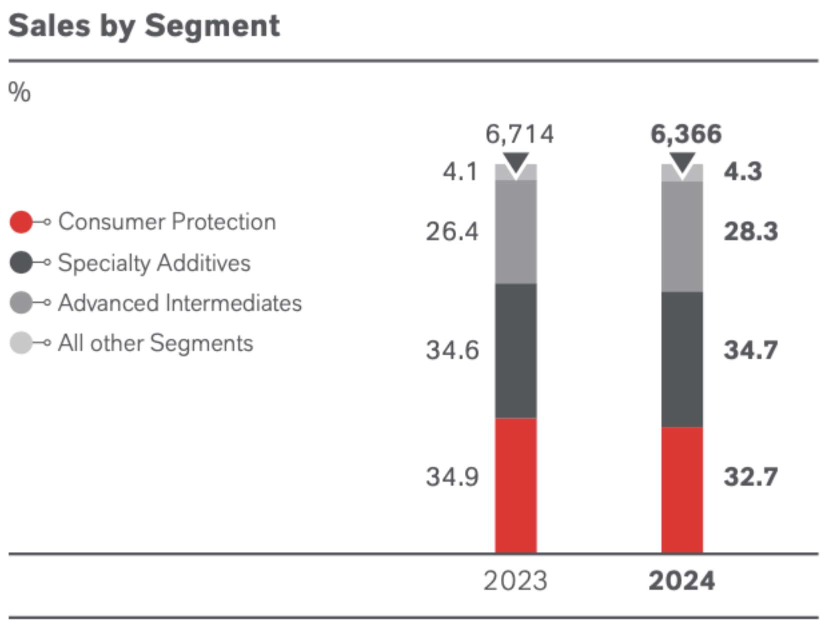
Polyols and oxidation intermediate portfolio includes Polyols like Trimethylolpropane, Oxidation products including Hexanediol, Adipic acid, Glutaric acid, Phthalic anhydride, and Phthalimide, and other products such as calcium formate. Many of these products are available in both conventional as the more sustainable Scopeblue® range. These ranges of products find application in polyester resins, coatings, plasticizers and building material additives.

Inorganic acids portfolio includes Hydrofluoric acid, Sulfuric acid ultra pure, Hydrazine Hydrate, Fluorosulfonic acid, Monohydrate, Anhydrite, Thionyl chloride, Oleum and Sodium bisulphite. They find application in semi-conductors, lithium batteries, crop protection, agrochemicals, and corrosion inhibitors.

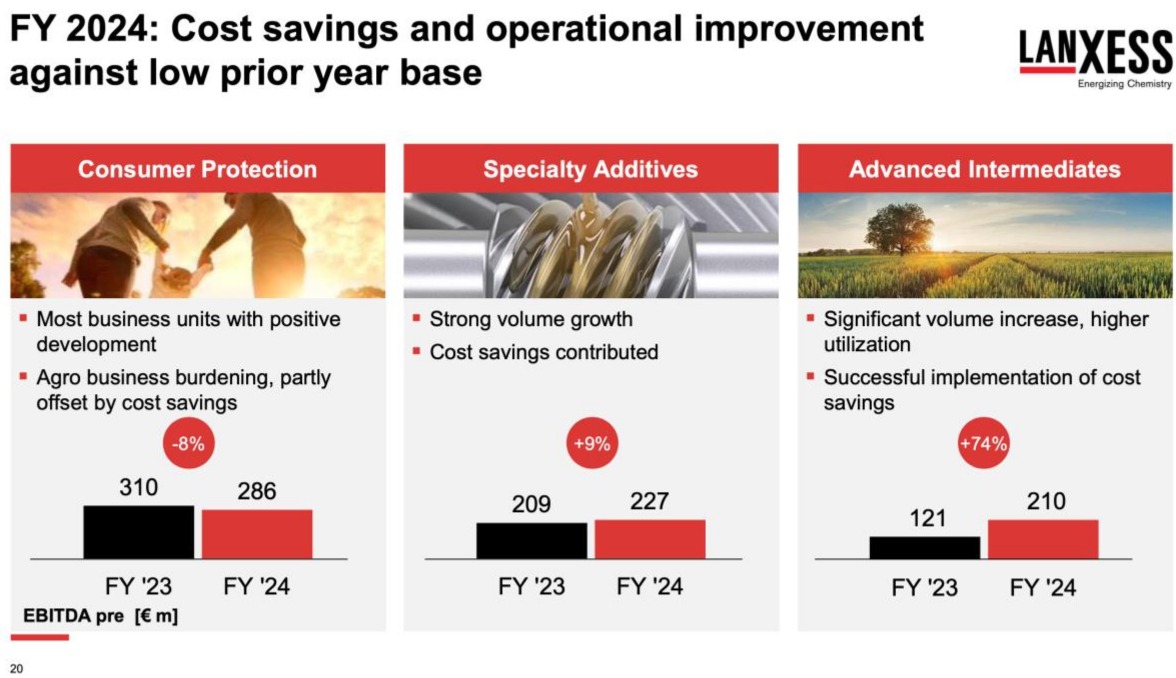
Organometallics portfolio consists of highly reactive, metal-containing specialties like Chlorinated and non-chlorinated Aluminum metal Alkyls, Magnesium di-alkyls, Tin products, catalysts and stereomodifiers. They find application in polyolefins, elastomers, Pharma and fine chemicals, linear alpha olefins and Photovoltaic.

If I look at the applications of the above, we have catalysts, reagents, crop protection, inhibitors, coatings, building materials, flavors and fragrances,

By segments, we have the following sales:



Here is the EBITDA distribution, in line with sales.



I'll go to the annual report and last two conference calls to see what the key drivers and issues are for the business these days.

