Current times continue to be marked by the global coronavirus pandemic and its consequences in all areas of our life. After drastic impact on the demand for our product in Q2, however, demand recovered dynamically during the course of the third quarter. As a result, our core volumes came in 3% above previous year.

We achieved an EBITDA of EUR 456 million, which was above market expectations, and up 7% year-on-year. Supported by higher earnings, we achieved a strong free operating cash flow of EUR 361 million, 49% above previous year.

As pre-released, we raised our earnings guidance for the full year, reflecting a more dynamic recovery and the improved earnings level.

Lastly, and certainly a strategic highlight of Q3, on September 30, we announced the acquisition of the Resins & Functional Materials business from DSM. Meanwhile, a EUR 447 million capital increase to finance part of the acquisition price has been successfully completed.

On Page 3, I would like to highlight some volume developments by region, and as a concession to the exceptional time, also by industry in detailed numbers.
The growth of global core volumes in Q3 was based on a broad demand recovery across industries and geographies. While our core volumes were significantly below previous year during the second quarter, they were already above previous year during the third quarter, reflecting a V-shaped recovery. Demand from the furniture and wood processing industry increased by 6% year-over-year, driven by Asia Pacific. Most of this growth was attributed to our polyurethane raw materials for soft foams used in mattresses and upholstery. Demand appeared to benefit from consumers who improved their homes during the lockdown weeks or instead of spending money for travel.

Global volumes to customers from the construction industry finished the quarter 7% above previous year. Polycarbonates realized double-digit volume growth, driven by demand for resins used in pandemic-related protective gear. Our raw materials for polyurethane-based insulation also contributed to this growth.

Of our key industries, only demand from the automotive and transportation industry was still below previous year at minus 5%, however, on a much higher level than a quarter earlier. While our core volumes were still down year-on-year in Europe and in North America, automotive volumes in China increased by a double-digit rate. Volumes sold into the electric, electronics and appliance industry globally increased by 6%, supported by growth in all 3 regions. Demand seemed to benefit from consumers who further established their home offices with new IT equipment. The positive highlight among the remaining diverse industries was an attractive volume growth in global medical equipment of 7% driven by polycarbonates.

Looking at customer industries by region, we recorded growth in all key industries in Asia Pacific with double-digit growth rates in construction and furniture. Also, in Europe, Middle East, Latin America, all industries were back to year-on-year growth with the exception of double-digit volume decline in automotive.

Our European business seem to have profited from market share wins, hence, we assume that the underlying demand recovery may have been slightly lower. Volume development in Germany was particularly weak as some smaller negative factors added up: the Polycarbonates Sheet divestment led to shifts from sales in Germany to sales outside of Germany and availability of some polyurethane products was constrained.

Core volumes in North America remained below previous year. Double-digit growth in furniture could not compensate single-digit declines in construction and automotive volumes.

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

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

Yes. Thank you, Markus, and also good afternoon and good morning from my side to everybody on the call.

Let’s go to Page 4, and the sales bridge shows you a year-on-year sales decline of 12.7% for Q3. And the core volume growth, as described by Markus, led to a positive volume effect on sales of 1%, and that is the EUR 29 million that you see in the bridge, driven by Polyurethanes and Polycarbonates, while our Coatings, Adhesives and Specialty segment contributed negatively.

Lower selling prices led to a sales decline of 9% year-on-year. That is the EUR 285 million that you see in the bridge. And this development was mainly due to the increased competitive pressure in polyurethanes and polycarbonates this year versus prior year. Sequentially, prices remained largely unchanged.

The exchange rate affected our sales by negative 3.3% year-on-year, driven by the weakness of the U.S. Dollar and the Chinese Renminbi against the Euro. And portfolio changes decreased our trade by 1.4% or EUR 43 million in Q3. EUR 15 million of this value were related to the divestiture of European sheets as system houses in Polyurethanes and EUR 28 million were related to the divested European sheets business in our Polycarbonate segment.

So with that, let’s turn to Page 5, where you have the EBITDA bridge. We generated an EBITDA of EUR 456 million in Q3, which was up 7.3% year-on-year and above our and also the capital market expectations.
So this outperformance was largely driven by cost-saving measures. Now if you look at the bridge, you can see that despite core volume growth and a positive volume effect in sales, the volume effect in EBITDA was negative EUR 41 million. Shifted proportions of customer industries led to an overall unfavorable product mix, and this resulted in a relatively high negative volume leverage driven by the CAS segment. Our contribution margin remained virtually unchanged compared to prior year. And the effects from lower selling prices, as commented before, were largely compensated by lower feedstock prices. So what we call the pricing delta is virtually 0. And the EUR 6 million you can see in the bridge as is clearly stated.

The currency effects on EBITDA were slightly negative. And the largest positive contributor to the EBITDA growth was the line other items with a positive EUR 90 million. The key factor here was a much lower cost base, driven by cost-saving measures, initiated by management in response to the coronavirus pandemic. Lower provisions for short-term bonuses also contributed positively versus prior year because the provisions for the 2020 bonus currently stand at 0.

