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PRESENTATION

Ladies and gentlemen, thank you for standing by. Welcome to the Covestro Earnings Call and the Q2 2020 Results. The company is represented by Markus Steilemann, CEO; Thomas Toepfer, CFO; and Ronald Koehler, Investor Relations.

(Operator Instructions) I would now like to turn over the conference to Ronald Koehler. Please go ahead, sir.

RONALD KOEHLER  Covestro AG - Head of IR

Thank you. Good afternoon, and welcome from my side for our second quarter conference call. And as usually, for your information, we have posted all the documents, the financial report at our IR web page. And I also assume you have read our safe harbor statement. And with that, I would like to turn over to Markus.

MARKUS STEILEMANN  Covestro AG - CEO & Chairman of Management Board

Thanks, Ronald, and very warm welcome also from my side. This is Markus Steilemann speaking, CEO of Covestro. Good afternoon, and good morning to our listeners from the United States.

Before we go through the details of the second quarter, I would like to begin with really exciting and far-reaching news: our new vision “We will be fully circular”. Climate change, growing world population, increasing urbanization: global developments like these are enormous challenges. We at Covestro want to help overcome them with our multitude of innovative products and solutions.

We strongly believe that the high-quality polymers and their components that Covestro develops and produces are the key to a sustainable future. Our vision clearly states: We are doing everything we can to realize the Circular Economy, which ultimately is a great social transformation project to make the world climate neutral and to protect its dwindling resources.

Guided by this long-term strategic vision, we will anchor the principle of the Circular Economy within the entire company in order to fully implement it. We are working on a comprehensive set of strategic and operational goals that will lead us towards this long-term vision.

We will pursue this path consistently and with commitment in the interests of our customers, suppliers, employees and the capital markets, to name a few of many important stakeholders. While striving to establish circularity in our value chains, we particularly focus on four areas: firstly, alternative raw materials; secondly, energy-efficient, innovative recycling technologies; thirdly, renewable energy; and last, cross-industry collaborations for joint solutions. On the next page, we provide examples for each of those 4 areas.

Let’s start with the field of alternative raw materials. Many of you will be familiar with our breakthrough solution in polyurethanes to replace about 20% of fossil feedstock by carbon dioxide and polyols. Because we have already talked about this innovation, I’d like to highlight another marketed product from our coatings, adhesives and specialty segment, a bio-based hardener for automotive coatings.

The carbon basis of this product is up to 70% made from renewable raw materials. Through this, we enable manufacturers to optimize
the carbon dioxide footprint of their products. Without any compromises with regard to protective functions and appearance, this final top coat for cars requires considerably lower use of fossil raw materials than in conventional systems. We were able to prove this by collaborating with automotive group Audi and the coating experts of BASF Coatings.

In the field of recycling, I'd like to highlight recycled polycarbonates. As consumers want sustainable products, we are helping manufacturers to meet this demand. Covestro developed new polycarbonate rates from post-consumer recycled - or in short, PCR - content such as water bottles, compact discs and automotive lighting. In a closed-loop recycling system, the materials are collected, sorted, shredded and cleaned. Reprocessed into granules, the recycled polycarbonate is then compounded with virgin resins to strengthen the properties. Finally, these PCR-grades are used in the production of laptop covers, mobile phone chargers, printers, copiers and other electronic components for a second life.

As an example of renewable energies, Covestro entered at the time world’s largest corporate supply contract for offshore wind energy with the Danish company Ørsted. Starting in 2025, Ørsted will provide 100 megawatts of green electricity for 10 years, generated in a newly built wind farm in the North Sea. The Ørsted wind farm will be implemented without public funding. This supply contract covers roughly 10% of Covestro’s electricity consumption in Germany today.

As an example of cross-industry collaboration, I'd like to highlight is "PUReSmart" - a European consortium launched in the beginning of 2019. This consortium is an end-to-end collaboration spanning the entire polyurethane reprocessing value chain and gathering nine strong partners from six different countries, coordinated by our Belgium customer Recticel. In this cross-industry, cross-country collaboration, we seek ways to transition from the current linear life-cycle of polyurethane products to a circular model.

To summarize, our new vision is to be fully circular. Our endeavor towards this vision has already begun.

With the financial highlights on Page 4, I'd like to turn to the results of the second quarter 2020. Current times are marked by the global coronavirus pandemic and its consequences in all areas of our life. While we globally continued business operations in the second quarter, our daily focus was to take care about the safety of our employees and business partners to ensure our ability to deliver to customers and to secure a strong liquidity position.

As expected, our core volume declined significantly by 22.7%. We achieved an EBITDA of EUR 125 million, which was above market expectations. Despite the massively negative volume impact of the pandemic, we achieved a positive free operating cash flow of EUR 24 million in the second quarter of 2020.

