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Covestro AG Acquisition of DSMs Resins & Functional Materials and Innovation Ventures Investor Call (Afternoon Session)

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PRESENTATION

Ronald Koehler ***Covestro AG - Head of IR***

Thank you. Yes, and good morning to our U.S. participants. That is obviously the call, I guess, mainly for you guys in the U.S. Nevertheless, I also welcome all other participants, and I'm happy to hear you then perhaps also a second time. We obviously will have a speech at the beginning and then a Q&A afterwards. We will try to give you even a bit more details than we have given you in the morning, so some additional flavors. And I also want to remind you on our safe harbor statement, which is on Page #1. And with that, I would just like to pass it on to Markus.

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

Thanks, Ronald. And very good afternoon/good morning to everyone at a day where Covestro made a significant step forward to also become a leading sustainable coating resins player. As you have read this morning, we reached agreement with DSM to acquire DSM's Resin & Functional Materials business. With this conference call, we will present you the details of this transaction, and you will see how attractive this acquisition is for our CAS business.

DSM's Resins & Functional Materials business, in short naming it RFM, has a compelling strategic fit with a highly complementary portfolio and technology.

With the acquisition, we are shifting our CAS portfolio further towards high-growth markets, which are driven by sustainability. Strong synergistic benefits will create significant value, and the integration will benefit from comparable sustainability and innovation driven cultures and corporate values.

Now I am on Slide #3. You see here a detailed overview of the transaction. The acquisition of RFM is a bolt-on acquisition to our CAS segment and will add additional EUR 1 billion sales to CAS. In 2019, RFM achieved an EBITDA of EUR 141 million, and budget expects EUR 150 million EBITDA in 2021.

We agreed on the purchase price of EUR 1.61 billion. Including received cash this is an enterprise value of EUR 1.5 billion. If you divide this enterprise value by the EBITDA expected in 2021, you get to a multiple of 10.3.

What makes this purchase enormously attractive: from the excellent fit of RFM to CAS, we identified EUR 120 million synergies. So including synergies, we get a multiple of 5.7 from this deal. And on top of that, our acquisition also includes three small but promising innovation ventures.

Full bridge financing for the purchase price is in place. For financing of this acquisition, we are committed to keep a solid investment-grade rating, so we created a mixture with around EUR 450 million from new shares and up to EUR 600 million from bonds we will issue.

As usual, the deal is now subject to regulatory approval, including antitrust clearance, and we are expecting to close the deal in the first quarter of 2021.

Let's turn to Slide #4. In that slide, you get an overview on what RFM is. In 2019, with 1,800 employees, RFM generated sales of around EUR 1 billion and EBITDA of EUR 141 million. This was an EBITDA margin of 14% and went along with a free operating cash flow of EUR 93 million.

RFM is a global leader of sustainable coating resins, majorly active in specialty resins and also in energy curable solutions as well as powder coating resins. You also see the industries that RFM serves and which are highly complementary to our CAS business with, for example, exposure in architectural and packaging.

In Slide 5, you see the RFM product areas' further details, all in all, highly complementary to our CAS portfolio. Specialty resins, majorly water-based and high-performance resins for architectural industrial coatings and printing and packaging. Before the acquisition, RFM was #5 and Covestro was #6 in this market.

Powder coating resins, the polyester technology. RFM was the inventor of the polyester powder coating resin technology over 50 years ago. Here, RFM is market leader; and energy curable solutions where in the fiber optics part, RFM is market leader with 68% market share. Here, RFM is partner to all global cable manufacturers.

Now turning to Slide #6, where you see how excellently RFM contributes to our sustainability vision. Around 85% of its sales in 2019 RFM achieved with sustainable technologies. In the overall coating resins market, the share of sustainable technologies is 55% and strongly increasing. For the overall coating resins market, we are expecting from 2020 to 2025 a CAGR of around 3% per year. Environmental regulations and customer demand of greener products lead to additional annual 2 percentage points of technology share substitution to sustainable technology. So with RFM's very high share of sustainable technologies, we are expecting from RFM a high-growth CAGR of around 5% per year. And so RFM and CAS combined will found a leading supplier of sustainable and high-quality products with low environmental impact.

