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Q4 2018 Covestro AG Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Covestro Investor Conference Call on the Q4 2018 and full year 2018 results. The company is represented by Markus Steilemann, CEO; Thomas Toepfer, CFO; and Ronald Koehler, Investor Relations. (Operator Instructions).

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

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

Good afternoon, and welcome to our fourth quarter and full year 2018 conference call. For your information, we have posted our annual report and the conference call presentation on our website, and we assume you have read our safe harbor statement.

I would now like to turn the conference over to Markus.

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

Good afternoon. 2018 was a year in which we came close to the record levels of financial performance seen in 2017. Overall, we delivered strong results. The first half and second half of the year were different in terms of industry environment and financial performance. We closed the year on a weak Q4 performance after having announced the profit warning on November 20, 2018. Today, we would like to show you the management actions that we recently took to secure profitable growth for more challenging times ahead of us, next to the ongoing execution of our long-term strategy.

First, we continue to invest into new value-creating production facilities to secure availability of our products for the mid-2020s and to make sure we stay innovation and cost leader in our industries.

Second, we further increased the focus on the cost side. In 2018, we started to better adapt for our organizational structures to market needs. We also initiated a new efficiency program "Perspective" and will execute it without compromises in the upcoming quarters.

Third, we defined new and higher targets for our bonus system. These are valid for the next 3 years and are valid for all employees and set the range we want to reach under normal economic conditions. An EBITDA level of above EUR 2 billion has to be achieved to reach 100% target achievement. We will conclude today's presentation with our outlook for 2019. On the back of a more challenging economic environment as well as less favorable industry balances, we expect to deliver earnings below mid-cycle levels.

In 2018, we delivered strong results, despite several headwinds from internal as well as from external factors. Limited product availability in the second half year due to unplanned shutdowns in Q3 and the low Rhine river levels in Q4 reduced our volume growth. Still, we

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managed to increase our core volumes by 1.6% for the full year. Thanks to a strong volume leverage and despite a pronounced negative pricing delta in Q4, we reached a high EBITDA level of EUR 3.2 billion. The high cash conversion rate led to a free operating cash flow of EUR 1.7 billion, despite increasing CapEx year-on-year. We achieved return on capital employed of 29.5%, delivering a significant premium over cost of capital.

We shared those excellent returns with our shareholders by buying back shares for EUR 1.3 billion in 2018 and thus, concluded the buyback program kicked off in November 2017 by reaching the limit of 10% of share capital. We also intend to return further cash by proposing an increased dividend per share of EUR 2.40 at the next Annual General Meeting on April 12 in 2019.

Asia-Pacific and especially China remain the region with the highest growth rates. Despite the slowdown in China and the negative volume development for automotive in Asia-Pacific towards year-end, we still achieved high single-digit growth rates for China and automotive for the full year. In electronics and many other smaller customer industries like sports, leisure, medical and engineering, we posted double-digit growth rates in the region for the full year.

In Europe and Latin America, volumes slightly declined for the given reasons driven by our automotive, construction and wooden furniture businesses. Volumes in the North America region stayed stable based on a positive growth in automotive.

Globally, and for the year overall, we once again achieved solid growth rate of above 2% in automotive. Therefore, we continue to outgrow global OEM production. Another solid driver for the year was the electronics industry.

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

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

Well, thank you, Markus, and a very warm welcome also from my side to everybody on the call. I'm on Page 5 of the presentation, where you have the overview of the sales, core volume growth and also EBITDA development. As you can see, for the full year 2018, we generated a solid sales increase of 3.4% year-on-year, despite some FX headwinds, which accounted for minus 3%, while the volumes contributed 2.3% positive and positive pricing increased our sales by 4.5%.

If you look at the quarterly development, the negative impact on Q4 on the full year becomes evident because sales decreased by 7.1% year-on-year in the last quarter with a negative pricing accounting for 9.3%.

If you look at the group EBITDA on the lower side of the page, you can see that group EBITDA margin declined from 24.3% in 2017 to 21.9% for the full year 2018. And if you look to the left side of the page, you can see that for Q4 we faced a sharp decline from 25% in 2017 to 9% EBITDA margin last quarter year-on-year. And I would propose that we take a closer look at the EBITDA development on the following pages.