EPS came in negative at minus EUR 0.28 per share. Despite continued high uncertainties in our economic environment, we confirm our full year guidance for this year.

Now let's move to Page #5. We introduced the volume chart on this page a quarter ago to illustrate the weekly regional impact of the coronavirus pandemic on our business. The key observation is exceptionally high volatility - globally. While overall volumes sold in our core business fell by [22.7%] (corrected by company after the call) compared to the second quarter 2019, the monthly breakup shows significant dynamics. While we recorded the strongest year-on-year monthly decline in April, with group volumes down by 32%, we observed a sequential improvement since mid of May.

June core volumes came in at minus 8% year-on-year. We estimate that the pandemic impacted our global second quarter core volumes was minus 27% year-on-year. In our pre-corona budget, we assumed positive core volumes of around 4% in the second quarter.

Looking at the impact by region, the volume numbers reflect the global sequence of the pandemic outbreak. In China, we recorded the earliest volume impact, followed by a so far strong recovery. Since May, monthly sold core volumes were above previous year, however, with high weekly volatility. In Europe, we recorded the strongest year-on-year decline in mid-April. During the quarter, various European countries were hit by the pandemic in varying intensities and timings.

Since May, our core volumes followed a relatively stable sequential upward trend. In the U.S., we witnessed the latest volume impact by
the pandemic. The recovery path has been lagging the other regions, with a volatile upward trend since May.

To illustrate what we mean with volatility: The depicted volume improvement towards end of June is the result of one weekly data point that includes one big customer order. Looking into July, we started the third quarter by continuing the volatile path of sequential recovery.

Core volumes in July appear above June but still somewhat below previous year. In a nutshell, the recorded pandemic impacts and subsequent recoveries followed exceptionally volatile dynamics. Along these lines, our visibility was and remains exceptionally low.

Let's turn to Page #6. Page #6 summarizes how we manage the crisis. In response to the unprecedented negative impact on our business, we realized substantial cost savings, established a solidarity pact for our global workforce and secured a strong liquidity position. Let me highlight 3 points. We entered a far-reaching solidarity pact in May. This 6-months pact includes a temporary salary reduction of 6.7% for the non-managerial workforce.

The agreed salary reduction increases throughout the managerial staff to 15% for Board and Supervisory Board members. While this pact was voluntary for all managerial employees, the acceptance was extremely high at close to 100%. The quoted numbers apply for Germany, subsidiaries outside of Germany have implemented comparable country-specific measures to reduce costs.

I'm truly delighted by this level of solidarity to the company among the Covestro workforce. During the past weeks and months, we continuously adjusted the utilization rates of our production assets according to the developments of customer demand. Globally, as of July, asset utilization rates for MDI and TDI are almost back to normal rates. This is also true for polycarbonates in Asia Pacific. Utilization rates for all other products continue at reduced rates in line with demand. Importantly, our leading production and process technologies have proven their scalability in quickly adjusting operating rates and reliability in safe operations. On the cost side, we implemented short-term cost savings in total of more than EUR 300 million.

In the second quarter, cost savings substantially contributed to earnings. While these cost savings are temporary by definition, we also further executed our structural cost and restructuring program “Perspective”. As announced with full year results in February, we had set a target of reducing global headcount by 400 to 16,800 by year-end. We can now report that we have achieved this goal six months earlier by end of June. We are working on a further reduction of the global headcount by end of 2020.

Now let's turn to Page #7. Here, I would like to highlight some volume development by region. And as a concession to the exceptional time also by industry in detailed numbers.

The decline of global core volumes was strongly impacted by a halved business with the automotive and transportation industry. Demand in Europe and North America were even worse in terms of year-on-year rates. Demand from auto in China ended the quarter on par with previous year.

Demand from the furniture and wood industry in China also finished the quarter with positive double-digit growth rates year-on-year. Yet global volumes in the furniture industry were down approximately 30%. Global volumes to customers from the construction industry declined by approximately 15%. Here, volumes for polyurethane-based insulation were down by approximately 20%.

Polycarbonates realized double-digit volume growth driven by demand for resins used in pandemic-related protective gear and face shields. Volumes sold into the electric, electronics and appliance industry partly benefited from extra demand from consumers who establish their home offices with new IT equipment. Nonetheless, global volumes decreased also here by approximately 15%, while volumes in China were back to single-digit growth. The positive highlight among the remaining diverse industries were attractive volume growth rates in global medical applications in both the polycarbonates and coatings, adhesives, specialty segment. Here, volumes grew by approximately 25% year-on-year, for example driven by high demand for housing of respirators.

Looking at customer industries by region, we recorded low double-digit declines in auto and electro in Asia Pacific and single-digit declines in furniture and construction. Please note that shown volume growth rates of minus 8.4% in Asia Pacific and at the same time,
5.5% in China imply declining volumes of 33.8% in the rest of Asia Pacific.

