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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Covestro Earnings Call on the Q4 and Full Year 2020 Results. The company is represented by Dr. Markus Steilemann, CEO; Dr. Thomas Toepfer, CFO; and Ronald Koehler, Investor Relations. (Operator Instructions)

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

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

Good afternoon. Thank you all for joining our fourth quarter conference call. And as usually, we have posted our presentation, which we will follow during the conference on our website, if you have not received them via e-mail. And I just want to make you aware of our safe harbor statement, which I assume you have read.

With that, I turn over to Markus.

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

Thanks, Ronald. And a very good afternoon and a very good morning to everyone on the phone who's joining the conference.

The full year 2020 was marked by global coronavirus pandemic. In the first half, we have seen a drastic impact on our product demand whereas in the second half, especially towards the year-end, we could see a dynamic demand recovery with increasing product margins. In total, the full year came in with core volumes of minus 5.6%, below previous year. The EBITDA came in at EUR 1.5 billion, above market expectations and close to 2019 levels, a year without the pandemic. We had a strong free operating cash flow of EUR 530 million, which was 12% up year-on-year. The earnings per share of EUR 2.48 were 18% below last year, and we will -- would propose EUR 1.30 per share to the upcoming Annual General Meeting, and based on the new dividend policy, which Thomas will explain to you later.

Let's switch to the next page. Here, we give you a little bit more details about where the challenges were and how we successfully brought this to a good end. In 2020, the earnings guidance was achieved. We had, as you all are aware, several guidance updates during the year following the course of the pandemic and also the development of demand. 2020 volumes, as mentioned earlier, were impacted by downturn of demand and came in below the original year-on-year growth outlooks. Earnings and cash flow, however, were on or even above the original 2020 guidance as published in February 2020 ahead of the coronavirus pandemic. Thanks to our agile organization, decisive crisis and cost management as well as extraordinary motivation and dedication among our employees, we could bring those results home. It is fair to say 2020 was a challenging year that we managed successfully. At the end, we delivered on promise.

Let's turn to the next page, and here I would like to give you a little bit more flavor about the regional as well as industry distribution. The core volumes, as you can see on Slide #4, declined by 5.6% with all regions and large industry year-on-year. By regions, the 3 regions were almost on similar levels between minus 4% and minus 6% at year-end. China was best but also negatively impacted by the coronavirus pandemic, especially in February, March. U.S. has shown good demand in furniture driven by "stay home" but weak auto. And Europe was worst, especially Germany, due to auto but also weak development in construction. If you now slice the cake by industries, you see that in terms of ranking by kilotons we sell in the specific industries, it comes in as follows. Furniture showed a mixed picture, quite weak in Europe, but even up in the U.S. due to good demand for mattresses as import tariffs helped the U.S. producers. Construction was globally down, exception was Asia Pacific driven by continued investment into nonresidential. And auto decreased by 14% year-on-year, slightly better than global auto production, which decreased by 16% based on LMC data. Rather small but with a very positive dynamic was medical, with 13% up year-on-year.

Let's turn to the next page. Here, you can clearly see that the volumes in the second half were above previous year despite constrained availability in polyurethanes and polycarbonates. We also saw significantly increasing earnings margins towards year-end. This earnings margin development was supported by strict execution of cost-saving measures across all 3 segments. The improving industry trading conditions and industry margins allowed to increase the selling prices over feedstock prices in here, especially in polyurethanes.

And now I would like to hand over to Thomas.

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

Yes. Thank you, Markus, and a warm welcome to everybody on the call.

I'm on Page 6 of the presentation where you have the sales bridge. As you can see, our sales declined by 13.7% year-over-year for the full year. And the decline in core volumes led to a negative volume effect on sales of 5.1%. That is the EUR 637 million that you see in the bridge, and the majority is driven by our Polyurethanes business unit and our Coatings, Adhesives, Specialty business unit. And in addition to that, of course, also the lower selling prices led to a sales decline of 5.7%, again, that is the EUR 709 million that you see in the bridge, driven by the price development mainly in polyurethanes but also in polycarbonates. You also see we had a negative exchange rate effect of EUR 195 million, that is reflecting the weakness of the Brazilian Real but also the devaluation of the U.S. Dollar, the Chinese Renminbi and the Mexican Peso relative to the Euro. Last, but not least, you see in the bridge EUR 165 million from portfolio effects. You have the details in the box on the right-hand side. As you probably remember, we sold our European sheets business, and our European systems houses in January 2020 and in late November 2019, respectively, and the effect, obviously, is reflected in the EUR 165 million.

Let's turn the page, and you see the EBITDA bridge on Page 7. We achieved an EBITDA of EUR 1.472 billion which is, I would say, only 8.2% below previous year, and I would consider this a very good achievement given all the challenges that we had to cope with in this corona year. If you look into the bridge, you see that it's not only lower volumes but also a negative or unfavorable product mix that influenced EBITDA because you see there's a relatively high negative volume leverage of 63% reflected in the minus EUR 400 million. This is, of course, due to lower demand from our automotive customers, which carry a relatively higher margin. You also see that there's a positive pricing delta for the full year of plus EUR 132 million. That is driven by the strong development in Q4 while, for the first 3 quarters of the year, the pricing delta was negative. And you also see the details behind this with the price moving EUR 709 million and also the raw materials moving EUR 841 million. I think the order of magnitude of that number just gives you a flavor of the high variability of those numbers over a full year.

The, actually, largest positive EBITDA contributor on a positive sense in the year comparison is our cost-saving measures where we achieved EUR 350 million relative to the previous year. And that is somewhat camouflaged in the other items box where you see only positive EUR 162 million. And the reason is that we had also some other onetime effects, mainly positive effects, which materialized in 2019, which did not repeat in 2020 and which, therefore, of course, diminished the overall net effect of it. Plus, there was also negative effects of roughly EUR 60 million from various other items, among others, the wage increase and the merit increase that make the largest chunk of it. But my important message is the EUR 350 million cost savings did fully materialize and are included in this box. And I will talk about it in more detail on the next page.

There is one thing, I should mention, the legal department told me I should draw your attention to the footnote in green, which says the announced acquisition of DSM's Resins & Functional Materials business, in short RFM, is subject to regulatory approvals. I think to give you some more detail beyond the legal disclaimer, we have received a positive approval from all jurisdictions but one, and this is a minor jurisdiction and country, and I'm very, very confident that we will receive the clearance over the course of March so that we can then close the transaction on April 1.

So with that, let's turn to the next page where you have some more details on our cost-saving measures, which we took in 2020. On the left-hand side, you see our short-term measures we announced in the beginning of the year, an objective or a target of EUR 200 million. We increased that to EUR 300 million. And we said of this, EUR 100 million would be cost avoidance versus the budget and EUR 200 million would be real cost savings versus previous year. In the end, and you see this below the box, we have delivered EUR 360 million in short-term savings. And in the footnote, you can see that thereof, EUR 140 million are cost avoidance and EUR 220 million are actually reduced costs compared to 2019.