So if you go to Page 6, you have the EBITDA bridge for the full year. And as you can see, for the full year 2018, we achieved a high EBITDA of EUR 3.2 billion, which is 6.8% below previous year. We delivered a strong first half, but we could not reach our full year targets, which we raised during our Q2 call in July, due to the headwinds that we faced specially in Q4.

Based on our core volume growth of 1.6%, the volumes contributed with 2.3% to the sales growth in euros and to 6.3% to the EBITDA, and that is a EUR 216 million that you see in the bridge on the page. And this reflects a high volume leverage of 68% driven by a higher share of higher value-added products, which we delivered. So overall, the EBITDA bridge shows a slight positive pricing delta with prices contributing EUR 641 million and raw material prices increasing, counterbalancing this effect with EUR 576 million.

If you look to the other items on the bridge, we recorded a higher production, maintenance and logistics costs on a year-on-year comparison. We also consider the positive onetime items of EUR 146 million of 2017, which, of course, did not repeat themselves in 2018. So this is also included in this bucket.

If you turn the page to Page 7, you see the exact same bridge for the Q4 EBITDA. And as you can see, in Q4 2018, we faced an EBITDA

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decline of 66.7% year-on-year, and we generated a positive EUR 293 million of EBITDA. So as you may have seen, we recorded a positive core volume growth of 1.7% in that quarter, that was below our initial expectations due to, first of all, some sluggish demand in some selected industries, but more importantly, due to the logistics problems and some customer destocking, which we saw in Q4. Now, thanks to a high volume leverage of 68%, the volume still positively contributed to the EBITDA with EUR 69 million, and you see that number also on the bridge. However, on the pricing side, we saw very sharp decline and the negative development. But to put this into perspective, let me remind you that the EBITDA in Q4 2017 posted a record increase of 125% year-on-year and benefited from a historically unique situation with all 3 supply-demand-driven businesses showing highly positive pricing deltas, which, at that time, contributed EUR 400 million to the group EBITDA.

Now in Q4 2018, the situation actually reversed. So all 3 supply and demand-driven businesses now showed negative pricing deltas this time. And on group level, this reduced our EBITDA by EUR 550 million within one quarter. We talked about the low Rhine river water levels and that had several effects beside the volume loss of around 1 percentage point. We also faced higher logistics and feedstock costs, and we estimate that the overall negative impact on EBITDA was around EUR 50 million altogether.

Now let's take a deeper look at the segments, and I'm on Page 8 of the presentation. First of all, we observed an increase in core volume in all segments for the full year. However, that was at a lower pace than in the previous year. So due to the previously mentioned factors, we did see a decline of profitability in all segments, especially in Q4. So let's start with the Polyurethanes segment on the left-hand side. In the polyurethanes industry, MDI faced some short-term volatility due to the recent addition of new capacities. In general, the global demand growth requires one additional world-scale plant per year. However, since Q4 2017, the equivalent volumes of 2 new plants came on stream increasing supply pressure in the second half of the year and leading to a sharp fall in prices, especially in Q4.

For TDI, the expected deterioration of the industry environment along with the ramp-up of new capacities took place towards the end of 2018. And finally, the margin in polyether polyols continue to be slightly below the long-term average. So that overall, the EBITDA margin declined to 7% in that segment in Q4 2018 versus 32.6% in Q4 2017, although the volumes still contributed positively to EBITDA, more intense competition drastically impacted the pricing delta. However, I would like to remind you that as you can see for the full year, our Polyurethanes segment still generated a very attractive margin of 23.9%.

Now, let's look at the middle of the page to our Polycarbonates segment. In Polycarbonates, the EBITDA margin progressed from 22.8% in 2017 to 25.6% for the full year, driven by volume and price. However, during the last 2 quarters of the year, prices in the polycarbonates industry came under pressure on more commoditized grades, especially in APAC, due to the ramp-up of new capacities in China and lower selling prices in Q4 led to a negative pricing delta. The margin decreased from 22.7% in Q4 2017 to 14.4% in 2018, while a positive volume leverage still benefited the EBITDA development. However, again, overall, we increased our margin for polycarbonates in this year.