In EMLA, volumes declined due to the pronounced weakness in auto and furniture. In electro and construction, volumes declined at low double-digit rates. Similarly, in NAFTA, demand was weakest in automotive, all other industries declined low double-digit.

With this, I now hand over to Thomas for the full set of financials. Thomas, please.

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

Yes. Thank you, Markus, and also hello to everybody on the call from my side. I'm on Page 8 of the presentation, where you have the sales bridge and you see a year-on-year decline of 32.9% for the second quarter of '20 and the negative volume impact of the coronavirus pandemic led to a 22.3% year-on-year sales volume decrease, and that is the EUR 712 million that you see in the bridge. Moving to pricing. The lower selling prices, mainly PUR and PCS, negatively impacted the sales by 9%, and that is the EUR 290 million that you see but it's important to note that while in 2019, it was mainly increased competitive pressure that resulted in declining selling prices. And the movements that you now see in 2020 are rather driven by a lower feedstock price environment.

And I would also like to emphasize that sequentially, the selling prices only declined by 3%. Moving on to FX rates in the bridge. They were virtually unchanged, effecting sales by minus 0.1% year-on-year, driven by the weakness of some emerging market currencies. While on the other hand, sales were helped by a stronger U.S. dollar.

And last but not least, portfolio changes reduced our sales by 1.5% or EUR 49 million in Q2, and you have the details of that in the bullets on the right-hand side of the page.

So let's move to the next one, Page 9. As you can see in Q2, we generated an EBITDA of EUR 125 million, which was above the market expectations. Nonetheless, the decline of 72.8% compared to previous year was obviously very steep. So as a consequence of lower demand from certain customer industries, our product mix was affected unfavorably and this resulted in a relatively high negative volume leverage of 47%, and you find this also in the bullets on the upper right-hand side of the page.

Moving on lower selling prices, as commented before, were only partly compensated by a relief of lower feedstock prices. And as a result, the year-on-year pricing delta was a negative EUR 100 million. FX effects to EBITDA were positive 1.6% year-on-year despite a slightly negative effect that we just reported in the sales bridge, and the difference in absolute numbers is very small and mainly linked to transactional effects. Last but not least, at least, the line "other items" contributed positively with EUR 91 million, and the key contributors were short-term cost savings and lower provisions for short-term bonuses, and currently, these bonus provisions for 2020 run at zero.

So I would just like to emphasize that excluding a prior year one-time gain of EUR 19 million, which we recorded in our CAS segment, the line "other items" would have even amounted to positive EUR 110 million, and that is obviously a function of the cost saving and efficiency measures that we implemented.

So with that, let's move into the business units and segments. I'm on Page 10. If you look at our Polyurethanes segment on this chart, we faced a core volume decline of 25.9% in Q2. And the Polyols recorded the largest negative decline rates followed by TDI and MDI. And obviously, the key reason for the declines in all key industries was the global impact of the coronavirus pandemic.

The polyurethanes EBITDA, as you can see, turned negative in this quarter. But to give you a historical reference, this segment had already experienced one quarter of negative earnings in Q1 2009 during the peak of the global economic crisis in that year. Drivers of this year's earnings were the pronounced volume decline and the negative pricing delta compared to prior year, and especially polyols earnings were burdened by lower volumes, the take-or-pay contracts in place with our propylene oxide-JV partner and competitive pressure.

Let's move to polycarbonates on Page 11. As you can see, core volumes declined by 14.4% compared to prior year. And in addition to the details that Markus already presented on the impact of the pandemic, I would like to highlight the double-digit core volume growth in
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China that this segment recorded in Q2 and also smaller applications like our global business into the medical equipment as well as the European business with re-usable 20 liter water bottles grew very nicely at double-digit rates.

Thanks to shifts between customer industries and also new customer wins globally, the polycarbonates management team mitigated some of the adverse coronavirus impact on this business. And compared to prior year, the EBITDA decreased due to lower volumes and negative pricing delta to EUR 96 million, as you can see. However, sequentially, a double-digit EBITDA margin was maintained virtually unchanged at 14.8% and this development was supported by a positive sequential pricing delta.

Let’s move to Page 12, where you see the CAS segment. As you can see, the segment posted a year-on-year volume decline of 25.3%, affected by the coronavirus pandemic and the continued demand weakness from customers for automotive applications. And as the volume leverage of CAS is highest among all three segments, the lower volumes largely contributed to the strong EBITDA decline of 60%, again, corrected by the one-time gain of EUR 19 million that I was mentioning earlier, which was included in prior year’s EBITDA, the year-on-year decline would have been smaller, but still amounted to 49%.

