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

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Yes, good morning,

Today in the morning, we try to keep it quite short. We would do a quick presentation just to give you some highlights on the chart and give you guys some chances to ask questions afterwards. The idea is to conclude that call in, let's say, 30, 40 minutes, and let's give you the chance for the most pressing questions. We will elaborate a bit more deeply also for our U.S. friends in the afternoon at 3:00.

And last, not least, I would remind you that we have a safe harbor statement stated as usually in the front of the presentation. And with that, I would like to turn it over to Markus.

Markus Steilemann Covestro AG - CEO & Chairman of Management Board

Good morning, everyone, at a morning where Covestro made a significant step forward to also become a leading sustainable coating resin player. As you have read this morning, we reached agreement with DSM to acquire DSM's Resins & Functional Materials business.

With this conference call, we will present you the details of this transaction, and you will see how attractive this acquisition is for our CAS business. DSM's Resins & Functional Materials business, in short, naming it RFM, is a compelling strategic fit with a highly complementary portfolio and technology.

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

Now on Slide #3 you see the overview of the transaction. I will not go through all these details because we will cover that throughout this presentation.

So therefore, I would like to ask you to turn to Page #4. Here, you get an overview on what RFM is. In 2019, with 1,800 employees, RFM generated sales of around EUR 1 billion and EBITDA of EUR 141 million. This was an EBITDA margin of 14% and went along with a free operating cash flow of EUR 93 million.

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

Now I'm skipping the next page, and I'm directly going to Slide #6. You see how excellently RFM contributes to our sustainable vision.
Around 85% of its sales in 2019, RFM achieved with sustainable technologies.

In the overall coating resins market the share of sustainable technology is 55% and demand is strongly increasing. So with our very high share of sustainable technologies, we are expecting from RFM a high-growth CAGR of around 5% per year. And so RFM and CAS combined will found a leading supplier of sustainable and high-quality products with low environmental impact.

From Slide 7, you get the structure of our future CAS segment. The bolt-on acquisition of RFM increases CAS sales from around EUR 2.4 billion to [around] (added by company after the call) EUR 3.4 billion. And it increases the share of coating resins to 60% of total CAS.

RFM’s product portfolio is complementary to CAS. CAS is in a well-established position in water-based polyurethane dispersions. RFM has the complete range of water-based polyacrylates resins. So this is a significant step in our long-term strategy to strengthen our sustainable and innovation-driven business.

You also see here the comparison of industry shares within coating resins before and after the integration. You see how the integration of CAS and RFM leads to a much more balanced portfolio of customer industries. And with that, Covestro also becomes a global leader in the attractive growth market for coating resins.

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

**Thomas Toepfer**

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

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

I’m on Page 9 of the presentation. And as Markus said in the beginning, the excellent fit of the RFM business creates significant synergies of EUR 120 million, and I would like to show you where these synergies are coming from. So if you look at that slide, you see that out of the EUR 120 million total synergies, we identified EUR 80 million of cost synergies. So this is 2/3 of it. And for this, we will bundle our sales and marketing functions where we have overlapping applications and customers, and you can see this makes about 25% of the total cost synergies that we identified.

And the other big chunk is in G&A functions where we will integrate the RFM functions into the existing Covestro support structures that we have. What you also see is that we have quite a high contribution from purchasing synergies. And I can tell you that since our product portfolio goes along very well with the RFM business, we also have very complementary raw materials. So we can use the optimum from both sites and we can shift also from external to in-house sourcing with the new products that we are bringing together.

And last but not least, I would just say one word on production. That will also materially contribute when we bring our assets together. We will not only save on the CapEx side, but we will also have significant synergies on the OpEx side.

So with that, let’s turn to the next page. Slide 10 shows you the remaining synergies in order to reach the EUR 120 million, and that is EUR 40 million from revenue synergies. And as you can see here, the biggest chunk comes from cross-selling, which we have identified, and that potential mainly derives from 2 sources.

First of all, the complementary product portfolios increase the share of wallet at the customers. So we can approach the customers with a full portfolio at once. And secondly, since RFM has not had a full global presence so far, we can use the existing Covestro setup to market the RFM products in additional countries. And then in a subsequent step, we will then also create benefits through combining and integrating both portfolios and use this combined portfolio as a basis for new product development, which will, of course, take slightly more time.