And on the right-hand side, you see that, in parallel, we continued to execute our efficiency program Perspective in an accelerated manner, so that yielded another EUR 130 million over the course of the year, and that brings the accumulated Perspective savings to EUR 280 million. If you add to that some EUR 70 million, which we have labeled to be included in the short-term measures on the left-hand side, that makes the count to the full achievement of EUR 350 million. And therefore, we successfully closed the Perspective program by the year-end of 2020. To close the loop to what I said earlier, if you take the EUR 220 million from the left-hand side, which are effective relative to previous year, and if you take the EUR 130 million of Perspective together, that gives you EUR 350 million, and that is the number that we are referring to under other items on the previous page.

Let's go to the next page, Page #9, which is our cash flow statement. You can see EUR 530 million in the chart, which is at the upper end of our most recent guidance, which we updated in December. There's one highlight which is not on the table, which is our free operating cash flow of EUR 394 million, which we achieved in Q4. And you can see this in the second bullet in the box on the right. In that box, you can also see that our working capital-to-sales ratio came in at 18.2%, and that is higher than our range of 15% to 17%, which we target. But I would say it's mainly a mathematical effect because we are comparing the working capital at year-end at very high prices relative to the sales over 12 months, which obviously include a very weak Q2 and, therefore, once those mathematical effects were normalized, we do expect to come back into the normal range of 15% to 17% over the course of this year.

Back to the table on the left-hand side, you can see our CapEx number came in at EUR 704 million that is spot-on relative to our guidance. And maybe just one word on the last line item, you can see there's quite a swing in the other effects from 2019 to '20, and that is mainly driven by the EUR 300 million bonus cash-out which occurred in 2019, which obviously did not repeat in 2020. And the payment in 2019 was related to the 2018 bonus achievement. So there's always this one delay of payout in our cash flow statement that you should keep in mind. But the overall conclusion for us is that we delivered a strong cash performance in a tough environment.

Let's go to the next page, Page 10, that shows you our balance sheet. As you can see, the net debt decreased by almost EUR 500 million over the course of the year. And our total net debt-to-EBITDA ratio came in at 1.7x at year-end, slightly better than the 1.8x at the end of 2019. And also, our equity ratio remained stable on a very healthy level of 44%. You have those numbers in the box on the right-hand side. What is maybe not so visible, we do have a very strong liquidity position of some EUR 2.5 billion currently, which we're holding in preparation for the closing of the announced RFM transaction. And as I said, we're expecting all regulatory clearances to occur over the course of March. And that cash position, obviously, was financed through the bonds, which we issued over the course of 2020 and also the equity increase. Last comment is the pension provisions, as you can see, slightly increased. That is just an effect due to the record low discount rates, which we applied. And last, but not least, my overall comment with respect to the balance sheet would be that it is reflecting our clear commitment to maintain a solid investment-grade rating.

So with that, I would like to hand it back to Markus.

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

Yes, thank you, Thomas. And you see we pulled all the triggers in 2020 for great operational performance, but that was not good enough for us. What we did at the same time, we also looked at all the strategic developments for our corporation and continued not only with a new vision but also with a new development of our strategy. This is setting the path forward for tomorrow. So introducing this new strategy to you is, to us, quite important because it will set the pace for the next years to come and where our major focal points will be.

So let me introduce you going from left to right through the chart what are the key 3 chapters of the new strategy. Our first chapter: become the best of who we are. We intend to transform the company to exploit its full potential. The focus here is clearly on processes that make customers successful, adjust the way we operate fully towards customer needs and overall simplify and optimize all processes and terminate those activities that are not generating value. A key milestone was already achieved in 2020 by starting the transformation program LEAP that we have initiated there, and I will give you a little bit more details later on the next page.

For the time being, now let's turn to the second chapter: drive sustainable growth. Here, we address all the sustainability demands in the market and all the needs to really transform and being part of this transformation of the economic system from a linear towards a circular model. And here, we're looking into our own internal company processes by, for example, developing faster than ever sustainable products and solutions in our portfolio, invest in long-term attractive and sustainable markets and also build assets faster and cheaper than before. A key milestone here in 2020 was the announced acquisition of the DSM RFM business that Thomas has already referred to numerous times. With that, we are building a leading, sustainable coating resins player.

And the third chapter is about becoming fully circular. We want to actively accelerate and transition to a fossil-free economy: a fossil-free polymer production, switching to renewable energy, managing end-of-life materials jointly with partners and creating thereby joint solutions that transition the economy from a linear to a circular model. A key milestone in 2020 was that we launched our new vision "we will be fully circular" and that we have also achieved first deliveries of renewable raw materials for our respective operations in some selected products. We foster, in this context, also digitalization, to become a digital leader in the chemical industry. Examples are here: digitalization of research and development. And here, we have entered into 2 cooperations with Google as well as Amazon Web Services, AWS. And on top of it, last, but not least, foster and further develop our new "We are 1" culture. Here, clear examples are the incorporation in our leadership principles of leading forward as a new part of these cultural dimensions and getting frequent and regular feedback from all 17,000 employees about the progress and how they are doing in this context.

Now let me give you on the next page a little bit more flavor on the just addressed LEAP program as part of the first strategy chapter. Here, the details show clearly that we are moving away and transforming the former 3 business units into 7 business entities, which will be fully profit and loss responsible. It is a comprehensive redesign of structures and processes. The goal is to become even more customer-centric than ever before. The implementation of the new organization setup is intended to be active from 1st of July 2021 onwards. The new business entity structure is based on business specifics and customer needs and less so on material characteristics, and this should further foster entrepreneurship within Covestro for the respective business entities.

If you look very rough cut into it, you see 2 major groups of business entities. Number one, the group of Solutions and Specialties. Here, it is about differentiated chemical products and application technology services and a strong focus and pressure on innovation and customer interaction. The second group is the Performance Materials. Here, the focus is on reliable supply of standard products at competitive market prices, and that, for sure, comes with lowest internal cost to deliver and highly available plants that are running fully loaded at any given point in time. Reporting in the new segment will start with the Q3 interim statement. However, and let me make this very clear, the actual reporting structure is still work in progress and not determined yet.

With that, I would like to hand back to Thomas.

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

Yes, thank you. I'm on Page 13 of the presentation. And as Markus said, obviously, LEAP is mainly a transformational program along the characteristics of our products but, of course, there's also a strong efficiency angle to this, which I would like to talk about. So the key message of LEAP is: keep fixed costs flat. And that means our target is to maintain our fixed cost unchanged until 2023 relative to the 2020 level, excluding potential fluctuations from the bonus. At first sight, that might not sound so ambitious, but in reality, I do think that is a challenging target because 2020 is, of course, characterized by a very low fixed cost base given all the short-term measures, which we executed over the course of the year. And it also means that from that basis, we have to tackle yearly fixed cost inflation of at least some EUR 100 million and, in that, is things like the merit increase, et cetera, et cetera.