On Slide 7, you get the structure of our future CAS segment. The bolt-on acquisition of RFM increases CAS sales from around EUR 2.4 billion to EUR 3.4 billion, and it increases the share of coating resins to 60% of total CAS.

RFM's product portfolio is complementary to CAS. CAS is in a wellestablished position in water-based polyurethanes dispersions. RFM has the complete range of water-based polyacrylates resins, so this is a significant step in our long-term strategy to strengthen our sustainable and innovation-driven business.

You also see here the comparison of industry shares within coating resins before and after the integration. You see how the integration of CAS and RFM leads to a much more balanced portfolio of customer industries.

Let's turn to Page #8. Integrating RFM with the coating resin business of our CAS segment makes Covestro also become a global leader in the attractive growth market for coating resins. With that, Covestro will have one of the most comprehensive and innovative product portfolios, creating compelling customer value propositions.

This as overview on the business impact. And for the financial impact, I'm now handing over to Thomas.

Thomas Toepfer ***Covestro AG - CFO, Labor Director & Member of Management Board***

Yes. Thank you, Markus. And also a very warm welcome from my side to everybody on the call.

So let's go to the next page where you see the synergy impact of the deal. And as Markus said in the beginning, the excellent fit of RFM creates significant synergies of in total EUR 120 million. And I would like to guide you through on these next 2 pages, where these synergies come from.

So if you're looking at Page 9, you can see that out of the total EUR 120 million synergies, we identified EUR 80 million that come out of cost synergies, and let me explain a little bit on where they come from.

So first of all, the biggest bucket is the sales and marketing arena. So I think it's quite obvious since the product range is very complementary, we have a large number of FTE who are dealing with the same customers and who are also overlapping in terms of marketing. So I think this is for us the most obvious way where we think that over time, we will be able to put the business in a much more efficient state.

The second one is in the field of general administration. And here, the trick is slightly different because the fact is that we will only receive a very limited number of people from DSM who previously did the G&A work. So the trick for the synergies is that we will simply have to build up less people than was originally in the scope of the RFM business.

Just to give you an example, and I've looked into this personally very much in detail, we are taking over a handful of people in the entire field of IT, and we're only taking overabout a dozen people in the entire field of accounting. So that means the synergy almost comes out by itself because we will be able to do a large amount of the tasks that are necessary to integrate for RFM within the existing number of people that we have already on board. And thereby, the synergy simply will be done by not having to hire additional people and leaving a large amount of people who previously did the work within the scope of DSM.

Number 3 is the purchasing field. We went through extensive lists of materials, both on the raw material side, but also on some more specialty areas. We were able to look in detail into the pricing structure that RFM received and also to the conditions that we have in our own purchasing department. And by matching those and looking into what is the best condition that we can get, we came to a quite conservative approach, which is depicted here. So I think the level of certainty again that we have because of the information that we received in the due diligence for purchasing, is very high.

Last but not least, on this page, the production side. This stems from the fact that we have complementary asset base. So not only on the CapEx side, we will be able to use our assets more efficiently, but also on the OpEx side. We will be able to increase the efficiency of the asset use that we have. And as you can see here in the pie chart, this is even a rather small amount of synergies that we're counting on to come from this space.

So overall, I would just like to emphasize that the level of certainty that we have because of the details that we were able to look in the due diligence phase for the cost synergies, in my view, is very, very high.

Let's turn to the next page where you see the overview of the revenue synergies which make up EUR 40 million. And here, you can see that the biggest chunk is what we identified from cross-selling. And so, we can approach in this space customers with a full portfolio at once. And before,-Covestro supplied high-performance coatings at higher prices, while RFM offered lower performance coatings at lower prices, and we think that the combination of both creates an additional product range in the mid-performance range, which will open a complete new customer range for us. And that is something where we think the biggest chunk from this cross-selling synergy will come from because we will be able to supply the full range and also supply the middle ground, which, so far, is largely untapped.