Now talking about timing. If you switch to Slide 11, you will see the ramp-up of the identified savings. And again, you will find the EUR 120 million, which represents 12% of the RFM sales in 2019.

And in order to integrate the RFM business into Covestro to realize those identified synergies, we’re expecting total implementation costs...
of EUR 140 million, which will mainly occur in 2021, and you will find this also on the second bullet on the right-hand side.

So what is important to me is that by 2023, 2/3 of the identified synergies will be fully realized, and that goes along with a very quick realization of the cost synergies. While it is obvious that the identified revenue synergies will require a slightly lower ramp-up phase, but latest by 2025, we are expecting all synergies to be fully realized.

So with that, let’s just have a quick look on Slide 12, where you see our transaction compared with some selected other acquisitions in the chemical industry, and I would just like to make 2 statements. First of all, on the left-hand side, if you compare the multiple of our transaction, which is 10x pre-synergies, that is fully in line with the median of other chemical industry transaction. And it is also fully in line with other coatings resins transactions, which you’ve seen. But what sets us apart is what is depicted on the right-hand side, which is we are expecting significant synergies, 12% of RFM sales, and that is clearly above the 7% median of other peer transactions, which we’ve seen in the past.

So with that, let’s go to the next, Page 13, that shows you the overall valuation. On the left-hand side, you find the EV of the transaction, which is EUR 1.55 billion. And if you put that into relation to the 2021 standalone EBITDA, which you find on the right-hand side, that gives you a multiple of 10.3x.

However, as I said, the clear distinguishing factor for the transaction is the synergies that we are expecting. And therefore, if you look at the synergized EBITDA of EUR 270 million, which you find on the right-hand side, that gives you a multiple, including synergies, of 5.7x. And that, I think, is a very good indication and representation of the high value that our acquisition creates for our shareholders.

Now as you’ve heard from Markus in the beginning, on top of the core RFM business, the acquisition also includes 3 currently small start-up ventures, which we essentially received for free. On Page 14, they are described, and we will go into more detail on those businesses in our session this afternoon.

For the time being, I would like to go straight to Page 15, which describes the financing structure of the acquisition. So first of all, we have a full bridge financing in place for the entire purchasing price, which has been fully underwritten by 2 relationship banks with very attractive rates.

And what is important to us is that we are fully committed to maintain our solid investment-grade rating. And therefore, for the refinancing of that purchase price, we created a combination of financing components which comprises a EUR 450 million envisaged equity increase from new shares and which also comprises up to EUR 600 million from a new bond issuance. And the remainder, as you can see in the chart, which is roughly EUR 550 million, we envisage to finance from our cash at hand, also supported by the strong free combined cash flow, which we’re expecting from the 2 businesses’ integration.

So just to mention one [more] (added by company after the call) thing here. We see no material M&A activity during both the integration and also the deleveraging phase. You have that as a clear statement in the last bullet on the lower right-hand side.

And with that, I would like to hand it back to Markus for his closing remarks.

Markus Steilemann  
Covestro AG - CEO & Chairman of Management Board

Yes. Thank you, Thomas, and I'm now on Slide #17. So let me summarize the transaction for you one more time. With this bolt-on acquisition to CAS, Covestro receives a very attractive target and becomes a global leader also in coating resins. We are diversifying the CAS portfolio towards a more balanced and resilient product and industry mix.

In addition, we are shifting the CAS portfolio to high-growth markets driven by sustainability. We talked about the significant synergies that are identified and that lead to the extremely attractive valuation multiple. And with our solid financing structure, we continue to be committed to a solid investment-grade rating of Covestro.

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

Operator

(Operator Instructions) The first question comes from the line of Mr. Markus Mayer from Baader Bank.

Markus Mayer Baader-Helvea Equity Research - Lead Analyst of Chemicals

I have 2 questions from my side. First of all, on the EBITDA numbers of your transaction, you said EUR 40 million in 2019, and you expect EUR 150 million in 2021. Can you elaborate about the expectations for this business to achieve this year? That's the first question.

The second question is there's a small discrepancy between the press statement of DSM and yours regarding revenue and EBITDA numbers. I think DSM's at 133, you say 140. Maybe you can also elaborate where this comes from.