So with that, let’s move to the cash flow on Page 13. And here, I would like to begin with two quarterly highlights that are not so clearly shown in the table on the left-hand side. So first of all, I think it’s important to note that we recorded a positive free operating cash flow of EUR 24 million despite the massively negative volume impact of the pandemic, and I think that’s a good result. And secondly, the working capital contributed positively with EUR 42 million in Q2, and I also think this is a good result. So in this context, our working capital-to-sales ratio was 19.9%. And for the full year 2020, we assume that we can again reduce our working capital and strive to end up within the targeted working capital-to-sales ratio corridor of 15% to 17%.

Now changing to the year-to-date accumulated view of the first half of 2020. As you can see, our free operating cash flow was at negative EUR 225 million, and this is relatively stable, provided a simultaneous EBITDA decline of more than EUR 500 million, which we had to digest. And as you can see, working capital was impacted by negative contribution from lower payables, reflecting lower feedstock prices and lower feedstock volumes, in line with lower demand. On the other hand, we continued our very strict inventory management and even achieved a slight year-on-year reduction in stock levels if you measure it in kilo tons.

As you can also see in the table, CapEx came in at EUR 286 million, and that is fully on track towards our full year guidance of around EUR 700 million. And you can see below that, we paid income taxes of EUR 102 million despite a positive tax income of EUR 25 million, which we recorded in our P&L account, and that is obviously a consequence of a phasing in the payment structure.

Last but not least, the last line item in the table shows you that there is a positive swing of more than EUR 300 million in the "Others" line, and that is mainly driven by significantly lower cash out for bonus payments.

So in 2020, we paid roughly EUR 40 million for bonuses for 2019 and while the year before, so in 2019, we paid about EUR 350 million for the year 2018. And that is then the difference that I was just alluding to, and this effect once again demonstrates the kind of “automatic stabilizer” that is built in our bonus system to protect our cash and earnings in times of lower group profitability.

Let’s move to Page 14. As you can see, we maintained a strong balance sheet and liquidity position. The total net debt-to-EBITDA ratio increased to 2.9x at the end of Q2, and we maintained a rather stable equity ratio of 42%. You can also see that after the pension provisions had decreased by approximately EUR 0.5 billion [between end of 2019 and] (added by company after the call) end of Q1, they ended again close to the original levels by the end of Q2, and that is a function of the discount rate, obviously.

I would also like to mention that you have probably noted that on June 2, Moody’s lowered the company rating from Baa1 to Baa2 with a negative outlook. But I would also clearly say that we continue to target a capital structure and financial ratios that support a solid investment-grade rating also in the future. You can see in the graph that presently, our balance sheet includes liquidity of around EUR 2 billion in cash, cash equivalents and current financial assets. This source of liquidity is complemented by an undrawn revolving credit facility of EUR 2.5 billion, which we concluded in Q1. And against the backdrop of high uncertainties, we currently prefer this very strong liquidity position as it was secured at very attractive rates during the course of this first half year.
So after raising and partly retiring short-term working capital lines as well as receiving a loan from the European Investment Bank, we issued two Eurobonds with a total amount of EUR 1 billion in June, and the investor demand was exceptionally high with the order book being more than 10x oversubscribed. And this transaction also allowed us to substantially extend the average maturity of our bonds.

And last but not least, I would like to mention that the proposed dividend of EUR 1.20 per share is planned to be paid out after the upcoming AGM in early August and then obviously will impact the net financial debt development in Q3.

So with that, let's move to Page 15, where we summarize the key drivers of our earnings development. And first of all, let me reiterate that overall, we confirm our 2020 EBITDA guidance. On the upper right-hand side, you have the bridge items. So regarding the year-on-year bridge between the actual 2019 and expected 2020 EBITDA, we assume the following key variables: First of all, we slightly adjusted the pricing development from a negative EUR 0.4 billion to a negative EUR 0.35 billion based on the June margin going flat forward. And our assumptions for exchange rates in the so-called "Other line" are unchanged.

Now obviously, the visibility on volume development remains very low. And therefore, we continue to work with scenarios and the reported Q2 volume leverage on sales was a bit higher than anticipated due to product mix shifts within our core volumes and declining non-core volumes as well.

So looking forward, a volume leverage of around EUR 50 million per 1 percentage point of core volume change, as is indicated in the slide, remains a reasonable assumption. However, this value may again vary in a given quarter depending on further product mix shifts and the development of non-core volumes. Now those are the bridge items.

I would now give you a little bit of help when you fill your models, how to apply the same bridge logic to the EBITDA in Q3 2020. So our base here is the reported EBITDA of EUR 425 million in Q3 last year. We would assume a mid- to high double-digit euro million burden from pricing delta based on June margins flat forward. And we would also assume a slightly positive impact from the "Others" line and foreign exchange rates if you take them together.

So this leads to what I would call a "reference EBITDA before any volume changes", which is somewhere in the mid EUR 300 million range. And now to this value in your spreadsheets, you may now apply the volume leverage of EUR 10 million to EUR 15 million per 1 percentage point year-on-year change in quarterly core volumes. And obviously, this number, I leave it up to you what you plug in into your models.