And the second big area of synergy which we see is the full global presence, which RFM so far was lacking. So for example, no presence in Brazil, and also some white spots or blanks spot in Asia, including Japan, where we now have full coverage through the Covestro network. And we're able to sell the existing products to new customers that can be served through the Covestro network. And therefore also here, our level of certainty that these synergies will materialize is comparatively high. However, and that you will see on the next page, the phasing of the synergies obviously is different.

Again on Page 11, you see the entire EUR 120 million, which represents 12% of the RFM sales in 2019. And you can see that the build up of the synergies is faster for the cost synergies, while for the revenue synergies, the full swing will only be achieved in the year 2025. The overall implementation costs are roughly EUR 140 million, of which the majority will occur in 2021.

So with that, let's turn to the next page. On Page 12, you see our transaction compared with some selected other acquisitions in the chemical industry. And I just would like to make two points on that page. So first of all, if you compare the multiple that we're paying on the left-hand side with some other transactions, you can see that we are absolutely in the median of comparable chemical transactions in recent time, but also that we're absolutely comparable with coating resins transactions. And we are at the usual level in terms of our multiple, and this is obviously the multiple that is not synergized.

And if you look at the right-hand side, that, I think, is really what puts our transaction apart, which is that we have a much higher synergy potential, which is 12% of the sales of RFM as I mentioned, while the median is only 7%. And that again underlines the high complementarity and the high strategic fit that we'll be realizing with this transaction.

So let's turn the page to Page 13 and talk in more detail about the valuation. On the left-hand side, you see the enterprise value of EUR 1.55 billion, and on the right-hand side, you see the EBITDA. So if you put it into relation to the stand-alone unsynergized EBITDA for 2021 of EUR 150 million, that gives you a multiple of 10.3x. However, if you take into account the synergy potential of EUR 270 million and look at the fully synergized EBITDA, which would then amount to EUR 270 million, that gives you a highly attractive multiple of 5.7x. And that shows the high value that the acquisition creates in our view for our shareholders.

So with that, I would like to talk about our innovation ventures that we also acquired in light of the transaction together with the RFM core business. And as you have perceived, and as I have tried to convey, the enterprise valuation based on the RFM business as what we think is a highly attractive value-creating acquisition for us. But as you heard from Markus in the beginning, on top of the RFM business, the acquisition includes three currently relatively small start-up ventures, which we're essentially acquiring for a zero enterprise value. They are quite promising and so far, we think that they will have the potential to add further value to our acquisition.

And on the Slide 14, you see those three innovation ventures depicted. There's one startup which is additive manufacturing, so 3D printing which offers high-performance solution for additive manufacturing. And here, we do see significant growth opportunities from 3D printing applications. You see also that the development of the additive manufacturing market is a 21% growth in 2019 versus 2018. And for the future, we expect a CAGR of 25% per year market growth. And with that, this innovation bench should definitely have high-growth ambitions to increase sales from a currently low-digit million number in 2019 to a low triple-million number in 2025.

Another start-up is the advanced coatings solar business, which offers coatings for solar applications. And with that, it helps to improve the energy efficiency of solar applications and power generation.

And the third one is highly interesting for us. It's called Niaga, which is a pioneer for circular business models. And the brand Niaga is the reversal of "again", so that already conveys it is all about circular because Niaga redesigns goods to enable 100% material recovery and reuse. So it aligns perfectly with our vision to become fully circular and definitely has the potential to further grow into a complete circularity platform for our products.

So with that, let's turn to the Page 15, which shows you the details of the financing structure that we have chosen for the acquisition. So, on the left-hand side, you see the total acquisition financing amounting to EUR 1.6 billion. That is fully covered with a bridge financing which is underwritten and in place, underwritten by 2 of our relationship banks at very attractive rates.

And for the takeout financing, we are committed to a solid investment grade rating. And that means that we have created a combination of financing components, one of them being a roughly EUR 450 million equity increase from new Covestro shares, and another one a bond refinancing of up to EUR 600 million from bond issuance over the course of later this year. And the remainder of the EUR 550 million: we will finance that through own cash, also supported by the very solid free cash flow that we're expecting from the RFM integration.