Last, but not least, in CAS, the assumed growth for Q4 did not fully materialize as we had expected it due to the weak development of the coatings industry. And thus, a negative earnings impact from higher raw material prices, especially driven by significant higher prices for HMDA, led to a declining margin of 11.8% in Q4 2018 versus 15.1% in Q4 2017. For the full year though, 2 quarters of high core volume growth led to a satisfying volume increase of 2.5% and a strong volume leverage was counterbalanced by a slightly negative pricing delta. So the increased selling prices could not compensate the higher raw material prices over the year. Thus, we recorded an EBITDA of EUR 464 million in 2018, slightly below the prior year level with a margin at high level of 19.7%.

So let's turn the page and look at the balance sheet. As I said, overall, I think we saw a strong year 2018, which was not quite at the record level of 2017. But we saw very good results, high returns, and in consequence, we also see a strong balance sheet. As you can see in the middle of the page, we returned a high amount of excess cash to our shareholders, close to EUR 1.8 billion, and that comes in 2 parts. First, we paid out dividends in a total amount of EUR 440 million. And secondly, we bought back shares for more than EUR 1.3 billion within the year. And that was financed through our free operating cash flow and that's the second bar from the left with EUR 1.7 billion. Nevertheless, our total net debt slightly increased by EUR 323 million to around EUR 1.8 billion, because: firstly, the cash returns to the shareholders were slightly higher than the free operating cash flow; and secondly, our pension provisions increased partly due to the negative return on plan assets. So with that, the ratio of total net debt to EBITDA moved to 0.6x at the end year compared to 0.4x, which we had at the end of 2017.

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And now if you look ahead, of course, also for us, we started to record our numbers under IFRS 16 in 2019 and we adopted the new accounting standard. And as a result, we estimate that there will be an increase in net debt by a mid-triple-digit million amount. And this will, of course, lead to a significant increase in the total net debt to EBITDA ratio going forward.

So with this, I would like to finish the review of the 2018 performance and turn it back to the future for Markus.

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

Thanks, Thomas. So let's take a more distant view and look at the bigger picture again. Let me share our view on the different stages we went through since the IPO review and how we see the future. We consider the years 2015 and 2016, on Slide #10, on the left-hand side, to be the first stage of our independence. Industries were in balance, our volume growth was intact, and our margins increased as we filled our underutilized assets. The main priority around the IPO and the year after was on setting up the organization and getting the businesses going at maximum speed. Therefore, most organization structures and IT systems were mirrored from Bayer, disregarding eventual cost disadvantages. We also set the foundation by developing a new Covestro culture and defining a Covestro set of key performance indicators.

Now the second phase in the middle of the chart. The years 2017 and '18 were characterized by tight supply conditions, raising margins of our supply and demand-driven businesses to peak levels. The main priority was on pushing out all available volumes by maximizing production output. To avoid disruptions, maintenance was high on the agenda, partially driving costs up on operations. These were countered by selective cost measures, more specifically, the performance enhancement program, which reduced the cost structures build up in the first stage. The high amounts of cash generated in these years were invested into new CapEx program vital as a basis for our long-term growth and the excess cash return to shareholders.

Let me now show you in detail how we see the next stage at Covestro and how our team addresses it on page #11. One key lever for EBITDA contribution in the past years and for the future is core volume growth and the corresponding strong volume leverage we can generate. Based on our leading cash-cost positions, we strive to grow above global GDP by 1 to 2 percentage points. Our current CapEx plans allow for a planned volume growth of around 4% on a compound average growth rate for the years between 2019 and 2023. At this rate, and in view of the resilience improvement of our portfolio, we expect volume leverage to continuously contribute to EBITDA every year.

If we move now to Page #12, let us first look at the resilient part of our product portfolio. Over 50% of sales are generated with resilient businesses, the rest stemming from more commoditized parts of the portfolio. Analyzing the earnings resilience over the last years, we see fluctuations in the upper part of the bars, which are attributable to the peak levels earned in the more supply/demand-driven businesses in the last 2 years. More interestingly though, we observe a base of around EUR 1.3 billion to EUR 1.6 billion EBITDA over the last 4 years, which was generated by the resilient businesses. This sets a floor in terms of EBITDA level per year under normal economic conditions. Importantly, the EBITDA from this part of our business portfolio is sufficient to cover our cost of capital.