Now for comments on the operational performance for our 3 segments, I’d like to hand it back to Markus for the moment.

Markus Steilemann Covestro AG - CEO & Chairman of Management Board

Looking at our Polyurethanes segment on Chart #6. Core volume grew by 4.3% in Q3. Double-digit growth rates in TDI were strongest, followed by single-digit growth in MDI and polyols around previous year's level. Largest contributor to growth were applications in the furniture industry. Polyurethanes' EBITDA strongly increased both sequentially and year-on-year. Compared to Q3 last year, the increase was mainy driven by 2 factors: firstly, a significantly lower cost level, driven by our cost-saving measures; and secondly, higher volumes. As a result, our EBITDA margin increased nicely.

Lower selling prices, mainly in MDI and polyols were compensated by lower raw material prices. Hence, the year-on-year effect from the pricing delta was neutral. Especially towards the end of the third quarter and into the fourth quarter, we noticed elevated industry margin levels in TDI globally. Simultaneously, we have been selling practically all available material to our customers, working hard to fulfill customer orders. According to our analysis, this, first and foremost, reflects dynamic recovery and good underlying demand. However, it also suggests constrained industry availability. Including our reported force majeure incidents in North America and Europe, TDI industry supply currently appears below nameplate capacity level.

Continuing on Page 7. In Polycarbonates, core volumes grew by 3.6% compared to prior year. All key industries, except automotive and transportation contributed to this growth. After core volume declines in the mid-double-digit area in auto in the second quarter, demand recovery also in this industry led to decline rates in the third quarter that were only mid-single digit. Regionally, we recorded different speeds of recovery. While volumes in China grew double digit, NAFTA volumes were still down double-digit. Sequentially, EBITDA grew strongly, and our double-digit margin further improved to 18.5%. Compared to prior year, the EBITDA increase was mainly the result of 2 factors: firstly, a significantly lower cost level, driven by our cost-savings measures; and secondly, a positive pricing delta due to lower feedstock prices.

Moving on, CAS on Chart 8. CAS core volumes declined by 6.9% year-on-year, affected by continued demand weakness from the automotive industry and for coating raw materials. CAS posted a strong sequential rebound in EBITDA, driven by more normalized sales volumes and lower costs. Compared to prior year, EBITDA [decreased] (corrected by company after the call) by 10.8% to EUR 99 million mainly due to the negative volume leverage resulting from lower core volumes. Cost-saving measures could only partly compensate a negative pricing delta.

For the further comments and the financials, I hand back to Thomas.

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

Yes. Thank you. Let’s turn to the cash flow on Chart #9. So as you can see, our 9-month free operating cash flow remained positive and relatively stable compared to prior year and that is despite a drop in our EBITDA of EUR 0.5 billion. So we consider this quite a positive achievement. And this strong cash flow performance was supported by a highlight that is not shown in the 9-months table, and that is a free operating cash flow of EUR 361 million in Q3 alone, which is up 48.6% year-on-year.
So this increase was driven by higher earnings, lower CapEx and positive effects from trade working capital. So in this context, our working capital to sales ratio was 19.5%. And whereas total working capital had a negative cash impact in the first 9 months, our inventories were lower due to the strong demand for our products, coupled with constrained availability.

Now for the full-year 2020, we assume that our working capital to sales ratio will come out somewhat above the usual corridor of 15% to 17%, which we're indicating because the lower 12-months sales numbers will coincide with a strong year-end finish.

As you can see in the table, the 9-months CapEx came in at EUR 463 million, and that is fully on track towards our full-year guidance of around EUR 700 million. 9-months income tax paid amounted to EUR 115 million, while the income taxes in the P&L account amounted to only EUR 38 million, and the difference is mainly the consequence of pure phasings.

Now in the last line item in the table, you can see that the positive swing of more than EUR 300 million. And if you compare this year's 9 months to previous year, the difference is mainly driven by significantly lower cash out for bonus payments.

So as already explained in our last quarterly update call, about EUR 40 million were paid out for 2019 bonuses in Q2 of 2020 compared to about EUR 350 million which were paid out in Q2 last year for the 2018 bonus. And that difference, as I said, is reflected in that line item. So please note in that context that this positive cash effect will reverse once a normalized company performance will again lead to normal bonus levels.

So with that, let's turn to Page 10, and I think we can really say that we maintained a strong balance sheet and also a strong liquidity position. The total net debt to EBITDA ratio of 2.9x at the end of Q3 remained on par with the end of Q2, and we also maintained a rather stable equity ratio of 41%.

Pension provisions only increased slightly if you compare it with the end of last year. And after an intermediate increase during the first half of 2020, the discount rates in Germany are back to the levels of year-end 2019, and the discount rates in the U.S. even slightly decreased.

Overall, we are committed to a capital structure and financial ratios that support a solid investment-grade rating also in the future, and the chosen financing structure in connection with the announced RFM acquisition underscores this commitment.

So on July 30, the AGM approved the proposed dividend of EUR 1.20 per share, and as a consequence, EUR 219 million were paid out to shareholders in early August. And presently, our balance sheet includes liquidity of around EUR 1.8 billion in cash, cash equivalents and current financial assets. Part of this amount is intended to fund the price of the announced RFM acquisition.