We have shown for you the historical development in the chart. And you can see that we had almost a flat development in 2016 and '17 despite, of course, some dis-synergies, which we had from the split from Bayer, but then there was a strong cost increase in 2018 given the focus on growth. And then in 2019 and '20, you can see that Perspective and the short-term measures again yielded a cost reduction. So what you should assume for 2021 is a cost increase of between EUR 100 million and EUR 200 million. That is due to the higher maintenance costs and the merit increase, our investments in digitalization and circularity. And I would also say it's clearly in line with our previous guidance where we said there will be a rebound in short-term costs because not all of the measures which we executed in 2020 can be sustained, and that is the character of a short-term cost measure by nature. But then you should expect in 2022 and '23 that with the implementation of LEAP, we will counterbalance the increases so that overall, as I said, the fixed cost should not increase up until 2023 relative to the 2020 level.

So with that, let's do a little deep dive on one specific measure, which is our headcount development on Page 14. We said in the beginning of 2020 that we wanted to reduce our headcount from 17,200 to 16,800 through the execution of Perspective. I think we can say we have clearly over-delivered on that target and came out at 16,500, and our plan is to further reduce that over the course of this year by 400 FTEs to 16,100 until the end of 2021. Now of course, by the end of the year, roughly 1,800 FTEs will join us through the consolidation of RFM. But I can clearly say that the reduction has nothing to do with the synergies, it's simply a function of our restrictive controlled hiring policy, which we have established for Covestro, excluding the acquisition. And then, of course, all the synergies effects which we're envisioning in connection with the transaction will then come on top of that.

So with that, let's turn to Page 15, where you see the EBITDA guidance. For 2021, our guidance is an EBITDA of between EUR 1.7 billion and EUR 2.2 billion. But we have also put in the chart for you the mark-to-market estimate for 2021. And so that is, if you were to take the January market data and the midpoint of the guidance range in terms of the core volumes that we see, and if you multiply this out, this would lead to an EBITDA of EUR 2.7 billion. Now the obvious question is why do we assume that the prices or margins will come down from here over the course of the year. It is simply because, if you look at the overall utilization rate, it still appears to be low, if you look at the nameplate capacity that is installed and the underlying demand relative to that. And the currently very strong demand and the high prices, therefore, in our view, are driven by catch-up effects by some extra effects from the stay-at-home policy where people do work on their homes, they buy mattresses, refrigerators, et cetera, we do observe quite a bit of restocking activity in various industries.

We do know that there are logistic challenges, and there's also no question that, currently, there is a higher-than-usual number of outages in the market. And I would say that each of those factors, by itself, is maybe not significant, but the accumulation of all these altogether brings us to the conclusion that there will be a normalization of margins over the course of the year, and that is reflected in the EBITDA guidance range that we have given out. I should also say that our guidance includes the RFM acquisition. However, please note that the contribution from RFM on a net basis is almost negligible simply because the additional EBITDA and the integration cost, on the other hand, pretty much balance out each other. And we have, in the box on the right-hand side, indicated the usual sensitivities for volumes and also for currencies, which should help you to fill the cells in your excel spreadsheet.

So with that, let's come to the further guidance items on Page 16. I would say the clear message here is that in 2021, we expect to exceed the pre-pandemic levels of 2019. And this is why we've given you 3 columns in the chart: 2019, 2020 and then the guidance for this year. So let's just look at the most important numbers. One more remark, I should again say that the guidance is including RFM, but it is excluding any potential LEAP onetime costs. So that means we might, over the course of the year, be in a position to build accruals for the execution of the efficiency part of LEAP, but that is not included. But in any case, it would not be a cash effective item because those cash-outs would only occur then in 2022 and after. But I think that just as a remark is important for you.

So let's look at some important numbers. As you can see in the first line item, we are expecting core volumes to come in at 10% to 15%. That includes 6 percentage points from the RFM acquisition. And the free operating cash flow, which we're expecting between EUR 900 million and EUR 1,400 million, that includes, of course, a positive effect in the order of magnitude of EUR 300 million, which is the bonus achievement, which is included in the EBITDA but will not be cash effective in 2021. So that is pretty much the same effect that I was alluding to when I talked about the 2018/'19 numbers earlier. And then, as you can see in the middle of the page, we do expect a strong start into 2021 in terms of the first quarter where we expect an EBITDA of EUR 700 million to EUR 780 million in Q1 driven by the positive pricing delta and a mid- to high single-digit core volume growth, which, at the same time, meets a still low-cost level. And it also includes the negative effects, which we currently see from the unusual weather conditions, which also we do experience in Texas. So that is already baked in into the Q1 guidance as well as in the guidance for the full year.

Let's go to Page 17 and talk about the use of cash. And I would say there is a slight evolution not in our priorities but maybe in how exactly we define the individual buckets. So the most important thing, on the left-hand side, still is CapEx for us. It is and will remain the main use of cash with a focus on value creation. And I will talk about it in some more detail on the next page. We have, as you have seen from our press release, adjusted our dividend policy to a payout ratio. Again, I will talk about it 2 pages from here. In terms of portfolio, I can reiterate that there is no immediate plans for another acquisition during the integration phase of RFM, and we also have no further disposals planned. But of course, the inorganic growth potentially remains a strategic focus that we have with respect to the growth of Covestro should an opportunity arise. Last, but not least, on the right-hand side, you know that we did execute a share buyback over the course of 2017/'18. Our view going forward is that this is clearly not imminent. But the focus would be, if at all, to execute such a share buyback in the future only opportunistically and in an anti-cyclical manner.

So with that, let's look at some details with respect to CapEx. As I said, it does have the highest priority in terms of use of cash. And it has to deliver attractive returns, and that is our key criteria. And our maintenance CapEx is roughly EUR 350 million to EUR 400 million to secure the safe, reliable and efficient operations of all our plants. Now what we do envision for 2021 is a number of approximately EUR 800 million. That includes also the CapEx spend for RFM, which is roughly EUR 50 million on a full year basis.

And on the next page, some more details on our new dividend policy. So let me, first of all, start by saying that we propose a dividend of EUR 1.30 per share for the year 2020, which is obviously EUR 0.10 more than for 2019. And it is in terms of payout ratio, a 55% payout of our net income, which is, by the way, the highest relative payout ever in the history of Covestro, as you can see from the chart. And we have defined going forward that a payout range of 35% to 55% of our net income would be an appropriate policy, which then also means that you can expect higher payouts in years with peak earnings while, in such a case, the ratio might be towards the lower half of the range. And then, of course, also you might expect lower pay payouts in years with trough earnings. And in that case, we would then push it to the upper end of the range, just as we have done for 2020.

So with that comment, I would like to hand it back to Markus for the closing.