So we noted here, and that's the last bullet on the lower right-hand side, we do not see any material M&A activity during both the integration and also the deleveraging phase. And with that clear statement, I would like to hand it back for Markus for the closing remarks.

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

Thanks, Thomas. Before I summarize our acquisition deal and we come to your questions, let me raise one more point. Also for me personally, it is important to note that DSM in general as well as RFM fully share our sustainability values.

On Slide 16, you'll find further details and examples how well RFM fits here and supports Covestro's ESG ambitions.

So on Page #17, please allow me now to summarize the transaction for you. With this bolt-on acquisition to CAS, Covestro receives a very attractive target and becomes a global leader also in coating resins. We are diversifying the CAS portfolio towards a more balanced and resilient product and industry mix. We are shifting the CAS portfolios to high-growth markets driven by sustainability.

We talked about the significant synergies that are identified and that lead to the extremely attractive valuation multiple. And with our solid financing structure, we continue to be committed to a solid investment-grade rating of Covestro.

We thank you for your time and interest and are now happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Mr. Laurence Alexander from Jefferies.

Unidentified Analyst

This is [Dennis] actually calling for Laurence. I just had a couple of questions on the revenue synergies. I was wondering, one, how long it usually takes, how long the sales cycle is? And whether or not there are revenue dissynergies whereas you will lose some sales because of the customer overlap, whereas customers want more diversification?

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

So let me start with the last part of your question. We do not expect that we would lose or have dissynergies with regard to the revenue synergies, to be very clear.

And how long will it take? I think we have shown you on Page #11 a little bit what we are expecting in terms of which synergies will come first. And you see here that's on the revenue side. And I think that explains itself. Also if you look at how we want to achieve those revenue synergies, they come more towards the outer years. And the reason for that is that on the one hand, we think that those synergies actually lie in the opportunity to jointly innovate with our customers. For example, systems that are today separately sold by individual companies and sold by RFM and Covestro. And would actually today not so easily lead to opportunities to jointly develop with customers. New systems, for example as Thomas lined out a little bit earlier, in the middle range of the coating systems, you have to just imagine that a coating as of today is composed out of different layers. And those different layers of the coating require a different, different materials. However, they have to work also when they are combined. And that is exactly where those businesses now offer additional opportunities where we can jointly develop with customers, for example, new systems in different pricing areas, for example, but also creating new chemistry in this context. And that normally takes a little bit longer. Nonetheless, as we understand the chemistry, I would say, quite well.

In addition, we know the CAS business by heart, and we know also the RFM business due to many interactions that we have had over years and also from customers in the market very well. In addition, we had during the bilateral due diligence process which gave us a lot more air, so to say, an airtime with the seller, more than 150 people for several weeks, some even up to months looking into this business. We have a very deep and very solid understanding. That's why we're also very confident on the side of the synergies with regard to the revenue synergies. I hope that helps a little bit.

Unidentified Analyst

No, that helps a lot. And then just given the, I guess, the exciting opportunity in terms of growth in terms of the EBITDA margins that you're highlighting, I was wondering if thereare other companies or other businesses like this within the space that could also be down the road? Are there other targets is the short question?

Are there other companies like this that offer the same type of growth and margin opportunities within the CAS space?

Thomas Toepfer ***Covestro AG - CFO, Labor Director & Member of Management Board***

Let me take your question. If your question is do we think that there is more acquisitions that we that we see, then the clear answer is no. I think this is the one that we were looking for.

And I finished my segment with this remark on, no, we don't have anything that we see would happen in the near future, at least not during the deleveraging phase.

And secondly, if your question is are there other companies who are that well positioned especially in the sustainable area like the DSM business that we acquired with 85% exposure to that market, we would say no. All our research shows that this is the one that has the best exposure, and therefore brings us the biggest leap forward in terms of focus on sustainable solutions that are the high-growth area of the market.

Operator

(Operator Instructions) Your next question comes from Mr. Peter Spengler from DZ Bank.