Annual Report

The CEO's letter starts by discussing the bad economic environment and concludes with the hope that things will improve alongside an economic recovery. In my opinion, we are in average economic times, we haven't seen a proper recession since 2009 and thus it is always good to take what the management says with a grain of salt.

The chemical industry is surely in a downturn, but that might not be because of recessions. Anyway, the company is focused on savings, and the portfolio transformation is considered complete.

The Urethane business with sales of 250 million has been sold and the proceeds will be used to further lower debt. The goal on debt is to get to an investment grade rating.

> Specialty chemicals company LANXESS today signed a contract to sell its Urethane Systems business to Japanese UBE Corporation. The enterprise value amounts to €460 million with expected proceeds of around €500 million. With this transaction LANXESS exits the last remaining polymer business.

2x revenues are the proceeds from the sale, at the same valuation Lanxess would be valued at 12 billion minus debt of 2.38 billion.

A bit more on the business:

> **Production**
> LANXESS is a global producer of specialty chemicals. Our production facilities make anywhere from very small batches of custom-synthesized products to intermediates and specialty and fine chemicals in quantities of several ten thousand metric tons.

Here is an overview of the macro situation and relation to the chemical industry:

Gross Domestic Product and Chemical Industry in 2024

Change vs. prior year in real terms (%)	Gross domestic product	Chemical industry
Americas	2.5	0.5
EMEA (incl. Germany)	1.5	1.5
Germany	(0.2)	2.5
Asia-Pacific	4.0	6.5
World	**2.5**	**4.5**

Sources: S&P Global Market Intelligence (data rounded up to 0.5%); German gross domestic product according to the Federal Statistical Office (Destatis).

The chemical industry is still growing globally and that is a positive long-term structural trend. If that continues long-term, we can expect capacity utilization to improve and consequently margins to follow.

A global slowdown and major recession in developed markets would be the key risk for the company as we see the consequences of a minor contraction in Germany already:

Development of Major Customer Industries in 2024

Change vs. prior year in real terms (%)	Automotive	Agro-chemicals[1]	Construction (residential construction)	Food	Electrical/ electronics	Consumer staples
Americas	0.0	5.5	3.5	0.0	3.5	4.5
EMEA (incl. Germany)	(4.0)	(0.5)	(2.5)	2.5	(2.5)	(0.5)
Germany	(4.0)	(2.0)	(8.5)	0.5	(10.5)	1.5
Asia-Pacific	1.0	3.5	2.5	3.0	6.5	6.0
World	**(0.5)**	**3.5**	**1.5**	**2.0**	**5.0**	**4.0**

1) Pesticides and other organic agrochemical products.
Sources: S&P Global Market Intelligence; residential construction: Oxford Economics.

The forecast for 2025 is for growth in all industries except automotive:

Expected Development of Major Customer Industries in 2025

Change vs. prior year in real terms (%)[1]	Automotive	Agro-chemicals[2]	Construction (residential construction)	Food	Electrical/ electronics	Consumer staples
Americas	(1.5)	2.0	2.5	1.0	3.5	2.0
EMEA (incl. Germany)	(1.5)	2.0	2.0	1.5	1.5	1.5
Asia-Pacific	1.0	2.0	2.5	3.5	5.5	5.0
World	**0.0**	**2.0**	**2.0**	**2.5**	**5.0**	**3.5**

1) Rounded to the nearest 0.5%.
2) Pesticides and other organic agrochemical products.
Sources: S&P Global Market Intelligence; residential construction: Oxford Economics.

Despite all the above, the business is still doing business, and the forecasts were not that off.

COMPARISON OF FORECAST AND ACTUAL BUSINESS

Comparison of Forecast and Actual Business 2024

	Forecast for 2024 in Annual Report 2023	Actual 2024
Business development: Group		
EBITDA pre exceptionals	• Moderately above the prior-year level but well below the average level of recent years • Inventory reduction among our customers completed with the exception of agrochemicals; destocking will not impact earnings to the same degree as in 2023 • Permanent cost savings from our FORWARD! action plan • Persisting challenging environment with an ongoing difficult demand situation in the first half of the year and a recovery in the second half at the earliest • Price level for the most important raw materials and energies below that of the previous year	• EBITDA pre exceptionals: €614 million (previous year: €512 million) • Persistently weak global economic environment in the chemical industry • Weak demand from the agrochemical sector • Lower procurement prices for raw materials and energy resulting in lower selling prices • Earnings performance positively impacted by cost savings from the FORWARD! action plan
Business development: segments		
Consumer Protection	• Development level with the previous year • Stable in 2023 and therefore a less pronounced recovery trend expected • Positive impact through the end of two production stoppages for suppliers • Demand recovery in this business slowed by delayed inventory reduction for agrochemical customers	• EBITDA pre exceptionals down slightly against the previous year: €286 million (previous year: €310 million) • Earnings impaired by weak demand in the agrochemicals sector • Production stoppages for a supplier continued until the end of the year
Specialty Additives	• Business performance up slightly to moderately against the previous year • Improvement primarily in the second half of the year, as the first quarter of 2023 was still at a high level	• EBITDA pre exceptionals up slightly year on year: €227 million (previous year: €209 million) • Earnings performance positively impacted by cost savings from FORWARD! action plan and improved situation for cost of sales
Advanced Intermediates	• Earnings up significantly year on year • Inventory reduction completed for us and our customers	• EBITDA pre exceptionals up significantly year on year: €210 million (previous year: €121 million) • Earnings performance positively impacted by cost savings from FORWARD! action plan and improved situation for cost of sales
All other segments	• Earnings at prior-year level	• EBITDA pre exceptionals slightly to moderately better than in the previous year: minus €109 million (previous year: minus €128 million)
Capital expenditures		
Cash outflows for capital expenditures	• Around €350 million	• €320 million (previous year: €326 million) • Reduction to strengthen free cash flow
Environment and occupational health and safety		
CO_2e emissions	• At the previous year's level	• CO_2e emissions: 1,887 thousand metric tons (previous year: 1,722 thousand metric tons)
Lost time injury frequency rate (LTIFR: accidents per million hours worked) for accidents with days lost	• Target of LTIFR below 1.0	• LTIFR: 0.6 (previous year: 0.6)

With low cash flows, there will be limited new capacity and then it is about waiting for the next boom over the coming years/decade.