Let's move to Chart 11. In the context of the historical EBITDA development, our expected 2020 EBITDA is set to approach trough levels. So building a year-on-year bridge between actual 2019 and expected 2020 EBITDA, we now assume the following key variables, as you can see in the box on the right-hand side.

We adjusted pricing development to around negative EUR 100 million based on our current margin expectation. We do assume a negative volume impact of around EUR 500 million, corresponding to a negative single-digit core volume growth. And our assumptions in regard to all other EBITDA effects in the so-called "others" line is a positive contribution of EUR 200 million, and this includes a slightly negative effect from currencies at today's rates. So taking it all together, we currently expect a full-year EBITDA of around EUR 1.2 billion. And in this context, I'd like to remind you that "around" in our lingo means a variation of plus/minus 10%.

Now also in order to support your modeling work, we have also provided on this chart a volume and currency sensitivity for the full-year EBITDA.

So this leads to the remaining items of our full-year guidance on Chart 12. As explained, and you can see this in the first line item, we assume core volumes in 2020 below 2019. We adjusted the free operating cash flow guidance, and we now expect a number between
EUR 0 and positive EUR 300 million. Our ROCE is expected to be a positive mid-single-digit number. And apart from a slightly less negative financial results, which now is expected at minus EUR 105 million versus the EUR 120 million negative before, all other guidance items remain unchanged.

So for your benefit, please note that the expected number of outstanding shares has changed, and we have provided you with the numbers for Q4 and the full year for your earnings per share estimates.

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, Thomas. Let me summarize the highlights of the past quarter on Page #13. We recorded a broad-based sequential volume recovery across industries and geographies after the drastic impact on our core volumes by the coronavirus pandemic in the second quarter of this year.

Third quarter earnings were above market expectations at the time of pre-release due to better-than-expected cost management and pricing delta. We responded quickly and effectively to the pandemic by implementing a broad-based set of measures, including cost-saving measures. These measures and the savings from our long-term Perspective program demonstrated their full financial impact in the third quarter as a lowered cost level strongly supported earnings. We raised our full-year earnings guidance on the back of a dynamic recovery. After several months of intense preparation, we announced the acquisition of RFM from DSM to build a leading sustainable coating resins player.

We thank you for listening and are happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

And the first question comes from Charlie Webb from Morgan Stanley.

Charles L. Webb Morgan Stanley, Research Division - Equity Analyst

Just 2 for me. First one, I know maybe perhaps a little bit early to say, and obviously, a lot can change between now and 2021. But as we start to kind of cast our eyes on 2021, perhaps you can just help us understand some of the larger bridge items we should be considering, if we were to assume the current environment persists?

I know that's a lot of ifs, but just maybe helping us understand market-to-market volumes, pricing at current spreads, which clearly had ticked up through the end of the year as well as how we should think about the temporary savings that you delivered in 2020 that might reverse.

Likewise, you talked about the bonus accrual and how we should maybe think about that year-on-year, if we have a more normal year into 2021. I think that would be very helpful.

And then just secondly, on kind of outages. Obviously, there's been a lot of outages noted from yourself and peers with force majeures being announced across a number of sites, I guess, across a number of regions. Can you help us just understand what's driving this increase in outage rates and how should we think about the impact for you guys from a volume perspective in Q4 from that? That would be very helpful.

Markus Steilemann Covestro AG - CEO & Chairman of Management Board

Well, Charlie, first and foremost, thanks for your question. This is Markus speaking. So I would give it a try on the first question, maybe then Thomas is answering the second part or I will do that, let's see.
So the largest bridge items, I mean, you were referring to price developments, which is always super difficult to foresee. So let me start on the cost items maybe first. And on the cost items, there's 2 large building blocks. Let's say, given the short term very strongly and swiftly implemented cost savings for this year, we would expect that there could be a rebound effect of up to EUR 200 million for the year 2021 coming just from the so-called operational costs, which we have driven down significantly during the course of this year and which were a major contributor also to the results in Q3 that you have seen.

On top of that, under, let's say, more normalized conditions, you could expect a bonus in the order of magnitude of roughly EUR 200 million higher compared to this year where there will be no bonus payment at all, at least if we would consider the current guidance as the basis for the bonus calculation for this year.

Then looking at this year's volume development and the potential that we would see for next year, given that we have no significant impact on the demand side, you could assume that we have a strong volume growth year-over-year potentially happening.

To give you an order of magnitude, 1 percentage point volume growth would translate into roughly EUR 50 million, just to give you some ideas. And from a pricing delta, there could be a positive pricing delta, but this is, as you might acknowledge, still unclear. But that could be -- on a mark-to-market basis, represent a EUR 400 million, let's say, upick compared to this year's full-year numbers.