So with that, I would like to move to Page 16, which shows you the remaining items of our guidance. As explained, we assume core volumes in 2020 below 2019. Our free operating cash flow guidance remains unchanged, in line with our unchanged EBITDA guidance and apart from a slightly more negative financial results, which we now expect at minus EUR 120 million versus originally EUR 105 million, all other guidance items remain unchanged.

And with that, I would like to hand it back to Markus for the summary.

Markus Steilemann Covestro AG - CEO & Chairman of Management Board

Thank you very much, Thomas. Let me summarize on Page #17, the highlights of this quarter's result. The global coronavirus pandemic drove down our core volumes. We recorded the strongest impact in April and a sequential improvement since mid-May. Second quarter earnings were above market expectations at the time of pre-release due to better than expected cost management. We responded quickly and decisively to the crisis and manage it for Covestro in the best possible way by implementing a broad-based set of measures. This included executing short-term cost savings, entering a solidarity pact with all Covestro employees and securing a strong liquidity position. We confirm our full year guidance despite a highly uncertain economic environment.

We proposed a dividend of EUR 1.20 per share to the Annual General Meeting, which is scheduled to take place next week on July 30, for the first time as a virtual event. We thank you for listening and are now happy to take your questions.

QUESTIONS AND ANSWERS
Operator
(Operator Instructions) The first question is coming from Christian Faitz from Kepler Cheuvreux.

Christian Faitz Kepler Cheuvreux, Research Division - Equity Analyst
Just two questions, if I may, please. First of all, can you please share with us the current Q3 trends in the polyols market as this was the major drag for the polyurethanes business in Q2? And then according to Chart 5, the volume recovery in the U.S. in the last couple of weeks in Q2 seems to have been quite remarkable with or without that one customer order you refer to. Can you share with us, if that trend has continued into Q3? Or have renewed lockdowns in the U.S. and the entire political situation there put an end to the volume revival in the meantime?

Thomas Toepfer Covestro AG - CFO, Labor Director & Member of Management Board
Christian, maybe can I take the last question. So first of all, I think we obviously provided a lot of details during the month and week of the corona crisis, just to give you a little bit of transparency.

I think it would now be a little too early to say, okay, let's talk about July on a region-by-region basis with the months not even having ended. I think our overall message is that the good momentum that we've seen in June has continued into July. We think that sequentially, we will look at an improvement. Maybe year-on-year, still a slight decline. And I think the general trend is also true for all regions. So it's not that things have, in a certain region, completely collapsed after that. So I think let me maybe leave it at this degree of precision because the month is not even over.

Christian Faitz Kepler Cheuvreux, Research Division - Equity Analyst
Yes. Understood.

Operator
Next question comes from Daniel Chung of Redburn.

Daniel Chung Redburn (Europe) Limited, Research Division - Research Analyst
Two questions for me. So first is on the polycarbonate division, it's pretty impressive how margins have remained robust there. So could you elaborate on what are the main drivers there? Was it primarily volume share gains as high-cost producers reduce their output? Or are there other factors to consider here? And secondly is on the price raw material delta. So given the raw material deflation lag impact and potentially sustained demand coming through in Q3, is there any further upside to your assumption of the minus EUR 350 million for full year?

Markus Steilemann Covestro AG - CEO & Chairman of Management Board
Yes. Daniel, thanks for your question. The first one on polycarbonates. It is a mixture of different effects.

First and foremost, I think we have, over the last 10 years, very consequently shifted our product mix in the polycarbonates area not only with regard to the products, but also with the broader industry experience. Just to bring everybody up to speed. If you look 15 years back, there was one product that was representing more than 1/3 of the global markets for polycarbonates that was compact disc. And since then, as we were seeing that this one-trick pony would not last very long. We were constantly shifting and moving the entire polycarbonates portfolio to a highly, let's say, degree towards smaller and niche applications.

And that strategy is now in this crisis, I think, paying off. The second topic is, we have continuously worked on our cost position also for what I would call the base grades which are partially highly commoditized. That means leading cost positions have been built further. And in that context, we were able not only to compensate partially for the massive decline in the automotive industry, by, for example, shifting volumes into the electrical, electronics and also medical segment, but also we're able to shift significant quantities that we could not sell in a specialty area towards the commodity area due to our leading cost position. So overall, we maintained I think above industry utilization rates for the majority of our plants. And at the same time, we're able to compensate shifting high-margin grades from the automotive industry into other high-margin grades from the electronics sector, but also towards the medical sector.
And all these effects that I have just pointed out, leads to the -- from my perspective, quite nice margin profile that we currently see for the entire businesses. For the next question, I would like to hand over to Thomas.