As prices declined, so did revenues. As for net income, there is a lot of accounting situations that are not a real costs, therefore we can use the adjusted earnings, or even better to use EBITDA minus capex, minus interest and taxes or FCF.

Key Financial Data

€ million	2023	2024	Change %
Sales	6,714	6,366	(5.2)
Gross profit	1,268	1,298	2.4
EBITDA pre exceptionals	512	614	19.9
EBITDA margin pre exceptionals	7.6%	9.6%	–
EBITDA	328	538	64.0
Operating result (EBIT) pre exceptionals	(53)	53	> 100
Operating result (EBIT)	(668)	(28)	95.8
EBIT margin	(9.9)%	(0.4)%	–
Financial result	(279)	(169)	39.4
Income before income taxes	(947)	(197)	79.2
Net income from continuing operations	(843)	(177)	79.0
Net income from discontinued operations	1,286	0	(100.0)
Net income	443	(177)	< (100)
Earnings per share (€)	5.13	(2.05)	< (100)
Adjusted earnings per share from continuing operations (€)	0.13	1.58	> 100

the previous year was significantly below the figure for fiscal year 2024, primarily due to the write-downs on goodwill acquired in earlier acquisitions. Non-controlling interests accounted for earnings of €1 million in fiscal year 2023 and in the previous year, which is allocable to continuing operations.

Reconciliation of EBIT to Net Income

€ million	2023	2024	Change %
Operating result (EBIT)	**(668)**	**(28)**	**95.8**
Result from investments accounted for using the equity method	(172)	(133)	22.7
Net interest expense	(60)	(41)	31.7
Other financial income and expense	(47)	5	> 100
Financial result	**(279)**	**(169)**	**39.4**
Income before income taxes	**(947)**	**(197)**	**79.2**
Income taxes	105	21	(80.0)
Income after income taxes from continuing operations	**(842)[1)]**	**(176)[1)]**	**79.1**
Income after income taxes from discontinued operations	**1,286**	**0**	**(100.0)**
Income after income taxes	**444**	**(176)**	**< (100)**
Income attributable to non-controlling interests	1	1	0.0
Net income from continuing operations	**(843)**	**(177)**	**79.0**
Net income from discontinued operations	**1,286**	**0**	**(100.0)**
Net income	**443**	**(177)**	**< (100)**

1) Including income attributable to non-controlling interests of €1 million.

Earnings Per Share/Adjusted Earnings Per Share from Continuing Operations

Earnings per share are calculated by dividing net income by the weighted average number of LANXESS shares outstanding during the reporting period. Earnings per share were minus €2.05, lower than the €5.13 recorded in the previous year. The fiscal year 2024 figure was entirely attributable to continuing operations, compared with minus €9.76 of the prior-year figure.

Net Income and Earnings per Share

	2023	2024
Net income (€ million)	**443**	**(177)**
from continuing operations (€ million)	(843)	(177)
from discontinued operations (€ million)	1,286	–
Weighted average number of shares outstanding	86,346,303	86,346,303
Earnings per share (€)	**5.13**	**(2.05)**
from continuing operations (€)	(9.76)	(2.05)
from discontinued operations (€)	14.89	–

We also calculate adjusted earnings per share from continuing operations, which are not defined by International Financial Reporting Standards. This value was calculated from the earnings per share from continuing operations adjusted for exceptional items, amortization of intangible assets, and attributable tax effects. As a result of our minority stakes, we do not have a controlling influence on the operational business of investments accounted for using the equity method. Therefore, we also adjust net income from continuing operations for the result from investments accounted for using the equity method.

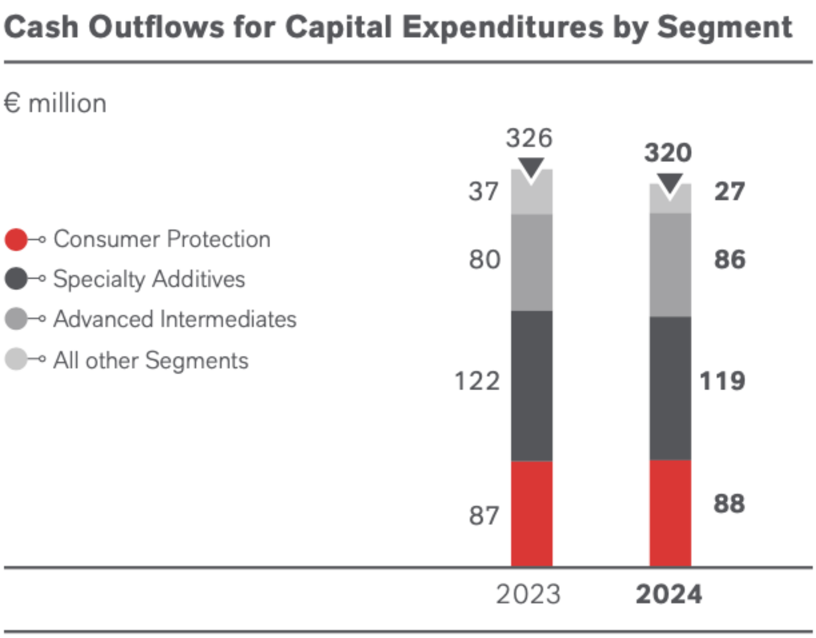
Adjusted earnings per share from continuing operations were €1.58, after €0.13 in the previous year.