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

Thank you. Yes. Let me start with the second question. That's an easy one. The 133 is including the innovation ventures, and we have been clear also in our statement that they are included in the deal, but that they are slightly loss-making. So that is exactly the bridge between the 133 and the [141] (corrected by company after the call).

Now with respect to your first question, what is the decrease in 2020? I would say it is slightly down in 2020 relative to 2019 but rather resilient. So I can say we have, from the development that we've seen over the course of this year, full confidence that the step-up in 2021 is absolutely realistic.

Operator

The next question comes from the line of Nicola Tang from Exane.

Nicola Tang Exane BNP Paribas, Research Division - Analyst

Firstly, I wanted to ask whether you see any risk of dissynergies in terms of overlapping customers? I know you showed that sort of pie chart with adding a more diverse customer mix. But could you talk about if there's any dissynergies?

And then just in terms of sort of CapEx or investment, I know that DSM had spent some time restructuring or reshaping this business amongst the material side. So I was wondering whether you see a need to reinvest at all in this area?

Markus Steilemann Covestro AG - CEO & Chairman of Management Board

Yes. Nicola, this is Markus speaking. Thanks for the question. In terms of dissynergies, to be very frank, we see very limited dissynergies, if at all. And it is simply that we see the opposite more coming true.

And if you just recall what Thomas has presented on the potential savings that we expect from combining those 2 businesses, part of this is top line synergies. And that is exactly coming from that. We can even offer a much broader product portfolio and even additional technologies that are building on each other in the coatings area.

So we would rather expect that this would be one of the key value-accrative steps for this deal that we can serve customers broader and better. And with regard to your second question on CapEx, I would hand over to Thomas.

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

Yes. So I think with respect to the second one, first of all, general statement, we had the opportunity to visit in-person all the important sites of RFM. I think that's a very important thing.

What we found is that they are absolutely at par with our standards and also with our, let's say, investment philosophy. And therefore, we did not identify in any respect, any pent-up investment requirements.
Overall, the CapEx that we are expecting is limited. And I would say around EUR 50 million a year is the number that you should take into account.

Operator

The next question comes from the line of Mr. Christian Faitz from Kepler.

Christian Faitz Kepler Cheuvreux, Research Division - Equity Analyst

Congrats on the deal. Still, I have 2 questions. First of all, why do a capital increase rather than a higher debt issue? Would that have breached some covenants or challenge your investment-grade rating?

And then second, since we have the benefit of having you on the phone, could you please give us an update on current business conditions? And also comment on the rising Chinese MDI price?

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

Yes. Let me start with the first one, Christian. So first of all, no, we don't have any covenants. I think there is nothing in our current financing structure that would oblige us to do that.

It is simply driven by the clear commitment that we have to maintain our solid investment-grade rating, which is currently a BAA2 rating. That is what we want to maintain.

And you see this is a pretty elaborated number, EUR 450 million. So after a very careful and intensive consideration, we have come to the conclusion that it is exactly that number that it requires to maintain that rating.

So I can tell you we are extremely mindful with the issuance of new equity. And we will not do more than required, but we have after, as I said, careful consideration, come to the conclusion that is exactly this amount which will be needed to make sure that we're not running any risk.

The next -- to your second question, Q3 trading, I gave an interview some 4 or 5 weeks ago, where I gave you my expectations for the quarter. And I think what I can report since then is that we've seen very good momentum over the course of September.

We also see that pricing is constructive. So I would say our confidence to reach the numbers that I indicated has rather increased since then.

Operator

And your next question comes from the line from Mr. Sebastian Bray from Berenberg.

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

I would just focus on the revenue synergies, please. The guidance, EUR 40 million per annum, if we've taken RFM-style mid-teens EBITDA margin would imply over EUR 300 million run rate in sales terms. And I'm just wondering about the composition.

Is this DSM's higher-margin products in fiber optic resins, which probably have 30%-plus EBITDA margins being cross-sold more? Or could you give an idea of the composition of sales? There always were an impact where the solar sales of water breakeven. It just seems like quite a big figure relative to the cost synergies promised.