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

Yes. I think, Daniel, to your question. I think currently, obviously, there's quite a bit of movement in the raw material prices. I would say our best estimate is that we're confident that we can keep, if you talk sequentially, that we can keep the margins flat. But that would exactly indicate, if you look at it year-on-year for Q3, a kind of mid- to high double-digit burden still. As I've indicated in my little bridge item speech. So quite frankly, I think for the time being, this is our best estimate. Obviously, H2 is highly uncertain. There's always opportunities and risk. But if you want our best estimate, we would say, sequentially, we would keep the margins flat, and that would then imply year-on-year that there would be this further deterioration, which we have baked in into this EUR 350 million, which we have given you.

Operator

And the next question comes from Thomas Swoboda from Societe Generale.

Thomas Swoboda  
Societe Generale Cross Asset Research - Research Analyst

I have 2 questions, please. Firstly, kind of a follow-up on polycarbonate. I mean congrats on the performance in Q2. That looks very good. But my worry is a little bit around this capacity overhang. We're still seeing, especially in China. And my question is, do you think Q2 could have been already the trough for this business despite the capacities still coming to the market? Or is there a relevant fear? Or should we have a relevant fear, that profitability could still deteriorate from the currently very, very good level. The second question is on polyols.

And on the EBITDA bridge, you have given for Q3. This is very helpful. I was just missing the effect from polyols. Do you expect the headwind from polyols to start to wane already in Q3? Or should we expect this to be a little bit longer lasting? Any indication you could give on the phasing of the negative effect from polyols would be helpful.

Markus Steilemann  
Covestro AG - CEO & Chairman of Management Board

Yes. Thomas, thanks for the question. Good hearing you again. This is Markus speaking. Let me give you some flavor on how we look at polycarbonates. We have a capacity overhang, and that was already there in the second quarter. And I have to say that was despite the fact or a really under the impression of additional capacity that was coming up and capacity does not equal capacity. What do I try to indicate? We see still a steep cost curve for the base grades of polycarbonates. That means the highly commoditized grades. And from our assessment, almost all capacity was coming in, and you might, let's say, wonder, but even though it is new capacity, it comes due to several reasons more in -- on the higher cost side and cost producer side rather than on the lower cost producer side, where we have positioned ourselves very successfully since many years. And that's why I believe that on the commoditized polycarbonate grade side, we have already seen trough levels and approach trough levels in the second quarter. And at the same time, coming back to what I said earlier, we have constantly rebuilt the entire product mix over the last decade for polycarbonates and that gives us now 2 actually opportunities to play.

On the hand, to continue to play and shift on the highly specialized grade side. And on the other hand, to fully leverage our cost advantage by fully loading wherever possible our low-cost base grade polycarbonate plants. So from that perspective, I would not expect despite the fact that there might come additional capacity on stream. That we would, let's say, see lower trough levels in that sense.

The only large impact that could happen is, if we would see a significant drop in volumes in the overall demand in the market, that would then, in the end, also affect us. But I think we have also answered that a little bit earlier in a different context. Currently, we see since mid of May, a continued trend across the globe in all regions of sequentially increasing demand and here, especially in polycarbonates. And I hope that helps you a little bit to see the dynamics here. And for the polyols question, I would like to hand over to Thomas.

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

Yes. Thomas. I think on the polyols, our assumption would be that the burden will be eased in Q3 simply because they will be -- I mean we're expecting a pickup in volumes relative to the trough that we've seen in Q2 and that obviously will lead to at least that the
take-or-pay clause will not be affected or effective. So that will give us a saving here. Plus, I think it also could improve the margins a little bit. So that overall, and that's baked in into the assumptions that we've given you, we would expect a nice rebound in PUR in Q3 relative to Q2.

Thomas Swoboda Societe Generale Cross Asset Research - Research Analyst
This is super helpful, indeed.

Operator
The next question is coming from Jean-Baptiste Rolland from Bank of America.

Jean-Baptiste Rolland BofA Merrill Lynch, Research Division - Associate
I would have 3, please. The first one is, you mentioned a headcount reduction on top of the 400 that you have already achieved as of end of June. Could you quantify how many additional headcount reduction you're intending to achieve this year, please? Second question, on the topic of polycarbonate, how much new polycarbonate capacity do you see the industry bringing on line in the coming quarters? And last one, have you seen any particular shutdowns in MDI, TDI or polycarbonate, whether they are accidental or strategic decisions.

Markus Steilemann Covestro AG - CEO & Chairman of Management Board
Jean-Baptiste, this is Markus speaking. Thank you very much for the question. So on the FTE numbers, we would intend until year-end, that we are working on a further reduction of the global headcount by another, let's say, low triple-digit FTE number. And so that's currently best guidance on that one that we could give. So if you look at the so-called additional capacities that we would expect in 2020, that is for the full year. For the full year, a number of 11%. But please keep in mind 2 things. Number one is that the announced capacity and the capacity that really comes on stream differs in some years significantly. In particular, in years like that, there's always delays. That is partially driven by different outlooks of competitors towards the market. So it is not that they're swiftly building and ending the projects that happen sometime. And we have historical evidence for that.