Reconciliation of Net Income from Continuing Operations to Adjusted Earnings per Share from Continuing Operations

€ million	2023	2024
Net income from continuing operations	**(843)**	**(177)**
Exceptional items[1)]	615	81
Amortization of intangible assets[1)]	163	159
Income taxes[1)]	(96)	(60)
Result from investments accounted for using the equity method	172	133
Adjusted net income from continuing operations	**11**	**136**
Weighted average number of shares outstanding	86,346,303	86,346,303
Adjusted earnings per share from continuing operations (€)	**0.13**	**1.58**

1) Excluding items attributable to non-controlling interests.

This is a chemical business, where as with mining you have significant cash outflows while you are building the plant but after than it is just maintenance and cash flows. As the transformation period is over, the investments have been done, it is expected for capex to be around 300 million per year.



Consequently, if they make 600 million of EBITDA, minus 300 of capex, minus 100 for taxes and interest (1% on most debt), we have approximately 200 million in FCF.

On debt, rating agencies just look at debt to EBITDA and don't really take into consideration asset values, portfolio sales, or the cycle. Thus for now it is not a good rating there.

Development of LANXESS Ratings and Rating Outlook Since 2020

	2020	2021	2022	2023	2024
Moody's Investors Service	Baa2/stable Aug. 31, 2020	Baa2/stable Jul. 28, 2021	Baa2/stable Jul. 14, 2022	Baa3/negative Nov. 17, 2023	Baa3/negative Nov. 26, 2024
Scope Ratings	BBB+/stable Mar. 12, 2020	BBB+/stable Aug. 4, 2021	BBB+/stable Jul. 7, 2022	BBB+/negative Jun. 27, 2023	BBB/negative Feb. 19, 2024

However, the debt cost is ridiculously low at around 1%.

Financing Structure

Instrument	Amount € million	Term	Interest rate %	Financial covenants
Eurobond 2018/2025 (€500 million)	503	May 2025	1.125	No
Eurobond 2016/2026 (€500 million)	500	October 2026	1.000	No
Eurobond 2021/2027 (€500 million)	498	September 2027	0.000	No
Eurobond 2022/2028 (€600 million)	605	March 2028	1.750	No
Eurobond 2021/2029 (€600 million)	595	December 2029	0.625	No
Private placement 2012/2027 (€100 million)	103	April 2027	3.950	No
Lease liabilities	190	n/a		No
Other	18	n/a		No
Less liabilities for accrued interest	16			
Total financial liabilities	**2,996**			
Cash and cash equivalents	299	≤ 3 months		
Near-cash assets	316	≤ 3 months		
Total liquidity	**615**			
Net financial liabilities	**2,381**			