Let us now consider, on page #13, the supply/demand-driven part of the product portfolio. By looking at future developments, it is key to keep in mind that delays in industry supply are rather the norm than the exception. Therefore, the balances are certainly an indicator for industry utilizations to come, but cannot be counted on. In MDI, we continue to expect the structurally sound demand in the short- and midterm despite the global demand slowdown experienced in Q4 last year. MDI remains globally a high-growth industry with growth rates some percentage points above global GDP. As already described, recent supply additions created an oversupply in the short term. For 2019, due to the delay of our Brunsbüttel plant coming on stream late this year, this situation is expected to rebalance towards second half of the year. In the mid and long term, our overall view remains unchanged that the MDI industry will remain balanced and attractive.

In TDI, we expect lower utilization rates in the midterm due to the ongoing ramp-ups of the new plants and the additionally announced new capacities. We see the largest deviations from past forecasts in the polycarbonates industry. Indeed, several new players have announced capacity additions in Asia. We continue to believe in an attractive demand growth and see interesting trends with some potential for upsides. However, the supply additions, as announced, could lead to an oversupply situation in the midterm. Therefore, we

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will closely monitor how the construction of the new sites is progressing and in which product applications the new entrants are able to compete.

The volatile industry conditions require the lowest production cost base on the one hand and speed in decision-making on the other hand. This is what you can observe from page #14. We are cash-cost leader in all our industries and continuously improve our positions with the current CapEx program in place. With the introduction of "Perspective" in 2018, management has set the foundation to adapt the organizational structures of Covestro to better reflect market needs. As just seen, our business today comprises standard products and specialties. Our organization will better take this segmentation into account in the future. Thus, for the standardized business, more efficient channel management and an optimized utilization via short-term volume steering is key in addition to a strong focus on costs.

For the specialties, customer needs vary. In order to promote sales as well as product and market development in these segments, the new organizational structure unites sales colleagues, application engineers and marketing managers and cross-functional sales and market development teams. Additionally, the implementation of a centralized marketing function and other cross-business unit departments, like market intelligence and advanced analytics, will create synergies at the corporate level.

Our second pillar to drive efficiency is to reduce costs. On page #15, you see that cost discipline was always high on the agenda, but we have now given new dimension to it with around 900 planned headcount reductions and a deep screening across all areas of the group for possible savings. We also accelerated the pace of "Perspective" in the last month. Thus, in 2018, we were already slightly ahead of plan with additional EUR 8 million. For 2019, we expect the cost savings to reach an increased target of EUR 140 million or EUR 30 million more than initially planned for this year. Overall, we continue to target EUR 350 million in overall savings by 2021.

The backdrop of driving efficiency is an adequate incentive system valid for the entire organization. That's why I would like to spend some time on Page #16 to illustrate that. The bonus system is transparent and aligned for all employees, including the board. This means, target values are the same for all. The only difference is the percentage of annual base salary that the bonus is linked to. At trainee level, 100% target achievement represents 7% of annual base salary. At board level, 100% target achievement represents 100% of annual base salary. The target values are fixed for the 3 years, 2019 to 2021. They are set for our 3 top key performance indicators that drive our business, all equally weighted. The target values are as follows: No target achievement for core volume growth below 1.5% per year. 4% core volume growth leads to 100% target achievement. No target achievement for free operating cash flow below EUR 400 million. EUR 800 million free operating cash flow to be generated to reach 100% target achievement. No target achievement for return on capital employed below weighted average cost of capital. Return on capital employed 8 percentage points above weighted average cost of capital leads to 100% target achievement. The target values have been calculated based on historical data and expected future development. A 100% target achievement of free operating cash flow and return on capital employed reflect our expected mid-cycle level. These targets imply an EBITDA generation of around EUR 2.1 billion for 2019, around EUR 2.2 billion for 2020 and around EUR 2.3 billion for 2021.