Peter Spengler ***DZ Bank AG, Research Division - Analyst***

On the goodwill PPA and interest, maybe I haven't heard it or you mentioned it before. But I would be interested whether there is a PPA. How much do you consider for the goodwill? And what is the interest rate? And when do you expect the equity hike to take place?

Thomas Toepfer ***Covestro AG - CFO, Labor Director & Member of Management Board***

So we haven't done an exact purchase price allocation yet and you know this is quite a complicated thing. But what I can do is to give you some indication.

If you really want us to give you the best cut, then I would say goodwill on the one side, intangibles on the other, and thirdly, intangible assets. Those 3 buckets. You can take roughly 1/3 each, just to give you a rough cut on what you expect. And that would then translate into PPA or into amortization of roughly EUR 50 million to EUR 60 million per year because the intangibles will be depreciated. So as a rough indication Again, exact PPA yet has to be done.

And I think your second question was on the equity, whether we have a timing in mind. I would not speculate about timing. Of course, we will monitor the market closely. And I think the only thing that I can tell you is we don't necessarily will do this after closing, but we could well imagine that this could also happen in this proposal.

Operator

Your next question comes from Mr. Joe Mares from Trium.

Unidentified Analyst

I have two I wanted to briefly explore. The first is can you talk a little about kind of what the customers are looking for in these purchase decisions? Obviously, there are a lot of different products, and resin is a pretty unconsolidated market. Is it a specific performance metric they're looking for? Is it cost? Is it deliverability? Is it convenience? If you can give us some color on that, certainly, in terms of the business you're acquiring is different from your core business.

And the other question, and I'm sure you've been asked this before. But it would be very helpful as we all have to disclose our sort of sustainability metrics for your company, if you could talk a little bit about the carbon intensity of this business relative to your own business?

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

In terms of a similar order of magnitude in the business that we have currently with our and with the RFM portfolio. And on top of that, Thomas has just outlined the so-called 3 innovation businesses where we see also additional growth opportunities which are directly linked to very specific customer needs that are met. So here, it is all about performance at the end of the day. The customer has very high request on what the performance specifically should look like for hundreds, if not thousands, of individual applications. And that could go from surface haptics, color, functionality and so on and so forth, to, for example, the properties, how additive manufacturing has worked and how additive manufacturing is building specific parts on the spot for many different applications. So, long story short, it is all about very individual development and very high specifics in terms of meeting the performance requests of customers. And that therefore also easily translates into a true specialty business that also shows the respective margin profile in terms of how high the margins are and how stable the margins are specifically over time.

So long story short, once again here, this is all about customer-centricity, performance for the majority of the entire portfolio. And that is where the beauty lies to combine those businesses because innovation, and in particular sustainability-driven innovation, is absolutely key. And here we are combining 2 businesses which have, over a long period of time, acquired this knowledge, and now combining this knowledge where we believe that some of the parts is much higher than the individual parts in this context. So that's how I look at the business, and that's how I've always experienced our own CAS business. And that's what I also have seen from all, let's say, aspects, how the RFM business is generating margins and generating value.

On the second one, carbon and disclosure, Thomas, would you like to go ahead?

Thomas Toepfer ***Covestro AG - CFO, Labor Director & Member of Management Board***

I'm not sure whether I get your question totally correct. So I think our clear statement is that we want to reduce our specific carbon emissions by 50% between 2005 and 2025, and we are on a very good way to achieve this because we have, end of last year, achieved already over 40% reduction. The acquisition will help us to accelerate that because it is comparatively asset-light, plus it includes further innovation ventures like the Niaga venture, for example, that helps to recycle certain materials, especially in the field of carpets where our material goes in. So, first of all, we're in a good way to achieve our target, cutting our specific emissions in half. And the acquisition will accelerate us on that trajectory.

Operator

(Operator Instructions) Your next question comes from Mr. Michael Schäfer from Commerzbank.

Michael Schäfer ***Commerzbank AG, Research Division - Analyst***

First one is coming back to your EUR 140 million one-off costs related to the synergies. If I got you correctly, you mentioned basically that part of the synergies just come from not taking over basically a bunch of people on the G&A, IT side of things. So what's driving this EUR 140 million number basically? This would be my first question.