KEY BUSINESS DATA – MULTI-PERIOD OVERVIEW

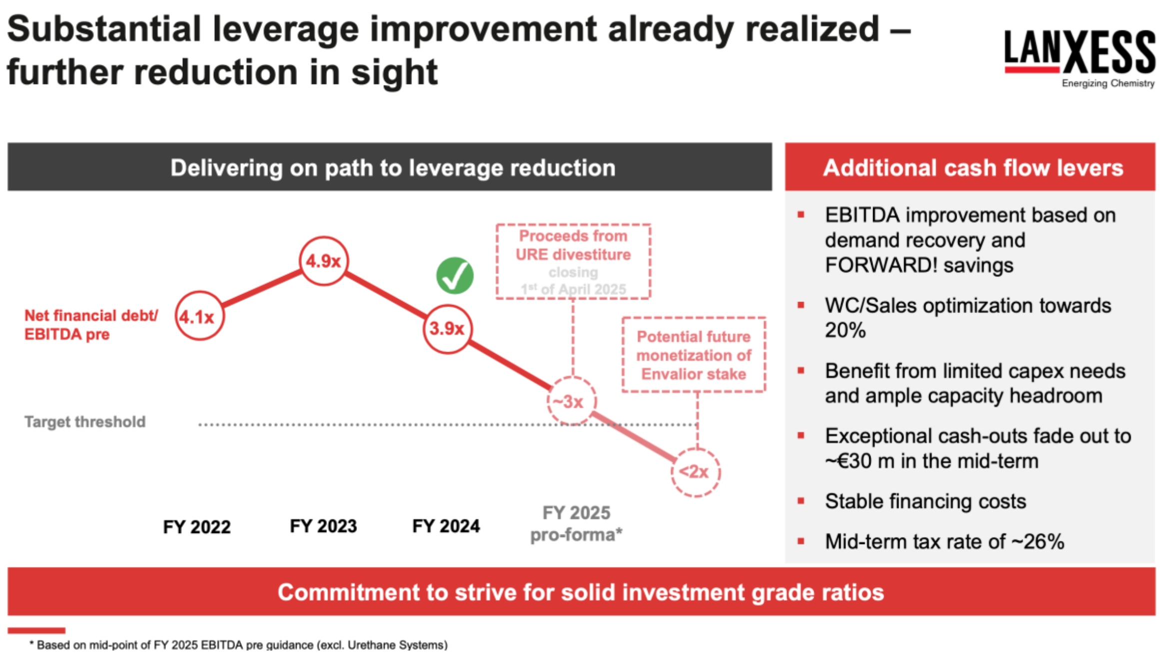
Indicators

€ million	2020	2021	2022	2023	2024
Earnings performance					
Sales[1]	6,104	6,101	8,088	6,714	6,366
EBITDA pre exceptionals[1]	862	815	930	512	614
EBITDA margin pre exceptionals[1]	14.1%	13.4%	11.5%	7.6%	9.6%
EBITDA[1]	757	668	826	328	538
EBIT pre exceptionals[1]	396	361	389	(53)	53
EBIT[1]	253	211	280	(668)	(28)
EBIT margin[1]	4.1%	3.5%	3.5%	(9.9)%	(0.4)%
Net income	885	267	250	443	(177)
Weighted average number of shares outstanding	86,587,838	86,346,303	86,346,303	86,346,303	86,346,303
Earnings per share (€)	10.22	3.09	2.90	5.13	(2.05)
Financial position					
Cash flow from operating activities[1]	594	368	187	852	508
Depreciation and amortization/reversals of impairment charges[1]	504	457	546	996	566
Cash outflows for capital expenditures[1]	456	424	407	326	320
Net financial liabilities	1,012	2,345	3,814	2,498	2,381
Assets and liabilities					
Total assets	8,880	10,528	11,287	9,665	9,711
Non-current assets	4,823	6,139	6,437	6,756	6,262
Current assets	4,057	4,389	4,850	2,909	3,449
Net working capital	1,134	1,675	2,010	1,389	1,350
Equity (including non-controlling interests)	2,999	3,762	4,427	4,507	4,592
Provisions for pensions and other post-employment benefits	1,205	877	367	498	429
Indicators					
ROCE[2]	7.5%	6.6%	4.8%	(0.8)%	0.8%
Equity ratio	33.8%	35.7%	39.2%	46.6%	47.3%
Non-current asset ratio	54.3%	58.3%	57.0%	69.9%	64.5%
Asset coverage I	62.2%	61.3%	68.8%	66.7%	73.3%
Net working capital/sales	18.6%	22.2%	24.9%	20.7%	21.2%
Employees (as of Dec. 31)	14,309	14,866	13,126	12,849	12,338

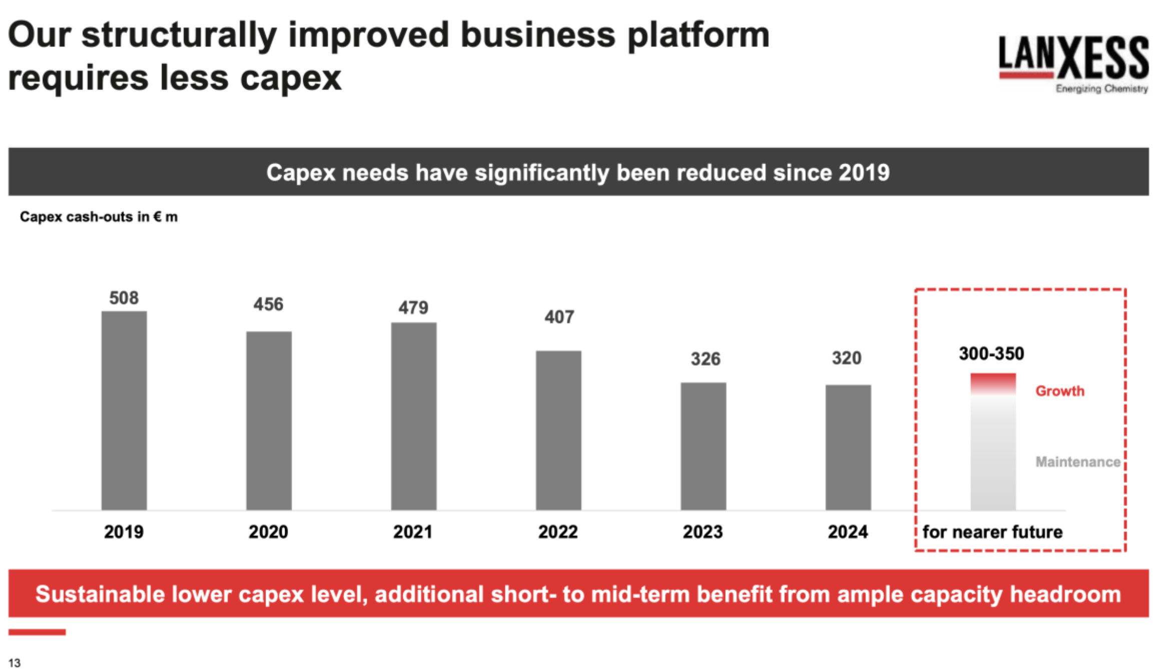
1) Figures from 2021 onward not including High Performance Materials business unit.
2) Capital employed adjusted as of December 31 of each year. Details can be found under "Profitability."

Latest financials Q1 2025

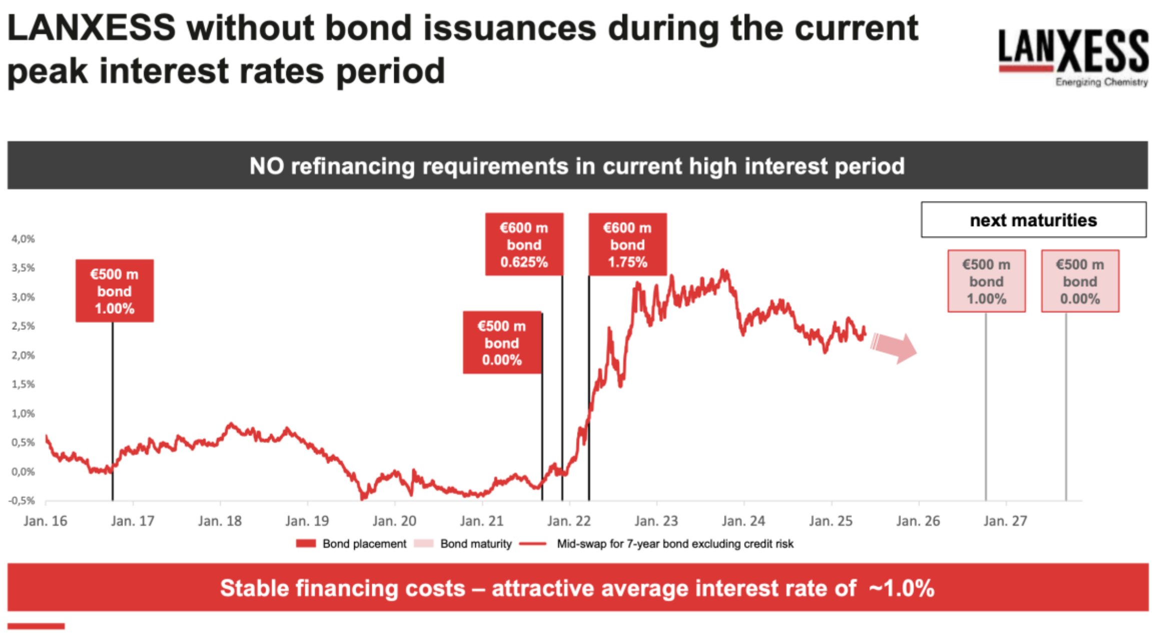
The focus is on deleveraging:



Less capex should improve free cash flows:

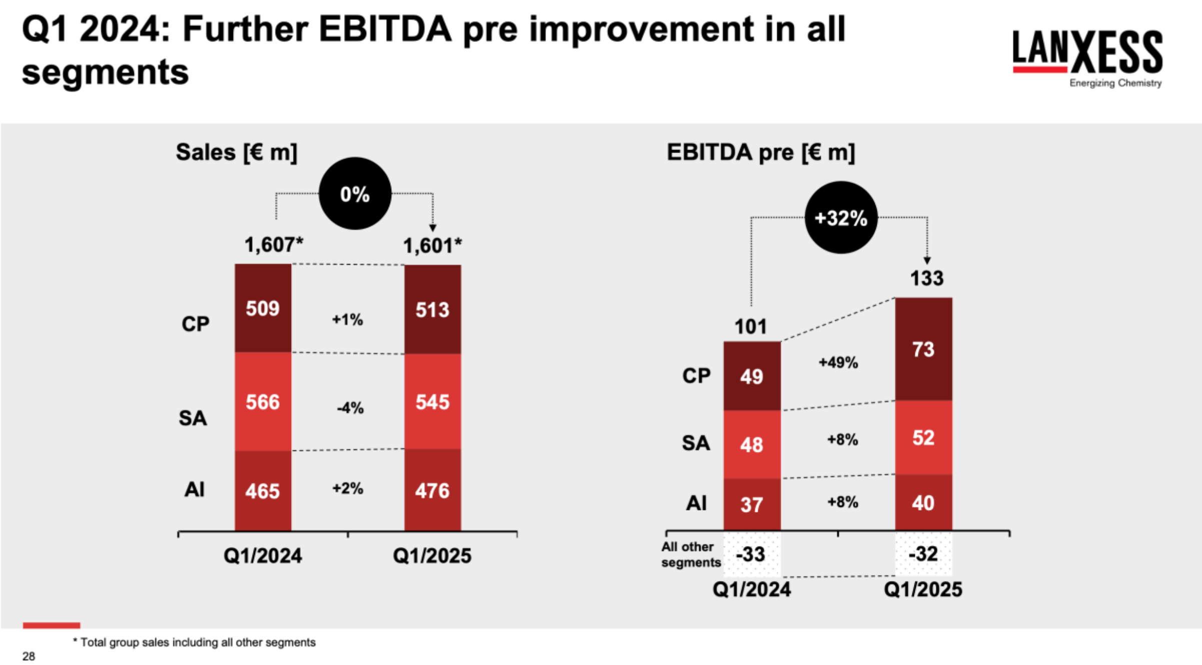


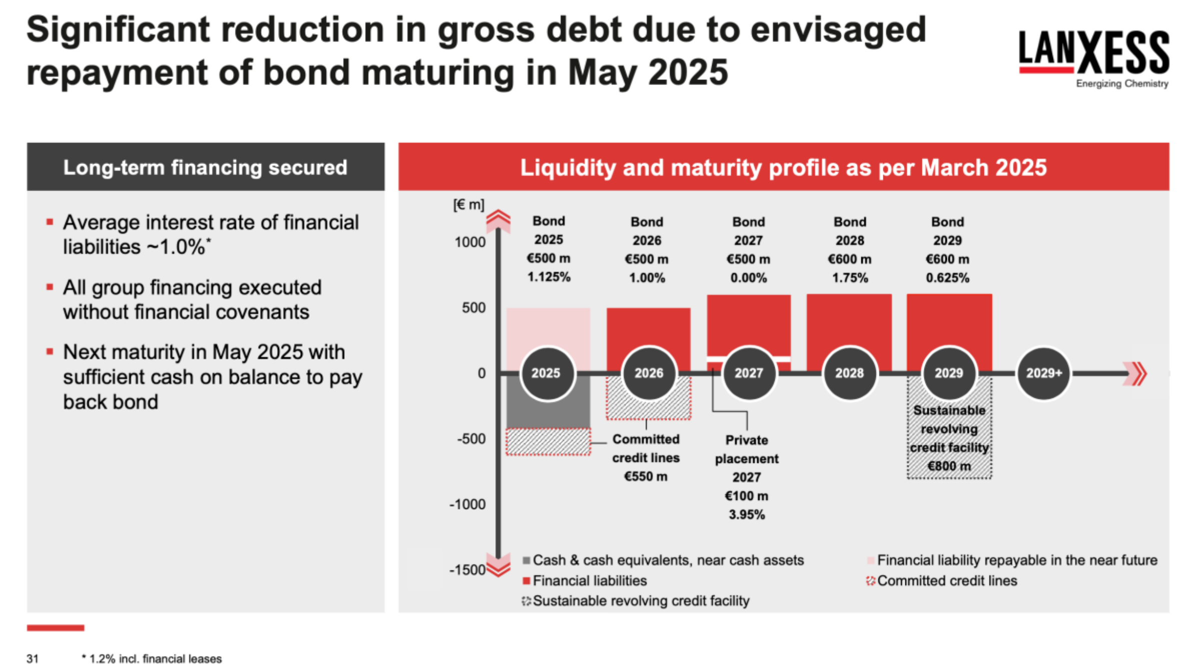
they might not refinance, just repay the bonds, even if at 1% interest it doesn't make much sense to repay bonds. We'll see what the rates will be in 2027.