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

Thanks a lot, Thomas. And allow me to highlight once again the operational as well as the strategic highlights of a really challenging year 2020, which we have successfully managed. The volumes were above pre-pandemic levels already in second half of 2020 despite constrained product availability. The earnings were delivered in line with guidance, and we have seen significant positive momentum towards year-end. The cost savings also significantly supported earnings, the short-term savings were delivered and the Perspective program was successfully completed. In 2021 earnings, you can see again above pre-pandemic levels of 2019. This assumes a strong rebound from depressed earnings levels seen in 2020. And on the strategic side, we have developed a new company strategy that was introduced with a strong focus on transforming the company, driving sustainable growth and becoming fully circular.

Thanks a lot for your attention, and now we're looking forward to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And the first question comes from Christian Faitz from Kepler Cheuvreux.

Christian Faitz ***Kepler Cheuvreux, Research Division - Equity Analyst***

Three quick questions, if I may. First, on polycarbonates. Why were prices down in Q4 by minus 2% when spot commodity prices were up, I believe, almost 30% year-on-year in Q4? I understand the delayed pricing due to the contract structure, but it seems that Covestro didn't participate in strong industry pricing at all in Q4. Second, Markus, you mentioned the -- or was it Thomas -- the force majeure impact in Q1. Can you quantify that a bit? And can you update us on the situation in Texas? And then third question, it looks like construction, in general, seems to have seen a bit softer demand in Q4. Can you comment on this and how you see demand from construction for your portfolio carrying into 2021?

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

Yes. And allow me to take the first question, and then I will hand over for the second question to Thomas. And the third question, I'm also -- either Thomas or myself, happy to take. On the pricing issue that you raised in the context of polycarbonates, in particular, on the Q4 prices, let me put this into context. And you maybe see that from the overall profitability, that came in as a surprise to many, that polycarbonate has delivered in 2020. Just think about it, we have actually had reduced quantity, we had reduced revenues and still increased the EBITDA levels compared to 2019. I think this is a result that many did not really expect, but it shows what we have done from a strategic perspective over quite a long time with polycarbonates. We have shifted significantly the product mix. And that was shining through, particularly in the third quarter as well as in the fourth quarter.

So what does that mean? It means in the first and second quarter, we have sold more of the commodity part of polycarbonates to compensate for the losses for the high-value polycarbonates, in particular, due to the losses in the automotive industry. That means, first and second quarter last year for polycarbonates were marked by a significant short-term tactical shift from high-value polycarbonate into mass polycarbonate. And then in Q3 and Q4, we were actually moving this slightly but steadily back. However, the negotiations for the pricing for specialty polycarbonates normally take place on a 3-month or even 6-month contractual basis. That means what we have seen in Q4, where commodity prices were going up significantly, was that we had already negotiated prices for the specialty polycarbonates on reasonable margin levels. However, we could not fully participate, so to say, in the pricing on the commodity side in the upwards trend.

So there were, therefore, a couple of mixed effects and we fully participated in the commodity prices. However, we downside in then the third and fourth quarter, once again, the commodities relative to the resilient automotive part. So it was a quite, I would say, interesting dynamic that we could see in terms of pricing but also internal tactical product mix shifts. And that is a little bit long, however, a complete answer to your question.

Now I would like to hand over to Thomas.

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

Thanks. Yes, Christian, let me take your second question with respect to the Texas situation. So first of all, not surprisingly, we had to put our production into secure idle mode, also due to the request of the governor to save energy. So our production output currently stands at 0, and we're expecting to lose about 2 weeks of production. That means that, by the end of this week or the coming weekend, our assumption is that we can ramp up the production again. If you translate this into financial numbers, this means a loss of EBITDA for Q1, which is in the low to mid-double-digit range. As I said, that is baked into our Q1 guidance and also into the full year guidance. And in terms of core volume growth, that means several percentage points of growth that we lose in Q1, and which will now bring us to a guidance of a mid-single-digit core volume growth in Q1 as opposed to a potentially high single-digit core volume growth, which we have been expecting previously. So I think that is the effect.

Your last question with respect to construction, in Q4, I would say our core volume growth in Q4 stood at 1.7% positive. Construction is absolutely in line with that, and there is no specific outlier in Q4 with respect to the regions in construction. So to your question, do we see a marked effect or a cool down, I would say no.

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. In terms of your guidance, and looking at your main product lines, I understand the reason you're giving a rather cautious guidance is a multitude of smaller things. But looking at your core product lines, where do you see the major risk of correction after current overshooting? That was the first. And the second, in 2 parts, on polycarbonates. You commented about the portfolio shift towards more sophisticated products. I'm interested in where do you see the proportion of the more sophisticated products in a normalized environment versus the more bulky part. And 2b, if I may, do you see any change in dynamics in the Bisphenol A supply, especially in China, in the merchant market? Do you expect more available capacities in 2021 versus 2020?

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

Thomas, this is Markus speaking, and allow me to take your first question. So if you look at, let's say, to a specific order and not talking about business units, but you can then make your own assumptions on that one, we see the potential largest impact on polyols because here, we see, historically speaking, the highest prices currently, also from a long-term perspective, followed by TDI. And here, particularly also towards what Thomas has mentioned earlier about where we see that calculatory industrialization, on the one hand, which is if you take full nameplate capacity versus actual demands somewhere in the mid-70s. However, due to, let's say, practical availability of plants, this is more now going towards the 90s, maybe even above, and then followed by the PCS, but here, the common commodity part. So if you take polyols, TDI, PCS, I think you have, in this order, a clear ranking of where we would see, in the current business, the potential largest effects.

On the second question, Thomas will help.

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

Yes, Thomas. On your second one, if I understood correctly, you asked what is, in a normal year, the proportion of more sophisticated products in the PCS field. I would say we're constantly increasing the number of resilient or sophisticated products. Currently, I would say, in a normalized year, this should stand at roughly 50-50 in terms of volumes and probably 60-40 in terms of sales. But our clear direction, of course, is to continuously increase that proportion of sophisticated or more resilient products. And this is where we have a clear focus when it comes to investments on compounding plants, et cetera, which will give us more exposure to exactly that field. But I think the current snapshot would be 50-50 in volumes would be a good answer.

And then I think the last question of what is the situation with respect to BPA. So yes, there is currently a shortage of BPA in the market. Why is it relevant for us? Because our advantage is we are a fully integrated player while some others are not. However, there will be 3 new plants ramping up over the course of 2021, and they will be fully backward integrated. So there is a reason to believe why the BPA shortage would not be a constraining factor over the entirety of the year with respect to PCS, and that is another factor why we do think our guidance is a realistic one.

Thomas Swoboda ***Societe Generale Cross Asset Research - Research Analyst***

Do you -- if I may follow up, do you see any changes in the merchant market beyond the 3 integrated players coming to the market?

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

No. I think the merchant market will stay short. But what I'm saying is the shortage of the BPA merchant market cannot be a permanent indicator for the shortage of PCS in the market. And that is what we have factored into our guidance.