So with regards to second question with regards to the outages, we currently still have 4 force majeures and therefore, also outages in our plants. Three of them are related to our Baytown operations and here are driven by an outage on one of our, let's say, central suppliers for a key raw material. And in this context, all of those outages in the U.S. are not stand-alone significant, but the sum of the parts is significant, in particular, if you add on then an outage at one of our German operations, and here, particularly on TDI. So if you take all 4 outages together, those would lead to a low to mid double-digit EBITDA effect in Q4 only. However, they are somewhat reflected in our guidance for the full year.

Charles L. Webb Morgan Stanley, Research Division - Equity Analyst
That's helpful. And is it just purely -- on the outages, is it just purely lack of raw materials? There isn't any kind of operational issues from underinvestment that you need to kind of catch-up on? Just to be clear, it's just purely raw material procurement that's the limiting factor?

Markus Steilemann Covestro AG - CEO & Chairman of Management Board
In the U.S., definitely clear 100% on raw material supply issue, as I said, outside battery limits supplier, and there, we have simply an outage in our supply of carbon monoxide. And if we go for the operations in Germany, that was just a failure, which was not related to any type of underinvestment.

As you know, we keep our maintenance budget at, I would say, very reasonable high levels to exactly make sure that our plants are running at highest possible reliability. But unfortunately, sometimes there are things called bad luck, and that was, in this case, simply the fact that we had a technical failure.

Operator
Next up is Thomas Swoboda from Societe Generale.

Thomas Swoboda Societe Generale Cross Asset Research - Research Analyst
I have 2 questions, please, both are kind of related to CAS. CAS continues to lag behind on the recovery. My very top down simple question will be what does need to happen for CAS to return to growth and improve profitability?

And related to that, volume leverage in Q3 seems to have been hampered by CAS. Does that mean that in case or at the time point when CAS starts to perform a little bit better again, the volume leverage could exceed the EUR 50 million runway per percentage point of core volume growth? These are my 2 questions.
Markus Steilemann  Covestro AG - CEO & Chairman of Management Board

Yes. Thanks, Thomas. This is Markus speaking. And looking over to Thomas, he will do the second question, hopefully. So -- and I will do the first part of the question. Well, we could clearly see that CAS was improving in the third quarter compared to the previous quarters, in particular, the second quarter. And we can also see, if you look at the margin profile that we have provided on Slide #8 of the Investor Relations presentation that the CAS margins were back in the 20s. So what you see here clearly on the EBITDA development is a volume effect. And that volume effect will, from my perspective, only return back to normal once we see either a significant recovery here, in particular, in the automotive industry because that is exactly where the key, let's say, setback in volumes is coming from.

And at the same time, and CAS is doing that on a constant basis, they are developing also the product portfolio, but that will not short term lead to significant recovery of sales. But nonetheless, be reassured, it is a very and highly specialized business with above-average margins and stable margins. And that is also clearly demonstrated once the volumes have recovered slightly from Q2 to Q3, that we are back in the 20s in terms of EBITDA margin.

And that journey will continue whenever, either on the one hand, automotive is recovering; or on the other hand, we continue to deliver on our very strong pipeline of newly developed products and bringing them to the market. Thomas?

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

And to your second question, I mean, you're right. If you look at the volume leverage for the first 9 months of this year, the number is higher than the EUR 50 million. It's rather EUR 70 million, and that is also driven by the higher volume leverage of CAS. Nevertheless, looking forward, we do think that the EUR 50 million that we're giving you is probably the best estimate if you take a blended growth rate for the entire group.

Thomas Swoboda  Societe Generale Cross Asset Research - Research Analyst

Yes. Perfect. If I just can follow up on this. I mean, on the previous calls, we were also discussing that there might be some destocking in the auto-related value chain.

So I'm wondering is part of the underperformance of CAS driven by the still ongoing destocking? Or do you think destocking in the auto value chain already ended?

Markus Steilemann  Covestro AG - CEO & Chairman of Management Board

Well, I mean, it’s quite difficult to scientifically exactly measure what is the level of stock because, as you know, we're not delivering directly to the OEMs, but into the value chain, and therefore, it's not so transparent to us. I think what is definitely clear is that we are facing a low stock level in the automotive industry. So at least I would not expect this to deteriorate further. And therefore, we do think that we are at or approaching more or less a low point. So I think for 2021, I don't consider this a negative.

Operator

The next questioner Alexander Laurence from Jefferies.

Laurence Alexander  Jefferies LLC, Research Division - VP & Equity Research Analyst

So 2 questions. First, in Asia, how long can you sustain the current cadence of growth before you need to invest in more capacity? And if auto demand normalized in line with your other markets, how much would the tailwind have been for margins across all of your segments?

If automotive demand had kept up, if the volume recovery in automotive had kept up with the rest of your business lines, how much would have been the impact on margins, i.e., how much is the mix effect a drag in Q3?

Markus Steilemann  Covestro AG - CEO & Chairman of Management Board

Let me elaborate on the first one. This is Markus speaking. And thanks, Alexander, for these great questions. So I think it is important that new capacity is not a matter of just saying, "Hey, we need new capacity, let's build another world scale." But what we're constantly doing and we have alluded to that also in previous calls that we have a mixed strategy of so-called smart CapEx, where we actually build
additional smaller units within existing plants at low costs. From a specific perspective, that means per ton. And that is actually part of our existing capital expenditure plans this year as well as also for the coming years.