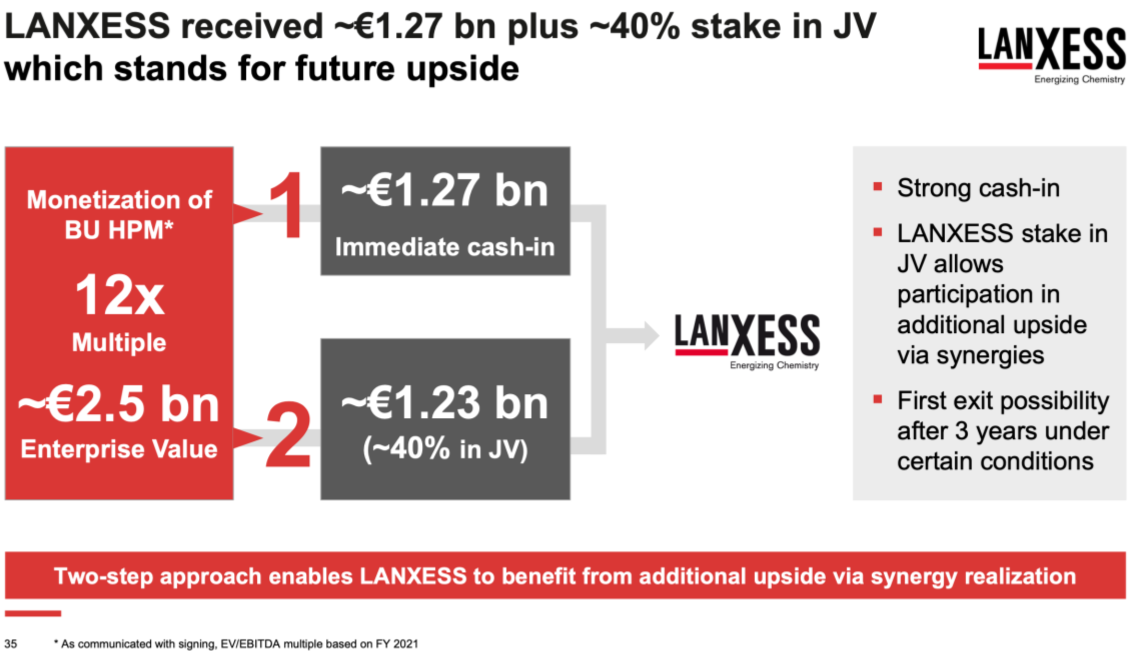
There has been an improvement recently:

And we could expect cash flows to be around 200 million for the year.

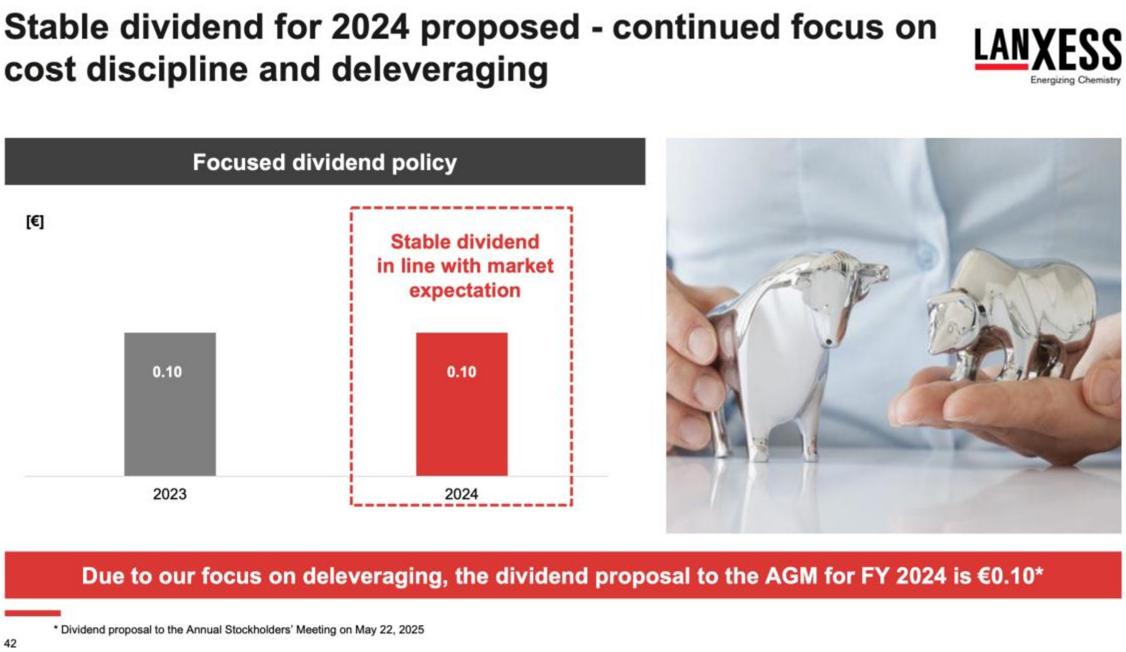




On top of it all, there is the option to sell their 41% JV stake at 12 times EBITDA from 2026 onwards.



The dividend is minimal as they focus on deleveraging. When that is done, and the investment grade rating is achieved, the 200 million or more in FCF could go for dividends, which would be the key catalyst.



Conference Call Q1 2025 + Envalior JV stake value

Tariffs - positive in the US for the company, negative from China competition increasing in Europe - neutral impact.

Question on page 299 from the annual report discussing the value in the Envalior JV. There is a lot of discussion on the correct value, but the management clearly says it is all about the multiple on EBITDA.