Operator

And the next question comes from Sebastian Bray from Berenberg.

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

I would have 2, please. The first is on longer-term group CapEx ambitions. Can you please remind me of when Baytown, the U.S. MDI facility, is going to come online and what the level of CapEx currently being spent on that project is? In other words, for 2022 and 2023, could there be a substantial step-up in CapEx? My second question is more administrative. What was the market growth in each of MDI, TDI and polycarbonates in 2020 globally, just to get an idea of how Covestro performed on a relative basis?

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

Yes. Let me take your first question, Sebastian. So I would say, in a nutshell, the situation is unchanged. We have parked the MDI Baytown project in the beginning of last year. And we said we would revisit it at the end of this year, if and when we will resume it. Now with respect to what does that mean in terms of CapEx implications, so currently, we're spending 0 on the project. We have essentially ramped down the project team, and we had successfully passed internal milestones so the project work could be easily archived and saved and the project can be restarted, and it can be, until then, run at practically no cost. So as I said, at the end of this year, we will revisit the case. If we should decide to continue the Baytown project, it would not have any major CapEx effect all the way to 2023. Why is that? Because we would then have to continue with the engineering work. But the heavy spending then only comes once the construction work really kicks in, and that would be clearly after 2023, so not before the year 2025. And I think that's the status. As I said, we will revisit it at the end of this year.

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

Okay. Sebastian, let me take the second question. If you look at the industry demand development, and this is all based on Covestro own estimates, let me start with MDI. Here, we would estimate that the market demand or industry demand has slightly declined by about minus 1%, and you will later see that this is the smallest decline that we see in all, let's say, 3 major commodities. One of the reasons for that goes back to what Thomas alluded a little bit to earlier about where we have seen, in the crisis year or in a pandemic year 2020, demand still holding on. And that was particularly, for example, in the construction industry because so many people stayed at home and so many people did a lot of refurbishment work and so on and so forth. And that has driven, particularly also demand for MDI, and that's why the decline was, based on our estimate, only around minus 1%.

Now turning to TDI, the demand decline is larger and here most pronounced with minus 8.5%, once again based on our own internal estimates. And if we then turn to polycarbonates, you can clearly tell that this is, let's say, a little bit below minus 7%. So according to our estimates, 6% to 7% negative. And here, particularly driven by a significant demand drop in the second quarter in the overall automotive industry that I also referred to a little bit earlier, which mean we mastered that due to the significant shift from specialties towards commodities quite nicely. Nonetheless, it has, overall, significantly impacted the polycarbonates industry demand. I hope that gives you some flavor. However, it is very important to take into consideration that this does not yet include some effects that we might only see once we get detailed Q4 industry data because all those data I have just presented are, as of today, preliminary data, making a few assumptions about fourth quarter, but we're still waiting for the details.

Operator

Next question comes from Georgina Iwamoto from Goldman Sachs.

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

The first is about how you might characterize mid-cycle EBITDA. I think it was about 2 years ago that you first referenced about EUR 2 billion as being mid-cycle. And since then, there's been capacity additions, acquisitions, including RFM. And also, we've had the additional transformation program announced for cost reductions. And I think it's also fair to say that the trough EBITDA that we saw last year was higher than we expected, certainly, versus your guidance at the beginning of 2020 versus the final result. And so with that in mind, do you think it still makes sense to say that mid-cycle EBITDA is EUR 2 billion? Or does that need to be upgraded? And then my second question, your guidance includes a GDP assumption of 4% to 5%, just wondering where that forecast comes from. And if you use Goldman Sachs' estimate of 7%, how might that impact your volume guidance?

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

Yes, Georgina, so let me start with your first question with respect to mid-cycle EBITDA. And if you look at Page 15 of the presentation, I think, if you look at it, we would characterize the upper end of our EBITDA guidance range. So the EUR 2.2 billion, that is actually touching this dotted line, which we would say this is the mid-cycle line and, therefore, the headline says EBITDA development is approaching the mid-cycle level. So this would be the situation as we see it as of today. Now going forward, of course, the things have to be adjusted because, as of next year, Covestro will include RFM. That means a business that, on a stand-alone basis, had an EBITDA of roughly EUR 140 million plus the EUR 120 million synergies that should come through over the course of time. Plus, of course, there should be continued volume growth. And if we then take into account that our ambition is not to see any cost increases, that would then further increase the mid-cycle level over time. So to your question, I think we never said that the EUR 2 billion would be a static line. But of course, there is effects that will kick in, in a staggered manner over the next number of years that will bring this mid-cycle point upwards.

To your second question, yes, indeed, we, I mean maybe unfortunately, from your point of view, did not use the Goldman Sachs guidance but the 4% to 5%. If we were to go with the Goldman Sachs number, that would probably mean a 2 percentage points higher core volume growth because, obviously, our volume development is closely linked to GDP, and we're outgrowing GDP by 1 to 2 percentage points over time. So I think that would be my rough guess what the implications would be.

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

Yes. And Georgina, if you -- this is Markus speaking. If you allow me to add on that one, then we might run into availability issues because, as of today, and also then for this year, we're running our plants fully flat out. So that might then also, let's say, touch the ceiling here of what we would be able to deliver in terms of availability.

Operator

And the next question comes from Isha Sharma from Stifel Europe.

Isha Sharma ***Stifel Europe, Research Division - Analyst***

The first one would be on the guidance. So what are your assumptions on price when you give the guidance for Q1 as well? Do you expect March to be lower than what we see right now for January and February? And also for the full year, please, if you could give us a bit of color on what kind of decline are you looking at? The other question is on CAS, pricing. Just wondering why, on a lower base, we still see the prices coming off and how should we think about CAS, in general, in the coming quarters. The last one is on raw material costs. So we have seen a significant raw material cost benefit across the portfolio. But where would you say is it the most pronounced? And where is it that you actually benefit more from the mix than simply pricing?

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

Isha, this is Thomas speaking. I hope that I understood your first question correctly, so I will try to give an answer. If it doesn't meet what you were asking for, then please let me know. So I would say what we are assuming for our full year guidance is that the pricing level that we currently see in January, that we have seen in January, will prevail over the course of Q1 and that, at some point in the year, there will be, what I would call, a normalization of those margins level to something which is close to what we've seen in Q3 of 2020. Now -- and the range that we have given, so the EUR 1.7 billion to EUR 2.2 billion, essentially is a function of the timing when this will occur. So that is, I think, our guidance for the full year, but I'm not sure whether you were specifically asking for Q1 or for the full year.

Isha Sharma ***Stifel Europe, Research Division - Analyst***

I was asking for both actually, but that answers my question.

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

Okay. Great.

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

So if I may take the second question on CAS where you said, okay, what is the price development there. We have seen in Q4, prices minus 4%. Q1 should be already better. And yes, we have seen, in this context, raw materials going significantly up, but we are confident that we will at least cover with those price increases. And if you could help us a little bit on specifying your third question a little bit further.