On top of that, there's always a topic that we call debottlenecking. That means we're going into the plants enlargening specific parts of the plants, which then increase also at low CapEx existing capacity, and that is also what we are continuing.

The only thing which we have scaled down a little bit on isthe next big world-scale investments. And from that perspective, I think we can continue, in particular next year, but also the year to come after next year, to grow. Also in Asia Pacific, also, in particular, in the profitable segments, for example, coatings adhesives, but also polycarbonates.

And please also do not forget that there's now an opportunity to grow with the recently announced acquisition of DSM-RFM, by, for example, using the joint asset bases in a much more effective and efficient way than it would have been possible if the 2 companies would have continued to operate separately.

So there is significant opportunity for us also to continue to grow and to grow profitably, and at the same time, not invest into world scale, also in Asia Pacific. So that's for the first part of your question.

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

So let me take the second part. And just to avoid any disappointment, I think I cannot give you any exact and specific number on specifically the automotive industry, what would it have been if the growth rate had been on par with the other industries. But maybe just to a little bit comment around it and order of magnitude. So I think, first of all, the automotive industry for us is 17% of our exposure. It's not huge, but it is profitable for us because what caters into the automotive industry are the specialty grades from PCS, and secondly, very much of CAS has an automotive exposure. The order of magnitude, I think you can see when you look at the negative volume leverage in our EBITDA bridge because you see that there was a negative EUR 41 million despite our core volumes growing by 3%, and that is, to a large extent, driven by mix effects, admittedly across industries and also across our internal segments. But the key driver of this is, of course, that the automotive industry was not at par with the other industry growth. And therefore, I think the order of magnitude can be seen from this effect, which is adverse side counterintuitive.

Operator

Now we're coming to the next questioner. It is Sebastian Bray from Berenberg.

Sebastian Christian Bray  
Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst

I would have 2, please. The first is on pricing in the CAS segment. How exactly is pricing set in this segment? And have there been any competitor capacity additions recently that would have put this under pressure by how is it set, I mean, how often are contracts renewed.

My second question is on polycarbonates capacity additions. How much polycarbonate capacity has, in your view, come to the market this year? And is it still realistic to be talking about 8% to 10% capacity additions over the next year or 2?

Markus Steilemann  
Covestro AG - CEO & Chairman of Management Board

Sebastian, this is Markus speaking. Thanks for your questions. So pricing in CAS, how is pricing set there? And are there new capacities? We had seen in previous years capacity additions on some of the larger products in our Coatings, Adhesives, Specialties area. Nonetheless, we have not seen any significant impact on the price development for the entire portfolio.

And that also has hold true in recent months. Also during the pandemic, customers were not asking or contracts were not reduced with the aim of reducing prices. It was all about that we could deliver. It was all about the highly specialized character of the products. And this is actually applying broadly for the entire product mix of the entire CAS business units.

On your second part of the question, I think Thomas will take this.
Yes. Let me take the second part. So I think for the PCS expansion, I think currently, we're assuming roughly 11% capacity increase on an industry view for 2020.

And we don't think that there will be major chances for a lower number than this because all the capacities essentially have already started to produce. So I think this is something that is in the market already.

If you look into 2021, our assessment, and this is probably somewhere in between a science and an art, is that it could be a capacity addition of some 8%. Lower than the number that had originally been announced by our competitors because we do think that there will be some delays or shift into some outer years. Now the question is will this be a higher number than the potential increase in demand. Nevertheless, we do think that the pricing effect or the pricing downside is rather limited because if you even look at the September margin, it is very close to the absolute low bottom that we've ever seen in the last decade.

And therefore, the low-cost producers are operating while the high-cost producers are reducing their output because they don't want to lose cash with every ton that they produce. And therefore, despite those assumed 8% capacity additions, we do think that the downside on the margin going forward is relatively limited.

And the next question comes from Georgina Iwamoto from Goldman Sachs.

My first one is on capital allocation and kind of a follow-up on the one you got on the CapEx outlook.

I was hoping you might be able to confirm a bit more numerically where you see CapEx for the next few years. It sounded like it could be flattish versus this year, given we're just looking at kind of debottlenecking and smart CapEx expansions.

And then if you could just remind us generally on your capital allocation policy. So how are you thinking about M&A, just maybe reiterating your commitment to no more M&A after the acquisition?

Yes. Georgina, so this year, we're shooting for the EUR 700 million, and I would expect a slight increase maybe for 2021. But if I say slight, it really means slight, so really closer to significant. And then there might be a smaller step up into 2022. But again, this will be a gradual move. So I think relative to the overall numbers, this is a very moderate step up at best.

Secondly, I think in terms of capital allocation, our priorities are unchanged. We've always said that dividend is a key priority for us. CapEx in order to make sure that we grow. However, our clear focus is, of course, not growth for the sake of growth, but to really invest into those areas which will generate the best value for our investors. And that is then also the same in view that we take with respect to inorganic growth, where, yes, we have said this has always been on our agenda because we do think it can be value accretive if we find the right targets for us.