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

Yes, I think on that question, so first of all, I think you're looking at the EBITDA margin. But what you have to look at is the gross margin, of course, because the trick of the synergies is that, yes, we will increase the revenues, but we will not increase the cost base at the same time.
And therefore, the EUR 300 million of sales that you derive from that is too high of a number relative to our business plans because it’s the gross margin that counts. It will not predominantly come from the fiber optic coatings business because we are not in that business. We think it’s highly attractive, and we think it has very, very promising growth rates, especially with the transition to 5G.

But the main synergies mainly come from the specialty resins, where we will bring together our portfolios. And the synergies are driven by that one.

Markus Steilemann  
Covestro AG - CEO & Chairman of Management Board

And just to give you some flavor, I mean, we are watching this business now for, I would say, a couple of years and have increased over those couple of years significant understanding. Secondly, we have similar business in-house. Thirdly, we have done an intensive bilateral DD. So we also know the business, I would say, by heart.

We had 150 people on that process over the last couple of weeks, if not months, to say the least. So I think we have a pretty strong view and a very solid view about those synergies also with regard to the top line here.

And last but not least, as I’m a chemist by training, and if you look the way how coating systems are built, we are now entering into a, let’s say, different layer of the coatings business, if I may say so chemically speaking, and can offer this complementary to our customers, plus enlarging the regional footprint, plus have the opportunities to use the 20 additional production sites plus that we are having to distribute our production portfolio across more production sites closer to customers. That means we're increasing from every angle and I could imagine our customer proximity. And that really gives us confidence also and particularly on the so-called revenue synergies.
The 2019 EBITDA of the real core business that we’re acquiring is [EUR 141 million] (corrected by company after the call). And the expected EBITDA for 2021, which I think is the relevant one for the valuation, is EUR 150 million. And you also have those details in our slide deck. And if you then put that into relation to the 1.55, that gives you the roughly 10x multiple. So that is the bridge.

And as I said in one earlier question, also from the current trading, we have very high confidence that the 150 expected for next year is a more than realistic number. So I think that on the first clarification. So Markus, do you want to take the cost synergies question?

Markus Steilemann  
Covestro AG - CEO & Chairman of Management Board

Happy to do so. Chetan, thanks for the question. So to give you a flavor about where the major cost synergies are, we see sales and marketing, here is one of the key drivers, let’s say, 1/4 of the cost synergies simply due to the fact that I have elaborated early on with overlapping customers. And that is a benefit exactly of the deal that we can offer more, for example, with similar sales people, same sales people. So we expect synergies coming particularly from that area.

In addition, G&A in a similar order of magnitude as we believe that we could, add on this EUR 1 billion without adding more than we have today on G&A. Then not to forget purchasing synergies, where we also see larger size of the cost synergies.

And then, in order of magnitude decreasing: production. And production particularly comes also from the opportunity to use the batch production that they have for our products or our batch production for their products in the combined businesses.

And then there is logistics and some R&D and others. So that is how we look at the business. And once again, we have had a very intensive, very, let’s say, diligent due diligence process that was based on a bilateral basis, which gave us much more time to really look into many, many details and understand the business really on a level of detail that you normally, for example, in a different process, would not find.

In addition, we know in particular those businesses and customer industries by heart to a large overlap. Plus we also had more than 150 people on that particular business over the last couple of weeks and months. And that really makes us confident on both sides, revenue as well as cost synergies, that we can fully exploit those numbers.

Chetan Udeshi  
JPMorgan Chase & Co, Research Division - Research Analyst

Markus, if I can follow-up. Do you have any number on top of your mind, like how much of your raw material basket is similar to the businesses you’re acquiring? So in general, is it 20%, 30%? So what is the common percentage in terms of raw material?

Markus Steilemann  
Covestro AG - CEO & Chairman of Management Board

I don’t have the exact number at hand, but it is a very significant number. So we’re not talking maybe exactly about EUR 1 billion, but we’re talking, I would say, about a high triple-digit million number. That’s what we’re talking about.

Operator

And your next question comes from the line of Geoff Haire from UBS.

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

Historically, you’ve talked about your mid-cycle net debt-to-EBITDA being at 1.5x. If that’s still the case, could you just tell us how long it would -- you think it will take you to get back to that level with this transaction? And I was also wondering, given, obviously, the increase in debt, what impact does this have on your thinking of proceeding with MDI as well?