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

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

Thank you, Markus. I'm on Page 17 of the presentation. And before we come to the outlook for 2019, I would just like to spend 1 or 2 minutes explaining what is driving the volatility of our business. And as you can see on this chart, the EBITDA volatility of our supply/demand-driven businesses is mainly caused by net price movements and with net -- I mean, the price movement excluding raw material price effects. In order to catch this effect, we calculate a so-called pricing delta by adding selling and raw material price movements in comparison to the previous year and the pricing delta highly correlates with the global industry utilization. Raw material price movements are usually a pass-through item. So as you can see, Covestro was benefiting from a favorable pricing delta development between 2014 and mid-2018 due to strong demand and limited new capacities coming on stream. Especially in 2017, the pricing delta added to almost EUR 1.3 billion to Covestro's EBITDA. After selling prices peaked in Q1 2018, the pricing delta gradually deteriorated as new capacities entered the market. In addition, our key industries were burdened by weaker demand and destocking during the fourth quarter. Therefore, the positive pricing delta of EUR 0.6 billion after 9 months of 2018 reduced to almost 0 during the fourth quarter of 2018.

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Now the visibility on the short- and midterm price development is currently relatively low. And as a consequence, we have included in our guidance different pricing scenarios. There's a chance of price rebound after a weak finish in December 2018. Nevertheless, we would not expect a reshape recovery as we assume new capacities will enter the market, especially in TDI and PCS during 2019. So if you weight the risk and chances, we assume a negative year-on-year pricing delta of EUR 1.4 billion to EUR 1.8 billion in 2019 for the company as a whole. If prices reach the lower end, then we assume that the high-cost producers would burn cash. So based on our selling and raw material prices flat at today's level for the full year, we will face a negative pricing delta in the upper half of this range. And as prices peaked beginning of 2018, the toughest comparison will be in Q1. Therefore, we assume a negative pricing delta of EUR 0.6 billion to EUR 0.7 billion year-on-year in the first quarter of 2019.

So with that, let's turn the page to #18 and look at the outlook for EBITDA for 2019. As I just explained, Covestro has to cope with significantly lower selling prices in 2019. And as a management, we will do the utmost to mitigate this external pressure via cost reductions and a positive volume effect. And especially on the costs side, I think, Markus alluded to the measures that we have taken. It's also true that we remained fully sold out, which kind of limits our growth abilities in 2019. But despite this, we assume that we can increase output of some more kilotons by running our plants as reliably as possible. And in addition, we secured some volumes in order to bridge the gap until our new MDI plant in Germany will start up at the end of this year. This makes us confident that we can achieve a low to mid-single-digit core volume growth in 2019. However, the delayed start-up of the new German MDI plant will limit our volume leverage during this year.

In addition, the EBITDA is expected to benefit from higher cost savings, lower bonus provisions and the effects from adopting IFRS 16. And as a consequence, we expect the Others line in the 2019 year-on-year EBITDA bridge to positively contribute with a low triple-digit-million euro amount. So you may consider our guidance range as rather wide. However, we currently face an unusually volatile economic environment. And based on a mark-to-market analysis at average prices in January 2019, the EBITDA for the full year would amount to EUR 1.8 billion in 2019.

So let's turn the page to the cash flow guidance. As you can see, the declining EBITDA and increasing CapEx is expected to significantly reduce our free operating cash flow in 2019. And we assume CapEx at or slightly above EUR 900 million in this year. The reason for this is that we expect 2 phasing effects that burden our free operating cash flow by almost a mid-triple-digit-million euro amount in 2019. Firstly, the tax assessment by the authorities is usually based on previous year's accounts. This results in higher cash outs for taxes and secondly, our bonus program for 2018 will be paid out in Q2 2019.

The year-end working capital positions are always difficult to forecast. However, we assume that we can slightly reduce our working capital with the beneficial effect for our free operating cash flow. So that overall, we assume a free operating cash flow between EUR 300 million and EUR 700 million in 2019, and this translates into a new cumulative free operating cash flow guidance of EUR 3.8 billion to 4.2 billion for the years 2017 to 2019.