And the second one is on the 3 ventures. I wonder whether you can shed some more light on the CapEx requirements you foresee for these businesses in the next 2 or 3 years basically in order to basically generate the growth profile you just alluded to.

Thomas Toepfer ***Covestro AG - CFO, Labor Director & Member of Management Board***

Okay. So let me try to decompose the EUR 140 million a little bit, and I will just give you some rough cut.

First of all, in that of course is included the entire transaction cost for the transaction itself, so interest cost, bank fees, consultants, legal advisers, et cetera, et cetera. I think you can attach a number yourself, but you know what the order of magnitude is what you have to count on.

And then the remainder, you can essentially do a 50-50 split between integration costs and synergy realization costs. So the synergy realization cost essentially is related to severance payments in the field of sales and marketing function, less so in the field of G&A because, as I said, we don't have to reduce personnel here. We simply have to hire less or do the task with existing personnel.

And then the other 50% is classic integration costs that are associated to the systems integration in the field of IT, some costs for the transitional service agreement, et cetera, et cetera. So this is the rough split of the EUR 140 million.

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

So if I may then, Michael, talk about the second part of the question. If you once again look at our innovation business, what we see that those businesses actually from today's perspective generate EUR 20 million to maybe EUR 30 million of sales. And in a few years, we expect that this will grow to low to mid-single, double-digit, triple-digit sales figure. And that would go along with CapEx in the order of magnitude of a low double-digit number, so EUR 20 million for example. Because as we have seen, those businesses are very well prepared. And they have shown also, let's say, in this very early stage in some areas, a viable business model and also create real sales. So that's why we're also pretty comfortable about how we could develop it. And that will create a nice additional option, so to say, for the future, adding very nicely to this overall RFM portfolio.

Operator

The next question comes from Ms. Georgina Iwamoto from Goldman Sachs.

Georgina Iwamoto ***Goldman Sachs Group, Inc., Research Division - Associate***

You've described very clearly how you expect to improve the profitability of the overall business through kind of like bottom-up synergy extraction plan that you have. I was just wondering if you could give a kind of high-level reason why the DSM business is of such lower margin or lower profitability versus Covestro's existing CAS business, if you looked at them kind of on a stand-alone basis?

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

Yes, Georgina. I would say, if you look at the business, I think one thing that we, and there's multi facets to it, but one thing is also here in this business, a critical size because what I have mentioned earlier is there is a strong innovation capability needed and that innovation capability has on both sides being built to a high level of excellence. And that high level of excellence will also drive the business in the future, but it adds up from a chemistry perspective, as I said, with this example of different layers. So we can really use now both innovation capabilities to not only apply them for the very specifics of the former applications, but also combine them in the systems that you use, for example, for coatings.

The same, by the way, would apply to grow the additive manufacturing, as I always say, internal startups, so the innovation ventures. And that would also hold true, if now, the 4G technology was replaced by the 5G technology. Just as a reminder, the RFM business has 68% market share from today's perspective in this highly profitable segment of coatings for glass fibers. And we have seen a slight delay in the kick off of the 5G network and how this network is globally built. And that also has in the year, let's say, transitionary year, starting from 2018 to 2019 and 2020, led to some, let's say, lower development in the expected 5G kick off. That will also come to fruition.

So there's a couple of things why we strongly believe and why we think we have also strong evidence here that the combined businesses will be able to lift the margin of the RFM portfolio, and with that also the margin of the combined portfolio for CAS as well as for RFM.

Georgina Iwamoto ***Goldman Sachs Group, Inc., Research Division - Associate***

Okay. But just to be clear, like if the transaction wasn't taking place, like what are the reasons that DSM's business is less profitable? Are you seeing that, I don't know, their proportion of costs related to innovation are much higher versus Covestro's because of scale differences?

Thomas Toepfer ***Covestro AG - CFO, Labor Director & Member of Management Board***

I think, Georgina, just, as Markus said, that there are 2 aspects. One is the size aspect, and that goes back to what you said. Yes, they would have a slightly higher proportion of G&A costs, for example, relative to sales. And because we have the perfect benchmark in-house, we feel so comfortable to say, okay, this is where we can bring it to. And therefore yes, this was one factor.