And I think, Thomas, you said that you’re committing to not doing any M&A while you’re going through the integration and deleverage. Does that also include entering talks with people that may mean that there’s a change of ownership of Covestro?
So okay, let me start by expanding on this leverage question. So first of all, what we said is a mid-cycle 1.5x leverage relative to net debt. That is still what we're shooting for, give or take. And the 2.5x, that is in line to achieve our solid investment-grade rating also at a lower point in the cycle, which is currently still the case.

So I think to bring those 2 numbers together, what would definitely lead in 2020, I think you will all agree, is the low point of the cycle. And therefore, our leverage number is higher than the 1.5x, still absolutely in line with what we said, solid investment-grade rating, and that is the BAA2 number where we're currently at.

So 1.5x is if you take what we are expecting as a mid-cycle EBITDA and put this into relation to our net debt number, that is still absolutely in line with our guidance and what we're shooting for.

So your second question was our commitment not to embark on any bigger M&A. So I'm not sure whether I got your question totally correct. So what I can tell you is we're committing not to look into any other deals during the integration and deleveraging phase.

Just to give you also the confidence, this is now not the start into a big, let's say, pipeline of further M&A transactions which we're envisioning. We do not have anything in the pipeline, and we do think this is a once-in-a-lifetime opportunity. Therefore, we went for it now.

But it is nothing that would be or might be the change in our strategy to be solidly financed and to focus on the operational excellence of the company. So I think that is why we clearly wanted to make this statement.

And then maybe on the MDI 500, that will be reviewed as we have always communicated end of 2021. So no indications on that from the deal as of today's perspective.

Oliver Schwarz Warburg Research GmbH

Got 2 questions, please. Firstly, it seems like you were able to leapfrog competition and became #1 in the respective markets in regards to your enlarged CAS segment. Could you please elaborate on midterm growth perspectives of the combined enterprise, whether you might be to outgrow the market despite being #1 from -- in regards to the performance of the combined business or whether you are more likely to grow in line with markets despite the sales synergies that you anticipate? That would be my first question.

Second question, the treatment of the 3 start-up enterprises that generate a net loss of EUR 8 million, I'm just wondering why that is not integrated in the EBITDA number you gave. Are those enterprises to be sold? Or are they most likely to come into black figures in already in 2020? Or what's behind the not recognizing the losses that those business incurred?

Markus Steilemann Covestro AG - CEO & Chairman of Management Board

Oliver, thanks for the question. I would dare take the first one, Thomas then, the second one. In terms of outgrow, very simple picture here, but it explains, I think, quite nicely.

On the one hand, if you look being the or one of the leading companies by the combined business in that market, you would tend to say,
"Well, with that, you can only grow with the market." But there's one key element that makes this combination so unique and so value creating, and that is exactly the high share of both companies in sustainable coating solutions.

And those sustainable coating solutions have proven, over the last years, to drive substitution. So solvent-borne systems are substituted by water business, by waterborne solutions. And we now combine, as outlined earlier during my speech, the polyurethane and the polyacrylates technology for water-based systems. And these systems will continue to replace solvent-borne systems.

And that, in combination with a leading market position, plus the substitution will lead to CAGR of 5% that we expect for this business in combination. And that's why we believe we can outgrow the market at least for the foreseeable future.

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

And then on your second question, Oliver. So first of all, we want to be totally transparent on the numbers. So there's nothing about disguising that the innovation ventures do have a still negative EBITDA because those are investment cases, and they're really in their early stage.

But I think you have to clearly distinguish between what is the core business in functional materials business, which we're acquiring, and that has an EBITDA number of [EUR 141 million] (corrected by company after the call). And it comes with an enterprise value, which we have clearly disclosed. And the ventures, which are in their early and still investment phase but very promising, we have essentially taken over for free, so with a 0 enterprise value.

And our view is that they fit very nicely into our business, especially when it comes to the 3D printing and the Niaga recycling business because it fits our vision very well. But we will give you, of course, more details in our more detailed call this afternoon. But we want to be fully transparent on the numbers here. It is what it is.

Operator

And your next question comes from the line of Tom Wrigglesworth from Citi.

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

Tom Wrigglesworth from Citi. Two questions. The first one is on, I guess, the competition for capital within Covestro. Obviously, you've highlighted the organic spend, but does this deal widen the opportunity for Covestro to allocate capital inorganically further into CAS in the future?