The second topic is the pandemic actually also has a strong impact on the construction simply of the site due to availability of workers, and that is a major undertaking so that it could also slow down significantly the buildup of new capacity. And the third topic is, if you look at the current, let's say, shutdowns, there's publicly available information that would indicate that we have between 200,000 to 300,000 tons of capacity that is temporarily in a shutdown and has been not taken out of the market, but is not producing. What does that mean? That means between 4% and 5% of nameplate capacity in the market is currently not on stream.

And with regard to the last topic on TDI, MDI capacity. If I'm not totally mistaken, I understand that we have in TDI, roughly 200,000 to 300,000 tons of nameplate capacity currently not producing, and that represents at current market size, roughly 10% of nameplate capacity being temporarily taken out. And on MDI, I just currently do not have any indication from public sources that really MDI capacity has been taken out even on a temporarily note, that's all we have for the time being.

Operator
And the next question is coming from Markus Mayer from Baader Bank.

Markus Mayer Baader-Helvea Equity Research - Lead Analyst of Chemicals
Two questions from my side as well, if I may. The first one is, again, coming to the demand. Do you expect to see a pronounced summer low, again, automotive customers might shut down their production? Or do you more expect the restocking of your customers into the summer? That would be my first question. And my second question is, have you seen any changed behavior of your competitors due to pandemic crisis? Or in other words, as there are no volumes, I guess that your competitors has not undercut prices. Do you expect more price war when demand comes back to full capacity?

Markus Steilemann Covestro AG - CEO & Chairman of Management Board
Markus, this is Markus speaking. So on your first question, the automotive picture for us is that for the entire year, we still expect that the automotive segment will be affected most likely not producing, and that represents at current market size, roughly 10% of nameplate capacity being temporarily taken out. And on MDI, I just currently do not have any indication from public sources that really MDI capacity has been taken out even on a temporarily note, that's all we have for the time being.
consumers are buying. And here, demand is really picking up quite swiftly and quickly is really also then translated into real production and not served out of stocks.

We have a different picture for Europe and also quite comparable in the United States, where still a lot of cars are sitting, so to say, on the inventory that have been brought to the car dealers that have been produced and that's sitting still in the inventories. That means whenever consumers are buying there, that does not directly translate into the real demand that would normally, under normal, let's say, inventory levels being created. So what does that mean? Even though we see a slight recovery in the automotive industry demand for our products and here for sure, particularly in the polycarbonate segment. First thing is that demand is maybe not directly related to what the current, let's say, buying rate of end consumers is.

And secondly, we must also not underestimate that due to the specific situation, in particular in Europe and also the U.S., that demand will be highly volatile on our side and continue to be highly volatile in the next couple of weeks and also months to come. So on your second question, given the low margins in a market that we have seen, high-cost producers normally do not react by continue to be very aggressive on prices. But what they do is they start to shut down temporarily capacities. And I have alluded to that a little bit earlier what currently we see from publicly available sources on polycarbonates as well as on TDI. And so from that perspective, for me, there is a limited risk for further deterioration.

Operator

And the next question comes from Nicola Tang from Exane.

Nicola Tang Exane BNP Paribas, Research Division - Analyst

The first one is actually on CAS. I was a bit surprised to see that the volumes in CAS in the quarter were down as much as in polyurethanes because I know you've got some exposure to specialty applications. And some of the coatings companies have been talking about decent demand on the decorative paint side. Perhaps it's because you've got more industrial than deco exposure. But could you talk a little bit about the end market dynamics in CAS between coatings and adhesives? And how you expect demand to develop going forward there?

And then the second question was a sort of longer-term question. One of your peers in polyurethanes, Dow reported this morning as well and the CEO was saying that they don't expect to return to pre-COVID levels in terms of volumes and margins for the next few years. I was wondering whether you kind of share that outlook.

Markus Steilemann Covestro AG - CEO & Chairman of Management Board

Nicola, thank you very much for the question. So on the first one, we do not actually deliver in decorative coatings. So that might help you also to see where we are present in the respective end consumer markets, and where not. On performance coatings at Akzo, that was roughly down by 23%. And also Akzo, actually, in addition, reported an inventory adjustment, which actually was a burden for us. Despite all these facts that I just brought forward, we have had volume reductions to similar extent in this order of magnitude. And that, I think, shows a little bit how much our exposure is/how much we are actually trying to also shift from one end consumer or one application market into the other. However, in the CAS area, as this is so specific and so specialized, it is rather difficult to short term mimic the same trick, like we have done it in the polycarbonate area, where we have still a huge commodity area where we could also shift some of the grades and really compensate, at least partially some of the volume losses that we had in a highly specialized area.