Isha Sharma ***Stifel Europe, Research Division - Analyst***

Yes, my question is basically that somewhere you have some mix effects, just, for example, you mentioned in polycarbonates. But there, also you managed from the raw material situation where you have secure supply. Similarly, in polyols you also have supply where the raw material is tight. So I was just trying to understand where is it that the mix effect is stronger and where would we expect the raw material effect to slowly wear off.

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

Yes. I think, Isha, I think the best answer that I can give to you is, yes, we've seen raw material prices, if you take a basket or the most important basket for Covestro, have gone up over the course of January by, I mean, roughly maybe 10 percentage points. And our expectation is that from that point onwards, so that's, let's say, from end of Q1, they would essentially be flat over the course of the year, and that is the assumption for our guidance. But please remember that for the vast majority of our businesses, raw materials, at least with a certain time delay, are a flow-through item. It's the margin that counts that is much more a function of availability and demand than raw material, at least if you take into consideration this, maybe 3-month delay that we have.

Operator

Our next question comes from Jaideep Pandya from On Field Investment Research.

Jaideep Pandya ***On Field Investment Research LLP - Analyst***

First question is, just going back to your comment that you made about running flat out, could you just tell us, like, as of now, how much volume do you have in your system, i.e., with the current capacity network that you have across your 3 key products and the downstream businesses, how much volume can you actually see before you need more sort of greenfield or other big brownfield capacity expansion? That's our first question. Second question is really sort of around MDI but also sort of MDI and TDI. We've seen a lot of outages in the last couple of years for various reasons. In your experience, when plants go down and when you have to bring them up, what is the sort of structural problems that the industry might be facing, which we, as investors/analysts, don't actually appreciate? So if you could give us some more meat on that, that would be great.

And then just finally, just want to pick your brain on -- this is more sort of a question/comment. But you've done the RFM acquisition, and you're obviously in polycarbonate trying to gear your portfolio towards sustainability, circularity, et cetera. But you still talk about mark-to-market, which is essentially the way sort of upstream material companies talk about. So I'm sort of confused. Do you see yourselves going more downstream? Or do you still want to do quarterly mark-to-markets as well? So if you can just help me understand what is really the longer-term way you see Covestro should be valued at by investors/analysts?

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

Okay. Well, Jaideep, this is Markus speaking. Let me take the first question. So to just give you a number, in 2019, we have actually sold 5.1 million tons of core products. And if you then do the math, it was then down in full year 2020, as we have reported, by minus 5.6%, resulting in a little bit more than 4.84 million tons of finished goods. So if you take this into consideration, and we would run our assets flat out, then the upper end from existing assets is 9% additional core volume growth that we could deliver for 2021. And in 2022, we already spent EUR 400 million to EUR 500 million -- we intend to spend already EUR 400 million to EUR 500 million on expansion CapEx. And then that is where the linear model fails because the linear model does not take into considerations that, in some specific years, we have major turnarounds. And in those major turnarounds, we partially compensate then via building up inventories before and/or while doing so-called industry swaps.

And talking about industry swaps, that also gives us sometimes the opportunity to bridge, let's say, those large investments where we normally have then at one point in time, overnight, additional, let's say, 3%, 4% capacity available. And therefore, we just then bridge this by buying -- for example, if you want to say, we lend material from other suppliers, which we then, at a later point, have to get back to smoothen, so to say, the growth curve. But in general terms, we have always said that we want to grow at or above GDP. And you can also see in our formal presentations, -- for example during quarterly calls, how we see the market growing, how our CapEx is growing in, let's say, to support this growth ambition. So long story short, this year, we would see the upper end to be at 9% growth. And it excludes, by the way, the DSM RFM business. And for further years out, we'll continue to spend EUR 400 million to EUR 500 million on expansion CapEx. And by the way, that's almost the order of magnitude that we already see for 2021 where we will also only have EUR 350 million to EUR 400 million on maintenance CapEx, and the rest is going into growth CapEx. So that maybe gives you an idea about how we look at the current growth.

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

And then Jaideep, with respect to your second question, I would say there is no specific magic trick or structural problems that we see that you don't see. I think the fact of the matter is simply it's pretty complicated chemistry. And you do see force majeures much more often in the market that is tight simply because that's -- if there's an outage, then people have to declare force majeure. While in a market that is long, they can procure the material potentially elsewhere and are then not so vocal about the technical issues that the producers are facing. And the second factor probably is that in a market where people run their assets at maximum speed and potentially compromise on some maintenance work is also more -- there's a higher danger that an outage might occur. So currently, with all those factors, we do have an outage rate of roughly 20% in MDI and TDI globally in the market, which we do consider is higher than average. But again, I think there is no magic trick to it. It's just, if you really put pressure on the production, then the danger of an outage is simply higher.

With respect to your last question, I would say we -- first of all, we do have a very homogeneous portfolio because most of our products really have recourse to the same chemical backbone. However, some of them really carry the characteristics of commodities and some others, the characteristics of specialties. And that is very much the driving factor for the LEAP program that Markus presented where we want to structure our company also in business entities exactly along those characteristics. Now why do we talk about mark-to-market? Simply because, in the current environment, our specialties and solutions businesses do have a relatively stable margin, but there's quite a bit of swing factor from our commodity-style businesses. And to give the transparency about where does this currently stand, we do think that the mark-to-market analysis is helpful.

Over time, I would say there is a movement that we envision to further move into the resilient space. And this is why we think the RFM acquisition makes perfect sense. And this is also why, organically, for example, in PCS, we're moving into more high-qualitative applications and more resilient applications for the product. But of course, it's a longer journey. And in between, the intra-year swings still are characterized by some swing factors that come from pricing.

Jaideep Pandya ***On Field Investment Research LLP - Analyst***

Can I just ask one follow-up on MDI specifically? Do you see Q2 still as a heavy turnaround quarter -- planned turnaround quarter and, therefore, this year is funny in a way where H1 has more planned turnarounds and H2, hopefully, no sort of unplanned turnarounds so, therefore, supply significantly improved through the year for the industry, that is?

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

I think, Jaideep, if I just jump in, so that my colleagues have a little bit more time to look at the numbers in itself. But if you look at it, why maybe Q2 is coming in potentially as one of those turnaround quarters, one of the key reasons is that during the pandemic, many companies adjusted to turnarounds that were legally required but not the ones that they actually have scheduled that were not legally required simply because of all the challenges that were there in terms of maintaining safe and stable operations and, at the same time, protecting also people and workforce. But currently, actually, and I would like to give back to Thomas to give you a little bit more flavor, we do not see an unusual situation coming up in the second quarter. But maybe Thomas has more details to that.

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

No, that's exactly the right question, we just checked it. So the expected turnarounds that we see, that we have in our excel spreadsheet, are pretty much evenly distributed across the 4 quarters of the year. But of course, there can always be unscheduled turnarounds or unscheduled maintenance events that we don't have in our excel spreadsheet. But I think from all that we know, the things that are envisioned are evenly spread.