And here comes Golman with the key question that also likely differentiates analysts from the management's view:

> **Georgina Fraser**
>
> Great, I've got a few questions left. One of them, a follow up on Envalior, noted that you had a better financial result in the first quarter this year, citing a better performance of Envalior. If you could help share, what are the improving business conditions that you're witnessing for those assets? That was a little bit surprising to me.
>
> Second question. I'm sorry if you feel like in your commentary you have already answered this. But could you outline the rationale for the pickup in activity that's implied in your guidance for the second half of the year?
>
> And maybe just a follow-up on this plant that you just mentioned, Matthias. Is it related to that plant that's currently loss making coming offline or are you assuming a macro improvement?
>
> And then final question is also a follow-up. We've talked a lot about the pressure that the industry has been under and that volumes will come back and margins will come back. And my question is why? Because we've actually had volumes down, I guess, at least mid single-digit since 2019. The automotive market which is a smaller exposure for you, but still meaningful. Units are down versus then. China, construction and manufacturing is all peaked quite some time ago. Like, what exactly are the drivers that you see, meaning that volumes will pick up at some point? Because I think that's what we're all struggling with for the chemicals industry in Europe as a whole. Thank you.

Answer:

- Synergies improving Envalior's profitability

On momentum, the hope is it just continues as it is:

> On the second half, we do assume that momentum doesn't change compared to the current volume momentum. So this is our assumption. We don't assume that there's a sharp drop in the quarters to continue. Our assumption is that we will start benefiting from June, July onwards on US pricing. But we don't assume a fundamental change in the business momentum in Q3, Q4. That's not the case. If it comes, wonderful. If it doesn't come and continue like the current momentum, then we should be fine.

improvement on infrastructure in Germany:

> Now on the volume question so the fundamental question, why should going forward business normalize or improve again? I mean, I come to two flagship industries for us. That's agro and that's construction. I'm not positive on construction for 2025 in Germany or Europe. But construction should improve visibly, accelerating even further, but improving visibly in 2026, accelerating 2027, 2028. That's driven by the massive infrastructure program that has been decided. And from what I hear from my talks with politicians newly elected in Berlin, you will see that in June, first actions will be taken. I'm pretty bullish on the new German government and here on both parties, because they are both convinced that the economy needs to be reignited. So construction should come back. We have seen in the last two or three years that construction was double digit down. That will change.
>
> On agro, I'm also positive, not bullish, but positive that trading environments will improve further. We see that already in 2025 because destocking has come to an end. We will see that momentum here and new products, once they are introduced, will drive momentum with the big five agro players. And then with these two industries, we are already talking about around about 30%, 40% of overall sales coverage.

There is fear with the analysts that the cash from the sale of Envalior will not be there:

> Last year, Lanxess had its plastic polymer business with the corresponding division of the Dutch DSM merged. In the course of this, the financial investor Advent took over the majority of Envalior, which brought Lanxess a billion-dollar profit.
>
> According to earlier information, the Cologne-based scan get out of the joint venture with Advent after three years at the earliest and then sell their share to the financial investor. Even if Envalior's exit process is not directly affected by the book write-off, this could ultimately be an indication that further net proceeds from the sale of the investment could be limited, the Jefferies analysts explained. This raises questions about Lanxess' progress in reducing its debt - CEO Matthias Zachert wanted to use the proceeds from the transaction primarily for this purpose.

When it comes to analysts, their job is to focus on the short term. Their clients think short term and thus their job is short term. If there is something supposed to happen a year or two from now, perhaps even 3, the usual value assigned to it is zero. Of course, if there is exuberance and the sector is hot, there are many new stock issuances where investment banks get fees, then something that might happen a few years down the road is usually extremely exuberantly valued in their models. Thank God we have analysts like that, if not there wouldn't be much to do for us…

Anyway, it is always good to look what analysts have to say and see whether there can be value by looking at things from a longer-term perspective. I am not saying analysts are wrong, I am just saying given my experience, I now know that anything can happen. So, as always, we are looking for margins of safety.

Lanxess Stock Valuation

Investing is good when simple. Let's say they make 200 million in FCF on average over the years. 300 to 400 in good times, and likely less than 200 in bad times that we haven't really seen as things look ugly, but there is no recession.

200 million in FCF for a 10% yield would require a market capitalization of 2 billion. They have 3 billion in debt that should already be lowered by 500 million as they get their sale proceeds this quarter and then further as they might sell their Envalior stake. Let's say that, plus the yearly FCF, lowers debt another billion. Now we are down to 1.5 billion in debt which is still significant but not crazy given the very low cost of debt.

Anyway - 200 million is 9% on the current market capitalization of 2.2 billion.

Potential catalysts:

- improving EBITDA from 600 to 800 million and consequently cash flows from 200 to 300 or more.

- Market revaluation - Lanxess sold many of its businesses for 12 times EBITDA - at 12 times EBITDA I get 7.2 billion minus 1.5 billion in debt would be around 6 billion - 3x!

- Increased capacity utilization that improves earnings and FCF, perhaps on Germany's high infrastructure investments and Ukraine rebuilding.

- Envalior JV full stake valorization at 800 or more million

- after de-leveraging paying a fat dividend

Potential risks:

- continued competition from China, lower prices and continued struggle.

- 10 to 15 years ago, these businesses were selling at 6 times EBITDA, not 12. At 6 times EBITDA we are at 3.6 billion, minus the debt after asset sales of 1.5 billion, I am around 2 billion, which is where the company trades now.

- there is not moat, it is an ok business, specialized business, but they have no moat, no pricing power!

Conclusion - potential upside is 2 to 3x, or better to say, the likely reward is around 10% from the business. The risks are there, could go lower in a recession, market crisis or something like that.

Thus, the risk reward is positive and could be played around in the diversified portfolio for starters as a mid position.