We have said we would take at least a little breath for the time of the deleveraging phase and the integration phase, and we would not look into any significant acquisitions in that time line, and that is still our commitment. But if you take a medium- to long-term view, of course, we do think that M&A could be also an option in addition to the organic growth options that we will look into.

Okay. And then just kind of following up on that. I mean it sounds to me during your kind of introductory speech, you talked about of 2020 being a trough year, and we've seen demand starting to recover quite strongly in the third quarter.

And then we're looking at CapEx flattish, maybe slightly higher in the coming years and limited M&A.
So is it fair to say we're looking at low capital intensity and higher cash generation for Covestro going forward? And if that's the case, can you just remind me what kind of a leverage level you'd be comfortable returning cash to shareholders?

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

Yes. So first of all, I think, yes to all the observations that you made. Let me give you a little bit the bigger picture. When Covestro came to life in 2015, we had capacities that were underutilized and therefore, growth in itself was an important driver of profitability because unutilized plants, if you are a cost leader, are simply not a sensible thing to do.

So I think in that sense, growing our output was simply very sensible. And I think 2020 has proven that because we were able to maintain our production more or less full speed, while others had to shut down or at least curtail their output. And that has proven to be a sensible strategy, especially if you look at PCS, for example, where prices are still at a very, very low level.

Now I think as we speak, we do have now a very good utilization of our assets. And our focus in terms of growth, therefore, naturally is shifting into more not growth for the sake of growth, as I said, but growing especially into those areas which will generate the highest value for the investors.

And yes, I think that is maybe the focus or a slightly shifted focus that we will take in the future. Leverage, I think our assessment is unchanged. We're talking about 1.5 to max 2x across the cycle to maintain a solid investment-grade rating, which is of utmost importance to us. And therefore, immediately, I would say, cash returns to the shareholders are not in the cards, but of course, if the situation changes, then this is also for us a viable option.

Operator

And next up is Daniel Chung from Redburn.

Daniel Chung  
Redburn (Europe) Limited, Research Division - Research Analyst

Just 2 questions from me. Just a follow-up on the tightness in polyurethanes. Do you have any visibility on how this tightness may last in the next couple of quarters?

And then second question is just quickly on the price rollout delta. So with the indication that for the full year, it's going to be minus EUR 100 million, it implies that Q4 is around positive EUR 160 million, how would you split that into the divisions?

Markus Steilemann  
Covestro AG - CEO & Chairman of Management Board

Daniel, this is Markus speaking. On your first question, the PUR tightness, it is very difficult to say as this heavily depends on the competitors whether they solve their problems and here, in particular, in TDI. And as you know and have witnessed over the past couple of years, given the market size compared to plant size in the TDI market, one plant is representing a significant amount of the world's capacity.

So, one plant can make the difference between a totally oversupplied and a totally undersupplied market. And with that also can lead to significant price movements in a very, very short time. And that is further accelerated or amplified by the fact that it is very hard to store TDI and therefore, puts TDI on stock for more than a couple of weeks.

And in this context, that is more or less impossible to clearly say, "Okay, it will develop like this, it will develop like that." Currently, we are, due to the overall industry situation, including ourselves, in a short supply situation. But that could potentially change, but when this will be and to what extent this will be, really, for me, it's impossible to forecast that.

On MDI, we have a slightly different story. On MDI, again, market size compared to plant size, it is not that impactful if one plant is actually not in service or maybe 2 or 3 plants are not in service for a short period of time, for example, due to unplanned shutdowns.

Secondly, there are some opportunities as we have a broader product range in MDI. It is not as broad as in Polycarbonates or CAS but broader than in TDI, roughly 100 different grades compared to roughly 10 different grades in TDI. That means also here, we have
different outlets, that means also lower-quality MDI. That means less reactive. And therefore, let's say, longer stored maybe can be sold in the market.

So there is a little bit more buffer. Plus the market is structurally more gearing towards a balanced market, I would say. And that will also continue if demand is developing more or less mid-to-long term as we predicted exactly in that direction of a balanced market.

So overall, I would say, for MDI, despite some short-term movements, I would say that we are approaching, once again, a more balanced situation, also with regard to the development into the next quarters.

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

Yes. And on your second question, quite frankly, I'm not sure whether I understood totally correctly. Let me try and answer nevertheless, and then please ask again if it's not meeting at all what you were shooting for.

So in terms of the pricing delta, we said for the full year, we are expecting a value of negative EUR 100 million if you build the bridge between 2019 and 2020. You have seen that for the first 9 months of this year, it was negative, roughly speaking, EUR 250 million. So that as a delta in Q4, we are expecting a positive pricing delta of roughly EUR 150 million. And that goes back to what Markus just said, those EUR 150 million will mainly stem from our PUR segment where we are seeing very constructive pricing both in MDI and TDI. So I hope that that was your question.

Operator

The next question comes from Thomas Wrigglesworth from Citi.