Operator

And the next question comes from Sebastian Satz from Barclays.

Sebastian Satz ***Barclays Bank PLC, Research Division - Director***

I also got 3 questions, please. The first one is on your strategy and your intention to become fully circular. I'm under the impression that it's quite difficult to recycle MDI or MDI-based insulation materials. So how should we think about this? And how can you address that to achieve your target? Second one is a quick follow-up on your mid-term CapEx guidance. Can you just confirm that, excluding the Baytown MDI plant, your CapEx in the coming few years is going to stay roughly at this EUR 800 million level that you're guiding for, for 2021? And the third one is on your Q1 guidance, EUR 740 million EBITDA at the midpoint, can you quantify roughly how much of that you would consider as exceptional fly-up because of the tightness and the change that you've alluded to?

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

Yes, thanks, Sebastian. Referring back also to our strategy here, with classical recycling, and classical recycling for me is so-called mechanical recycling, it is absolutely right that MDI that has been in use, for example, for refrigerators or for insulation of buildings, is difficult to recycle. I would even say it is almost impossible to recycle it in a way so that you can use again at once for the same purpose. There's always down-cycle opportunities. And that, by the way, is already happening today. So this is going into different -- other construction purposes and applications, however, no longer into insulation.

But exactly, that is where we would like to focus on, and we have developed in our laboratory and made significant progress to show that you can recycle with advanced recycling methodologies and here, particularly chemical recycling methodologies, get the molecules out again, by the way, separating legacy chemicals, which is a huge environmental benefit and then using the output of this chemical recycling process, once again, for example, by getting out MDI, or MDA in that context, and by getting out other components to reuse them for the same purpose. That means this is not downcycling, but it is -- not even upcycling but really full recycling that you could do with that. And that gives you access. But there's also other sources in that context, for example, bio-based raw materials; for example, carbon dioxide. Because in the end of the day, just imagine, we are molecule managers. That means we know how to do chemistry and we know exactly how to mimic nature in this context, and that is what we're doing in our laboratories.

And now we're looking into opportunities, okay, how can we, first of all, create markets for those recycled raw materials, how can we make sure that the supply chain is going from linear models to circular models and how can we make sure that then the best partner in the value cycle is doing their respective job. That means who is doing then the chemical recycling. Is it us? Are we licensing those technologies out? Is it a third-party who is doing that? And that is exactly what we're building. And by the way, as I said earlier, we have already received the first barge of recycled phenol, and we intend now to further develop into different fundamental strategic raw materials like benzene and toluene just in the course of this year, and we're doing this with large partners who are out there who are doing exactly that and now moving into renewable raw materials. And they also intend to use feedstock that I just mentioned from the construction industry, municipal waste or even carbon dioxide as a source. So there's a market that is being built, but it's a long-term vision, so it will not happen overnight. But we can demonstrate that it works. We are building those markets. And once they have been built, then you will also see that scale is being built to make the market just very liquid in that sense.

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

So Sebastian, your second question was whether we would remain at the EUR 800 million level in terms of our CapEx if Baytown work is not resumed. I would say this is directionally correct to give me a little bit more headroom in case 2 or 3 mid-sized projects occur at the same time. In terms of timing, my wording would be that we should stay below the EUR 1 billion threshold. But I think, as I said, directionally, your statement, I will subscribe to that. Your third question was with respect to mid-cycle margins. I mean you've seen that we would characterize a full year EBITDA of EUR 2.2 billion as being mid-cycle. And that in terms of quarterly margins means that a mid-cycle margin is somewhere between the margins of Q3 of last year and Q4 of last year. And I think that gives you the order of magnitude to that question.

Operator

Our next question comes from Daniel Chung from Redburn.

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

I'll just keep my question brief, one only. So just touching on the future cost savings regarding the strong ambitions, maintain fixed costs flat till 2023. Could you expand on the planned measures there and how this will be achieved beyond headcount? Is there specific elements of improving technology within the production process? That would be helpful.

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

Well, Dan, let me take this question. I think Thomas has given the presentation a very clear indication about how ambitious that is, and you stated that also in your question. And what should help is that we continue with our controlled hiring policy that we have very successfully executed already in 2021 and which was representing a significant part of the cost savings that we also have achieved. And we also might, in this context, then need more. But that is not yet clear, and it is also not yet clear at what point in time this will come and to what order of magnitude that will then contribute to the intended ambition to keep the fixed costs flat until 2023 based on the 2020 levels. Does that answer your question?

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

Yes.

Operator

So next up is Markus Mayer from Baader-Helvea.

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

One question on this new reporting structure and then 2 smaller ones on the guidance. First one, on the split of this Performance Materials division, how should we think about the different products which are in this new business unit in terms of what percentage would be in polycarbonate, MDI, et cetera? That would be my first question. Second question is then on the guidance. Just a clarification question because you have said that there's a restructuring cost for the LEAP program. Or does this extra cost for the LEAP program are not yet included in the EBITDA and/or in the free operating cash flow guidance? And then the last question would be then on the assumption for core volume growth for RFM for full year 2021.

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

Yes. So let me start with the last 2 questions. So on the guidance, yes, just to be crystal clear, and reconfirm, the guidance that we're giving for 2021 fully includes the consolidation of the RFM business in both directions. It includes the additional EBITDA for most likely 9 months -- very most likely 9 months, but it also includes the integration costs for that business. What it doesn't include is the potential accruals that we might have to build for the measures in connection with the LEAP program, which will only be executed and cash effective in the years 2022 and following. And therefore, we deem it appropriate not to guide for that number because it will not be cash effective in 2021. And then core volume growth, I think you asked -- I'm not sure whether I fully understood your question. We said we're expecting a core volume growth of 10% to 15%, and that includes 6 percentage points from the consolidation of the RFM business. So the organic growth without RFM, therefore, is 4% to 9% with the midpoint of 6.5%.

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

So my question was on basically the assumption of the underlying growth of RFM. So I thought the 6% effect is just M&A effect - but what is the underlying assumption for this business?

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

There is no specific assumption baked in. So the 6 percentage points, in fact, is the pure first-time consolidation M&A effect, so to speak. Other than that, I think what we have said when we talked about the acquisition is that RFM is positioned in a space that should yield above-market growth simply because it has a high exposure towards sustainable and water-based coating technologies. So again, I think what you should take into consideration is a growth rate at least in line with the CAS business and what we have shown for Covestro as a whole. So I think that will be my comment on the RFM growth on a stand-alone basis.

And then I think your first question on the structure, so the Performance Materials Group would obviously contain all the products that have a more commoditized character. So TDI would be part of it, but also the commodity resins in the PCS space. We will give you more details once we talk about the reporting structure. And that brings me to the second most important point. What we have presented to you today is not yet the final reporting structure, that still has to be worked out. And therefore, we will come with some more details latest in Q2 of this year on this.