The other factor in terms of the margin is this more transitional character of the fiber optic business that Markus was describing. So they have great technology, fantastic IP. But the 4G business is running out, while the 5G business is not yet taking off completely. So, they are at a point in time where the margin is, I would say, in a transition phase and artificially depressed. And I think that is something that will simply come back. We have considered that in our business plan. And therefore it's a combination of both factors, scale, efficiency but also some transitional character.

Georgina Iwamoto ***Goldman Sachs Group, Inc., Research Division - Associate***

And then the raw material integration aspect as well? Or is that not so important?

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

Well, I would say if you mean purchasing, then I would say quite frankly 50-50, Georgina. We found 50% of products where they had some better purchasing conditions, and 50% where we are ahead of them. So this to us seemed rather than a mutual benefit by bringing raw material purchases together.

Operator

The next question comes from Mr. Chris Counihan from Credit Suisse.

Chris Counihan ***Crédit Suisse AG, Research Division - Director***

My question surrounds the dividend. You obviously cut the dividend to EUR 1.20 in response to coronavirus and the trough market conditions. Post the proposed acquisition, your financial leverage is obviously heading back up even after the equity raise. And you'd previously guided to a stable to rising dividend. So how should we think about dividends going forward? And is the rebased level EUR 1.20 or maybe back to a pre-coronavirus sum?

Thomas Toepfer ***Covestro AG - CFO, Labor Director & Member of Management Board***

Yes. To your question. So first of all, I think also after the transaction, we will have a very solid balance sheet. And this is exactly this careful balance that we're striking with the equity increase. We're very mindful that this is of course dilutive to our shareholders. And therefore we have put a lot of thought into what is the right number.

And we do think this is exactly the right number after intensive consideration to maintain our solid investment-grade rating. So we do feel that also after the acquisition, we will have a very, very solid balance sheet.

Therefore, the question for the dividend is very much driven how solid and fast will the recovery also be in 2021. I think the signs that we're currently seeing are quite positive in terms of the recovery, and we do see very good momentum also in Q3. We also see constructive pricing impulses for Q4. But I think it's yet a little bit too early to make a definitive statement on the dividend. So therefore I think quite frankly I see it rather unrelated to the deal, but more to the recovery. Early signs are good, but too early to make a firm commitment.

Chris Counihan ***Crédit Suisse AG, Research Division - Director***

I suppose, Thomas, just to follow up, the flat to rising dividend policy historically which is still the policy, I'm right to think that the 2019 adjusted paid dividend is the right starting base for that going forward?

Thomas Toepfer ***Covestro AG - CFO, Labor Director & Member of Management Board***

Not specifically. So you mean the dividend in 2021, 2019 would be the right starting base?

Chris Counihan ***Crédit Suisse AG, Research Division - Director***

In terms of the policy of flat to rising, the EUR 1.20 dividend in 2019 that was ultimately paid is the right starting point to then do flat to rising of that as opposed to the 2018 level?

Thomas Toepfer ***Covestro AG - CFO, Labor Director & Member of Management Board***

No, we've never said that. So, the decision to cut the dividend in half to EUR 1.20 in 2020 for 2019 was in the light of very specific conditions which I would characterize as be exceptional. So I mean don't turn around. I'm not necessarily saying that we will jump back to EUR 2.40 next year. That is a decision that we will have to make. But we've never said that the EUR 1.20 is the new base that people should start their calculation from.

Operator

Mr. Koehler, there are no further questions at this time. Please continue with any other points you wish to raise.

Ronald Koehler ***Covestro AG - Head of IR***

Yes. Thank you very much. Thank you all for your interest and for your questions.

And yes, I think we are obviously heading towards the quiet period, so to say, with ending the quarter here. But nevertheless, feel free to contact IR if you have more questions regarding our strategic acquisition today. I'm happy to receive more questions here. And thank you for listening in and goodbye.