And the second question, which is a corollate to that is do you feel that / do you want Covestro to be considered more as a coatings company? Do you think that's undervalued in your portfolio by the market versus?

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

We always very clearly said that M&A is part of our strategy and that we're looking for bolt-on acquisitions, especially in the field of CAS, because we feel that antitrust would not allow us to look for opportunities in the other 2 segments. And I think here it is. This is the deal that we've been looking for and working on for months and years.

So I think it's fully consistent with our communication that we've made earlier. However, it is not a shift in strategy. So we're not saying that this marks now the beginning of further acquisitions, but it is really absolutely in line with what we've said earlier. So that's how I would characterize it.

Do we think that CAS is a beautiful segment and that it should be valued by the market? Yes. It hasn't been maybe so far, maybe a little bit overlooked in light of the bigger size of the other 2 segments? Yes. So I think the market should very clearly look into what do we have in our portfolio. And CAS, in our view is definitely a jewel.
Okay. Understood, and just a follow-up to that. When does bolt-on become transformational? I mean, EUR 1.6 billion is certainly, to my mind, at the higher end of bolt-on. Can you help me with your definition?

I would agree with your definition.

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

Historically, EBITDA margin at CAS has been north of 20%. How should we think of the margin going forward, please, as you almost doubled the coatings raw materials business, and we don't have the subsegment shift of margins. The next one would be, could you please tell us what would be the timing of the equity raise?

Yes. Let me start. First of all, if you look at the margins, and we've talked about the synergies. So I would say the margin profile, including RFM, should be a similar margin what we have today in CAS. And that, Isha, is also why we have the confidence that the synergies that we have laid out are fully realistic because we do own a business which is very, very similar and where we do see margins that are currently in the range of 20%, it has been there very consistently.

So this is what gives us the confidence that we will also bring the RFM business to at least that margin profile, and that is what is reflected in our synergy assessment. I think, quite frankly, capital raise, I cannot give you an exact timing. But this is something that we will look into over the next weeks.

I was just wondering if you could give us a bit of background about the timing of this deal announcement. You have been clear that you have been thinking about doing this kind of a deal for some time.

How long have you been looking at the specific asset? And how are you thinking about making this kind of announcement versus the cycle, the economic cycle, but also your business cycle? If you could just give us a bit of background to that and whether the process was competitive at all.

So I think, Georgina, maybe in terms of timing, I can say this is something which we have had on our beta screen, I would say, for years. So I think we told you many times that our M&A department is screening tens, if not maybe up to 100 companies and opportunities that we would take into consideration.

I can tell you that this business was always absolutely on top of the list because we felt this is, in terms of the synergies and the fit and also the cultural fit, the absolute perfect addition to our CAS segment. And therefore, it has been on the beta screen for years.

And I think it's also no secret that it was for years not able to transact and [now] (added by company after the call) to act on that opportunity for various reasons. So I think now the opportunity has come. And therefore, of course, the micro timing, we were not able to manage that with respect to any cycle or with respect to any business performance in the cycle or anything.

We think the timing for this one is right any time. I would almost say that the crisis has helped because, of course, the multiples have not come down, but I think the expectations for those businesses have come down. So I think the timing for us was positive.
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It was not an auction, we were probably the preferred partner from DSM because they wanted to find a good home for this very traditional DSM business. And they felt that we would be the right partner to do that. So it was a very intense process over the last number of months, which gave us plenty of opportunity to look into this. But it was not a competitive option.

Markus Steilemann  Covestro AG - CEO & Chairman of Management Board

And if I may add. What is pretty important we know this business, this type of business, by heart. We have a very similar culture in both organizations. We have excellent people on both sides, in particular, when it comes to the innovation capabilities and bring those innovations to the markets. And I think in that context, I could say that we also are a preferred partner from the seller side.

Ronald Koehler  Covestro AG - Head of IR

There is no one else in the queue as I see. So as I said before, you will have another chance to ask more questions in the afternoon. We also offer [this afternoon call] (corrected by company after the call) especially for our U.S. friends, but everyone is obviously welcome to ask more questions. We will tell you potentially also a bit more about the innovation businesses. And we might give you a bit more background in general of the business that I hope that will be also then helpful. In between, between now and 3:00, feel free to call IR if you have further questions. Then potentially speak to you later. Bye.