And if July might still be down year-on-year slightly, if today's trend would continue in August, it might be up year-on-year. However, there is still high uncertainty prevailing. And that's, so to say, the best guess and best information that I can give. On the numbers of the other company that you have just said, we do, at the current point in time, not provide any guidance for the years 2021, 2022.

Nonetheless, in very general terms, if you look at the overall economic data, if you look at the overall industry exposure that we have and look to the numbers that those industries are actually currently providing, for example, the furniture industries mattresses, upholstery, for example, the car industry. And here, just to mention some automotive seating, automotive nonseating businesses. But if you also look into the construction industry, which is currently not that much affected, I think there were some effects coming. I would not totally disagree with what maybe Jim Fitterling has said during his call.
Operator
And the next question is coming from Geoff Haire from UBS.

Geoffrey Haire UBS Investment Bank, Research Division - MD and Equity Research Analyst
Most of my questions have been asked. So I just got one small question left. The EUR 91 million of temporary cost savings, I think you described it. I just wondered if you could highlight how much of that's related to the volume reduction. So when volumes start to recover, how much of that will be lost.

Thomas Toepfer Covestro AG - CFO, Labor Director & Member of Management Board
Yes. Geoff, first of all, when we talk about the measures that we're taking. So let's come back to this EUR 130 million in perspective. And then we said EUR 300 million of short-term cost savings. Those, generally speaking, are not volume related. Yes, those are just things that are driven by the solidarity pact. Those are driven by less maintenance costs that we're incurring, less consultants, less marketing, travel, entertainment, all the things that -- where you can just take a break on spending for a while. So it's nothing that has any direct link to the volume development. Nevertheless, I will, of course, agree with you that they will come back eventually in 2021.

And if you want to attach a rough number to that, my best guess would be 50%, at least, will come back next year. And because you cannot stop travelling forever. So that's how I'd look at it. But it's nothing where you would -- where you should expect short-term in Q3 that driven by a recovery in volumes, those savings should go away.

Operator
And the next question is from Mr. Mubasher Chaudhry from Citibank.

The next question is from Mr. Chetan Udeshi from JPMorgan.

Chetan Udeshi JPMorgan Chase & Co, Research Division - Research Analyst
Just a couple of questions. Maybe I missed this, but can you inform us of what is the utilization of your assets right now in different businesses? And second question is what is the status of the 200,000 tonnes MDI expansion that you had planned in Germany this year? And with the new CapEx framework, can you remind us of what are the key new capacities that you will have on line next year for 2021 in different businesses?

Markus Steilemann Covestro AG - CEO & Chairman of Management Board
Okay. Chetan, this is Markus speaking. Thanks a lot for the question. So if you would refer to Slide #6 of our presentation, there on the bottom left, you would see some indications about where we are in terms of capacity utilization for our plants. In Europe, for PUR, we are back to high rates. And PCS and CAS are still at reduced rates. North America, MDI is back to high rates. All other products are running currently at reduced rates.

And for Asia Pacific, the PUR as well as PCS is back to high rates. And generally, the utilization rates adjusted in line with the respective demand. If you ask about the status of the MDI plant in the northern part of Germany in Brunsbüttel, to be very precise, runs at full, let's say, nameplate capacity as intended.

And the last question is about how much additional capacity would we see for the next year. And here, I hand over to Thomas.

Thomas Toepfer Covestro AG - CFO, Labor Director & Member of Management Board
Yes, Chetan, maybe let's put it this way. I mean the 200 kt MDI in Brunsbüttel, they are up and running.

But of course, with the market development, as Markus said, we're not fully utilizing our assets on a full year basis. Therefore, what I would say is there is nothing major as a 200 kt coming on stream next year. It's smaller things, like a compounding addition, which we have in North Rhine-Westphalia. And small other things in the space of CAS, but nothing major in terms of MDI or TDI, which is not a problem because I think as we just discussed, it will take maybe a year or 2 before the market comes back to the precorona levels. And with the expansion in Brunsbüttel that we have put in place, I think we're absolutely well placed to -- even without big additions next
year fully capture the market growth and maybe even more than that. So to your question, very precisely, nothing major coming on stream, but not a problem. We have enough capacity to grow at least in line with the market.

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 for your questions. And with that, actually, we are absolutely on time with our call to close it here. So thank you for your participation. If you have further questions, don't hesitate to call the IR department. And then potentially, we will see you or speak to you soon. Seeing is obviously a bit more difficult these times, but we nevertheless plan to participate on some virtual events that are actually rather geared towards September. So I guess from our perspective, we can wish you a nice holiday, even if you have to stay a little bit in the office, but with August, obviously, it's holiday time. And after that, we will be back seeing you then there. Thank you, and goodbye.

Operator

Ladies and gentlemen, this concludes the earnings call of Covestro. Thank you for participating. You may now disconnect.