Operator

Our next question comes from Chetan Udeshi from JP Morgan.

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

I just have 2 questions. I was just going through the annual report, and it feels in the outlook section, there is a comment that you guys expect auto demand to grow 16%, 17%, which seems much higher than what the external consultants might be forecasting. So just thought of checking what sort of gives you confidence on that high growth rate in the automotive market? Is it just extrapolating what you might be shipping for the auto industry right now? And the second question was, just given the significant increase we've seen in the CO2 price, can you just help us understand what is Covestro's position in terms of carbon credits in Europe? And is that something which is becoming an incremental headwind in 2021?

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

So Chetan, let me answer the first question. We have actually done our analysis and also our guidance for 2021 by considering the automotive growth rates that were provided by LMC industry data. And we also believe that the production bottleneck that you could expect in the first half should be made up in the second half. For sure, there's always different scenarios possible, which we also have taken into consideration. Nonetheless, this is the scenario that we have taken here into consideration. So if you look at the carbon credits, that is not a topic for us for 2021. And even for the years to come, we still feel and we believe that we have still, for several years, a significant carbon credits in the bag, let's put it that way.

Operator

The next question comes from Charlie Webb from Morgan Stanley.

Charles Webb ***Morgan Stanley, Research Division - Equity Analyst***

Maybe just a couple of follow-ups. So when you noted, I think on the call, you see 20% outage rate in MDI and TDI, is that currently including what's going on in Texas? Or is that kind of excluding Texas? Is that what you are seeing? Just trying to understand that. That does seem extremely high on an annualized basis. So where would that normally be would be helpful when you kind of consider planned turnaround, et cetera. That's the first question. Second question, just on CAS, can you just help us understand what you are seeing? We obviously hear some more positive comments from your customers around industrial coatings demand recovering. If I remember right, we were talking about the kind of operational leverage effects that were impacting you negatively in 2020. How do we think about that in 2021 as some of those volumes start to come back would be very helpful.

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

Yes. Charlie, maybe on the first one, this above does exclude Texas. Above 20% has not taken into consideration what we have seen and witnessed actually happening last week due to very bad weather conditions. If you would consider that, that would lead to an outage rate in that sense of almost 25% given that the majority of the respective industries is really concentrated around the Bay Area there. And if you look at industrial coatings, the second question that you referred to, we are sold out. HDI, one of the key material we are selling to our customers, is extremely tight. Raw materials, also HMDA, is extremely tight, and we had to declare force majeure in Leverkusen for HDI. And unfortunately, also, HDI is one of the products that is affected due to the Texas shutdown. So we could sell more if we would have more, to be very clear.

Charles Webb ***Morgan Stanley, Research Division - Equity Analyst***

So kind of as we think about that volume, a strong kind of volume recovery in CAS, should we expect a nice drop-through on these incremental volumes? Given it was an area we cited as having negative leverage effects last year, should we expect a fairly sharp rebound from an operating leverage standpoint?

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

Well, the key issue there is always where is the demand for that. Can you really catch up on that once you have lost the business? And that's always the key question. And from that perspective, there is a strong leverage indeed. And in second quarter, we also expect that compared to previous year's level, we definitely will see this type kicking in. The question is always can you sell what you have not sold in Q1, and I don't think so because we are fully sold out. We don't have any inventories. And once again, we have been hit hard also by the weather conditions and, therefore, also had to declare force majeure, as I said, in Leverkusen due to a different reason. But also now, in Baytown, the situation is only slightly, yet steadily, recovering because even though we are ready to restart the plants, we have to rebuild the entire supply chain. The raw materials suppliers have to come onstream and also the entire logistics has to be built up more or less from scratch in the next couple of days before we are back to normal.

Charles Webb ***Morgan Stanley, Research Division - Equity Analyst***

Okay. Maybe one last question, if I can. Given what sounds like a very tight supply picture, given we're expecting, obviously, automotive demand to be notably better year-on-year and, as you say, in some areas, you're either sold out or somewhat constrained, I mean is there a risk that heading into Q2, once Chinese New Year is kind of behind us and everyone's back and working, is there a chance that actually spreads could move higher before they normalize? It just all sounds like a pretty tight situation right now. And perhaps, if that is the case, maybe if the markets remain pretty strong and this recovery, reopening kind of gathers momentum, we could actually see things get tighter before they then loosen up. Is that a potential scenario? Or do you not see that?

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

I think Thomas has tried to explain it a little bit earlier in a different context. And the question was coming at that time from a different angle. But if you look at spot prices that we are seeing and that they are also currently up strongly in China for MDI as well as TDI, and also the last days have weighted on that sentiment positively or supported that sentiment positively given the force majeure in the U.S. that we just touched upon, you could build a scenario in this direction. However, you really have to keep in mind that raw materials, I mean, the input factors for MDI and TDI spiking, given the current shortages, propylene, U.S., benzene in China and so on and so forth, and if it goes down normally, based on experience, it goes pretty fast and pretty, let's say, I would not say disruptive but in very, very short time. So from that perspective, now speculating whether April will continue with higher margins or whether we see that margins for those products will drop, that's, yes, pure speculation, honestly speaking.

Operator

The next question comes from Thomas Wrigglesworth from Citi.

Thomas Wrigglesworth ***Citigroup Inc. Exchange Research - Research Analyst***

Two questions for me. I'm just trying to triangulate some of the comments. You talked about building assets faster and cheaper with the new strategy. Can we take it that polyols are the key focus there for building assets? Is that how we should think about that? And then, secondly, just a quick one, given you've got these new business entities, why shouldn't the future financial reporting marry with the new business entities? I don't seem to understand why that isn't the case.

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

Well, faster and cheaper refers once again to the entire range of capital expenditure and definitely, let's say, not to PO in that context. PO is a very important asset for us, but we have no intention to build, and this is here clearly the bottleneck. But if you look at the overall asset structure that we have, the overall product portfolio, all of this asset structure and all of this product portfolio is targeted with this new initiative to build faster and cheaper. And we have already internally started 6 large initiatives to really make this a reality.

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

And maybe on the second question, it's very simple, I mean we're talking about 7 business entities. On the other hand, IFRS regulation says in order to qualify as a separate reporting entity, it would have to be more than 10% of asset sales and also profit. That is not the case for all of them. So the question for us, really, what is a sensible grouping of those 7. That's kind of is, of course, consistent with IFRS but then also makes sense from an investor perspective. And that is currently what we're looking into.

Operator

There are no further questions at this time. With this, I hand it back to Ronald Koehler. Please continue with any points you wish to raise.

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

Thank you all for your questions and your interest. And if you have any follow-up questions, don't hesitate to come back to us. Obviously, we are still in the pandemic environment, which means we will not undertake roadshows on a real basis, so to say, but we will be digitally available, so to say, and we also, hopefully, at least speak together then digital. So perhaps, also see you soon. I would say it's a wish I would give to all of you and stay safe. Bye.

Operator

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