Thomas P. Wrigglesworth Citigroup Inc., Research Division - Director and Chemicals & Basic Materials Analyst

First question, if I may, is where the order book is on autos. I mean exiting 3Q, now that you've got probably most of October and November data under your belt, has this got longevity in your view?

Markus Steilemann Covestro AG - CEO & Chairman of Management Board

Yes, Thomas, this is Markus speaking. Thanks for your question. If we look at the order book, and I think Thomas has also indicated that during his speech, we saw that the continued sequential improvement of demand but also of our availability, despite all the hiccups that we had due to force majeure, is also continuing into October.

So what we have seen in the third quarter is similar. It's a pretty good reflection about what we have seen in the first couple of weeks in October. And we also see - and I think you particularly asked about the automotive development, even though the automotive segment was lagging behind in terms of the development - we have seen still, let's say on a very low level, positive developments in the automotive industry and also that development has continued to appear in October.

And at least as of today, it's also continuing with regard to our order books adjusted for seasonal effects in the next couple of weeks as far as we can see, given that our order books normally give us the picture about a couple of weeks. So 6 weeks on average, sometimes a little bit longer, sometimes a little bit shorter. However, it meets, and just as a reminder, the delivery bottlenecks that we talked about earlier. And here, particularly in PCS and particularly given the situation of force majeure in PCS in the United States.

So mixed picture: Trend is continuing to be positive, still on a very low level overall. And unfortunately, meeting supply constraints here, in particular in the U.S. in polycarbonates.

Thomas P. Wrigglesworth Citigroup Inc., Research Division - Director and Chemicals & Basic Materials Analyst

But just a follow-up on that. I mean you've talked about demand strength, and clearly, Asia Pac is doing very strong volumes. It looks like pricing across both your products but also your inputs has rallied very dramatically in China over the last couple of weeks. I know that's quite short term. But are we now in a phase of actually kind of restocking in China do you think? Is that what we're starting to witness into year-end? And is that something you've taken into consideration into your guidance?
Markus Steilemann Covestro AG - CEO & Chairman of Management Board

Well, again, Thomas mentioned it also earlier, these are the science and art questions. From all I witnessed, from all conversations I also have, given the very limited opportunities to have a first-hand picture by traveling there and really get a first-hand impression from all the talks that I had with respective people, with customers, with our own sales staff on the ground, I would not say that we see restocking or not really see restocking effects in China. It is real demand and it's really a strong uptick across the board in all industries.

And one of the key reasons for that is the travel restrictions. Travel ban redirects massive flow of money into other areas. One is local traveling. Second topic is luxury goods. And third topic is every other, let's say, means how you can spend money. And that is, for example, automotive. That is, for example, electronics. And that is, for example, also in China, here and there, refurbishing activities. So all in all, we see redirection of spending power from, for example, additional travel expenses, and you know Chinese were traveling quite heavily, now towards other segments, and we are benefitting from that. And overall, the Chinese government is putting significant efforts into strengthening local consumption. And that's also, I think, the first wave of what we are seeing here.

Operator

The next question comes from Christian Faitz from Kepler Cheuvreux.

Christian Faitz Kepler Cheuvreux, Research Division - Equity Analyst

On this topic, as you mentioned, one of the positive demand drivers in your third quarter was people refurbishing their homes with new sofas and mattresses et cetera. Are, in your view, people buying just another set of sofas next year again?

So how sustainable do you really think this trend is for next year and beyond?

And then second question/suggestion. In your Q1 and Q2 presentations, you showed very helpful charts of sequential volume growth in selected countries and regions. You don't show this in today's presentation. Page 3 is quite helpful, but it doesn't show these sequential moves. Would you be able to briefly describe how sequential volume trends were in European regions also going into Q4?

Markus Steilemann Covestro AG - CEO & Chairman of Management Board

Yes, Christian, this is Markus speaking. And I believe there is a clear trend towards the third sofa. No, no, just put this to joke, please. Please immediately forget about that. I think there is a stronger trend that we're currently seeing, and that is a societal trend that people are focusing more back towards home, that they're focusing more back towards their direct, let's say, environment, their direct vicinities. And in that context, I would say, that we see a clear trend. And I would believe that this trend will also last longer than 1 or 2 quarters, maybe last longer than 1 and 2 years. And that's why I also, from today's perspective, would say, that there were no disruptive changes with regards to people refurbishing and refurbishing their homes, but that that will be more a trend that will accompany us for a couple of quarters, maybe even a couple of years and will, therefore, extend.

And that's why I would not say that the current trend is short-lived. And however, that's just a personal observation that I have and from that perspective, I would not see that this short-term trend would go away. But again, let's see.

And for the second part, I would like to hand over to Thomas.

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

Yes. On the second one, it's good to hear that you like the chart. I think the disadvantage was it was quite busy with 7-day moving averages. And I think it was quite confusing sometimes. But let me talk a little bit about the sequential development. So I think, first of all, if you take it by month, while July was even still a slightly negative number in terms of core volume, August and September were both clearly above previous year.

So it's sequentially pointing into the right direction. And that is also true for all regions. So I think what we have always said is in the sequence, as they moved into the recession they're coming out of it.