So please turn to page again to Page 20, where you have the full sets of other KPIs in terms of the guidance for 2019. So as you can see, we assume a low to mid-single-digit percentage core volume growth in 2019. And please note that we're currently running several large maintenance shutdowns during Q1. And in addition, Q1 2018 is also very tough comparison basis. Therefore, we assume slightly decline in core volumes on a year-on-year comparison for Q1 2019. As said, for the EBITDA for the full year, we assume a range of EUR 1.5 billion to EUR 2.0 billion for 2019, which then translates into a return on capital employed after tax between 8% and 13%. If you look at Q1 2019, we assume an EBITDA of around EUR 440 million.

In general, I can say that our guidance assumes no hard Brexit and a smooth trade negotiation between the U.S. and China. And for the full year 2019, we assume a global GDP growth of 2.9% and the euro-U.S. dollar exchange rate of 1.15. So our guidance for 2019 includes changes driven by the implementation of IFRS 16, as I already said, and we assume a high double-digit-million euros benefit in EBITDA and also free operating cash flow from this accounting effect. So given the increasing D&A the effect on EBIT should be rather limited. Net debt is expected to increase by a mid-triple-digit euro amount and therefore, interest expenses will be burdened by a low double-digit euro amount.

So with that, back to Markus for the use of cash.

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

Thanks, Thomas. And moving to Page #21. The main uses of cash remain unchanged, though we have added priorities for future years. We are fully committed on our progressive dividend policy. We target to increase the dividend per share every year or at least keep it stable. In a focused way, we invest in our business continuously by executing our CapEx program since it is the most value-creating use of cash. We will be disciplined about it. Opportunity-based, we continue to screen the market for potential acquisition targets with focus on high-margin and differentiated business areas. And last, but not least, finally, in case of excess cash, we could kick-off a new share buyback program.

Moving to Page #22. As said, we are fully committed on our progressive dividend policy. We have a track record since our IPO with 4 years of increasing dividends in a row. For 2018, we propose EUR 2.40 dividend, an increase of 9% year-on-year. This corresponds to a dividend yield of 4.7% based on a share price of EUR 51.2.

This brings us to the end of the presentation on Page #23. In a nutshell, we saw strong results for 2018 with a weak fourth quarter. In 2018, we have also implemented a set of measures to secure profitable growth path for more challenging times ahead. First, a CapEx program that secures availability of products for future years. Second, efficiency measures to be more agile and cut costs. Third, new targets for the bonus system based on mid-cycle earnings assumptions. Lastly, for 2019, we expect to deliver earnings below mid-cycle levels on the back of more challenging economic environment as well as less favorable industry balances.

We thank you for listening, and we are happy to take your questions as of now.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And the first question comes from Chetan Udeshi, who's calling from JPMorgan.

Chetan Udeshi ***JP Morgan Chase & Co, Research Division - Research Analyst***

A couple of questions. Firstly, on cash flow guidance for 2019, it would be useful if you can, sort of, split out the mid-triple-digit million instead of EUR 300 million, EUR 500 million impact from the phasing of tax and bonuses. I mean, essentially, what I'm looking at is clearly all of that EUR 500 million is not one-off. So if you assume what seems to be the guidance for EBITDA in 2019, what is the right bonus payments on a cash basis versus what you might pay out in 2019. So essentially, some color there would be useful. And the second question is, just coming to the low end of your EBITDA guidance of EUR 1.5 billion, I was just hoping you could give us some sort of moving parts. Because the way I look at it is you had 2018 EBITDA of EUR 3.2 billion, even if I take your worst case pricing, net pricing assumption of EUR 1.8 billion and say EUR 100 million to EUR 200 million of volume leverage with the FX benefit, IFRS 16 benefit, I struggle to get to EUR 1.5 billion number as such. Maybe if you can help us sort of understand the different moving parts to get to EUR 1.5 billion will be helpful.

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

Chetan, it's Thomas speaking. Let me maybe start with the first question. I think it's fair to assume -- on the cash flow guidance to assume an effect from the tax phasing, which was around EUR 100 million. And if you want to plug in the number for the bonus phasing, I think anything between EUR 200 million and EUR 300 million would be the right number here. So I think that gives you some more color on what is behind those 2 effects. And then secondly, on the EBITDA guidance for 2019, as I said in the call, if you take current prices and do a mark-to-market analysis for the full year, this would bring you to around EUR 1.8 billion. So essentially, what would happen to bring us to the EUR 1.5 billion number is a further deterioration in prices over the course of the year, which I think currently we do not see because we had, as I said, solid numbers as we started into 2019. But we have pointed towards the uncertainties that's obviously 2019 has in terms of the overall economic conditions. And therefore, it's simply a, I would say, a flexibility in terms of what happens from the macroeconomic side. It would be pricing that is reflected in this lower end of the range. So one -- as a sensitivity, so 1% volume change is EUR 60 million to EUR 80 million for our EBITDA and 1 percentage point price change is EUR 140 million EBITDA. So essentially, it's a flexibility that we've built in here.