So over the course of Q3, you've also seen or we have also seen for ourselves a positive development by region within the quarter. So
September, for example, for NAFTA was already better than the quarter average or if you take July. And we take this as a positive sign because I think sequentially, it's pointing into the right direction.

Operator

And the next question comes from Geoffrey Haire from UBS.

Geoffrey Robert Haire UBS Investment Bank, Research Division - MD and Equity Research Analyst

Just a very simple one, first of all. The EUR 90 million "Other", I was just wondering if you could break down what that consists of in terms of straight-up between temporary cost savings and the effect of the lack of short-term bonuses. And then just on looking at the outlook statement you've made for this year. My numbers may be wrong on this but if we take current spreads and assume a small amount of volume growth, EBITDA in Q4 could be somewhere in the region of EUR 600 million.

I'm just wondering what the difference is between what you're guiding for at the moment and what that spot EBITDA could be if spreads continue to remain at where they are? If you could just sort of bridge that gap, that would be helpful.

Markus Steilemann Covestro AG - CEO & Chairman of Management Board

Yes. And let me start with the first one. I think we're struggling a little bit to break down the EUR 90 million. So I think in very simple terms, it is exactly the portion of the EUR 300 million that we have said we would generate as short-term savings that falls into Q3. And we're expecting a slightly lower number in Q4 in a year-on-year comparison also because we had some exceptional positives in Q4 of last year, like insurance reimbursements, but also book gains on the disposals that we did.

So the number that you will see, as we indicated, will be much lower, but the EUR 90 million simply is a broad mixture of all the contingencies that we made. So no travel, essentially no hiring. You've seen that our FTE numbers further decreased in Q3. The restrictions on training, no external consultants and so on and so on. It also contains the solidarity pact that we concluded with our employees. It does contain all kinds of savings in our FAM. So maintenance areas, simply because we're spending less CapEx, that also brings with it less OpEx.

So it's really, really a broad mix of measures that is in this line item. And then to your second question, I think, I'm struggling a little bit to come to the EUR 600 million. Again, I think our broad guidance would be that we do see - if you take it year-on-year - a slightly negative effect from the volume development but a positive from pricing. But the order of magnitude that we see is rather EUR 150 million and therefore that would then translate in the EUR 400 million mark-to-market that we would see for 2021 if we could continue that level into the next year. But I think the EUR 600 million clearly is not a number that we would feel comfortable with.

Operator

The next question comes from Isha Sharma from MainFirst.

Isha Sharma MainFirst Bank AG, Research Division - Analyst

First one is, how similar or different is the outage situation at TDI and MDI to what we have already seen in 2017 for the market and then Covestro specifically?

And given that, is it fair to say that you're exercising some caution when it comes to your price delta guidance for 2020, but also for '21? The CEO of Dow, for example, mentioned that its tightness seems to be or might continue also in Q1 2021.

Markus Steilemann Covestro AG - CEO & Chairman of Management Board

Isha, this is Markus speaking. Thanks for your question. Well, comparing two situations that are based on unplanned outages in the entire industry amongst several years, but me, is a real challenge, I have to say. Because the root cause for these outages might significantly differ. The magnitude of outages might significantly differ. And they're unplanned, and that, by nature, makes forecasting impossible. And in addition, I would feel really uncomfortable to say that those outages would continue to last significantly into the next quarter because we are doing actually utmost to bring our plants back on track and back on stream because our aim is to supply customers based on their needs and to supply the demand and also make sure that, in particular, our MDI and TDI markets continue to
grow. And from that perspective, I would have really a hard time to compare the outage situation in 2017, which has led to significant fly-up margins to unprecedented also profitability and results. And from that perspective, I would also not see how this was exactly compared to today.

Once again, we have a TDI situation in the United States based on a supplier issue with a key raw material. That is also affecting PCS and MDI. And we hope that we get out of the situation as quickly and as soon as possible. And at the same time, we have a technically based failure in one of our parts in the TDI plant in Germany, but we also hope that we get out of this situation as soon as possible and can start delivering.

And I cannot talk or say anything due to lack of insights about how the competitor situation is looking like in this context.

So yes, frankly speaking, long answer, maybe not even an answer, but just, let's say, an assessment of the situation. I hope that we're back on stream as quickly as possible, that we overcome this very unfortunate situation, that we are in right now and that we can deliver to our customers as soon as possible.

Yes, so that's my best answer. On TDI, as you might imagine, once we are back on stream, we have a downside risk, given that we still have a low overall industry utilization and also based on the high volatility of the prices. And therefore, respective overall nameplate capacity is still much larger than the currently underlying demand. MDI, once again, to reiterate that here, the situation is different because I believe that we are continuing to move towards a balanced situation in the market, and that will continue also in 2021.

Operator

Gentlemen, there are no further questions.

Ronald Koehler Covestro AG - Head of IR

Good. Thank you very much for all your questions. And obviously, now with that being the last question, that makes it possible to close on time. So, then speak to you later at the next conference call or in between. See you, bye.