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Chetan Udeshi ***JP Morgan Chase & Co, Research Division - Research Analyst***

Understood. And just to follow up on that same second question. If I look at your Slide 12 then, where you essentially are saying the resilient part of the business has been in the range of EUR 1.3 billion to EUR 1.5 billion, so are we seeing that resilient part of the business also going to collapse in 2019? Because your guidance essentially is for EUR 1.75 billion of EBITDA. So is the resilient part also declining significantly? Or otherwise -- essentially, the implied number is that the commodity part is essentially seeing a far bigger drop as such to get to EUR 1.75 billion?

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

What I would say on the resilient part, the drop should be relatively small. I'm not saying it will be completely unaffected, because obviously the general economic conditions play into this as well. But the absolute majority of the drop simply comes from the supply-demand-driven part of the business. And we've seen this in Q4, where it was mainly this part of the business that had suffered.

Operator

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

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

I have a question on the guidance in terms of your volume growth assumptions. Can you confirm like what's baked in there for your end markets? And I'm particularly interested in how you're thinking about automotive? So you grew low to mid-single digits in 2018. And in 2019, I mean, is that based on automotive production being positive? Or do you think it will be negative but you can still grow? And then it would be helpful if you can give us an idea of what your regional sales exposure is for automotive? Do you sell more into the European or Asian or North American market for automotive? And then my second question is on the competitive landscape. It looks like you're now including 4 new capacities versus your previous outlook for Polycarbonates and 3 in TDI. How is the landscape evolving so fast, especially since it takes a number of years to build these plants and a number of years for approvals? We've always talked about 7 years anyway for MDI and TDI. So if could just give some help on understanding the supply outlook.

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

Yes, Georgina, this is Markus speaking. So let's first talk about your question about volume growth and in particular to give you some flavor about the automotive business. We actually estimate also based on external analysis that, after, I would say, a very challenging year in 2018, where at least according to latest numbers, we have seen a decline in automotive production of minus 1% and it was particularly pronouncedin the fourth quarter in terms of negative growth. We expect for the full year 2019 currently as our base assumption 1% growth for the automotive industry in the segments that are relevant to us. What does history now tell us? History told us that we have more or less always outgrown automotive passenger vehicle production by 2 percentage points. So that would indicate if this would continue that we would still see an opportunity to grow low to mid-single-digit numbers on a global scale for the full year in the automotive sector. Now translating this into what would that mean for the region. Frankly speaking, we are very flexible in terms of our growth. So it is very difficult for us to say where the real growth will come from, because we hear very different signals in terms of what will happen to the European car manufacturers, what will happen to the markets in China, is there a stimulus package, how will that stimulus package really evolve. On the other hand, we see that now some margins that have been out of focus, for example, India kicking off here and there with some models. And to make it even more complex, we see that in the classical mass markets, our products are not so much pronounced, but rather in the fast-growing segments like electro mobility, hyper propulsion systems, but also 0 emission vehicles like fuel sales. So to sum it all up, it is very difficult to say where definitely overall the growth will be most pronounced, but we feel very well equipped to flexibly react, and we are very well positioned in a fast-growing segment. That means, even there might be, let's say, a slow kickoff in Europe in terms of automotive growth after the first quarter. We expect that overall the market will grow and that we are very well prepared to support this growth very flexibly on a global basis, regardless of where the growth is finally coming from, that means in terms of regional footprint. On your second question, if we're looking into the competitive landscape, yes, we see that there is, particularly in polycarbonates, supply additions that have been announced. And if we now see that we're moving from 2017 to 2022 into 2018 to 2023, the number of announcement has significantly increased in particular for the year 2023 and some small adjustments for 2018 to 2022. That means the majority of the capacity additions that is currently in the statistics is expected for the outer year of our prognosis. And that might explain the question mark that you had, well, how can it be that so quickly new capacity is coming on stream. It is not coming quickly on stream but particular for the outer years, there's huge announcement. But again, as we explained on a respective slide, it is important to always consider the technical challenges to deliver on-time in full such type of capacity. And even

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once it has been installed, the question is always what type of quality and to what extent, let's say, in terms of amount this quality is coming on stream. And that's what we are closely observing. It is important in this context to mention that cost leadership for the more commoditized part of the portfolio is absolutely essential, and we are absolutely on a top-notch left-hand side part of the cost curve in the polycarbonates industry. That means, even in the highly commoditized arena, we see a huge opportunity to fully play out our cost advantage. I hope that somewhat helps? On TDI, you mentioned, I mean, there's nothing new. There's no new development. We have those, 3 major plants, which are now ramping up their capacity and bringing fully their capacity into the market. That is not coming as a surprise. It was more a surprise that those plants were so much delayed in the past and that they we're obviously not running. This is now normalizing. That means, all this capacity will now come on stream. To what extent and how technically reliable those plans will be? Big question mark for us. We simply can't judge. And the second topic is also the TDI industry has a very steep cost curve. And as we have outlined earlier, there might be an opportunity that there is still some further price pressure. What I believe that we are approaching, let's say, the rock bottom of the TDI prices, and we have seen at least the first close to this rock bottom in December and also in January. So I do not expect that there will be huge further price drop. However, there is still some room. I hope that answers your questions?

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

Yes, that's very helpful. If I can just sneak one last one still on TDI. The demand outlook seems to be accelerating for the next 5 years versus the prior 5 years. Can you maybe explain what would be driving that?

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

I would currently have some difficulty to understand why you say accelerating. I know that we always have been between 3% and 4%, and I think currently we are at 4%. So I'm not sure what youranalysis or view is based on that you say this is accelerating.

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

So it's just looking on Slide 13 of your presentation, you show demand growth of -- from 2013 to '18 was 2.6% for TDI, and then the forecast for '18 to '23 is 4%.

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

Okay. So well, we had here simply a production limitation, that it means it was not that the fundamental demand wasreally not there, but the industry was not able to deliver as much growth as was originally from primary demand perspective there. I hope that explains a little bit why you see this lowering in demand and now the pent-up in demand. It is simply that we could not deliver enough.

Operator

Our next question comes from Geoff Hair, who's calling from UBS.

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

I've just got 3 quick questions. Just wanted to sort of understand the logic within the bonus payments of volume target over the next 3 years given the volatile market conditions. I thought driving volume up may not be the right thing today in this environment, if you can just explain that. And then just looking at your free cash flow target, will you aim to make sure that the free cash flow is above the dividend payment levels over the next 3 years given the CapEx requirements that you have? And then just finally, coming back to the non-resilient, resilient part of the portfolio, given the guidance that you've given, the non-resilient part of the portfolio will have a very small level of profitability in 2019, if I'm understanding this correctly. Do you have to operate at a high level of utilization to provide products to the downstream businesses and therefore, you may have to -- if the environment became worse, you would have to operate the non-resilient businesses at a loss or would that not be the case?

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

Geoff, this is Markus speaking. Thanks for your question. So the logic between driving up volumes, as you said, having volume growth at this rate of, let's say, around 4% is simply driven by the fact that we have, in the commoditized part of the business, a cost advantage and a leading cost position in the industry. That means, we still earning money by, let's say, producing this material, while others, on the high cost producer side, are already making losses. Evenif you're looking at the cash cost that can be delivered by different players. That means, for us, first and foremost, we can produce and still offer profitably at prices where some or many competitors depending on the industry structures on the very right-hand side of the cost curve are not able to deliver anymore. That means, we are benefiting from fully

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loading our assets because we have kind of support in terms of pricing and how low prices can go by the respective marginal producers. So keeping capacity idle for us under those circumstances with a leading cost position simply economically does not make sense. In addition, for sure, we can, therefore, also fully play the respective volume leverage. And we have always made clear that the volume leverage for us at the last few percentage of capacity loading has huge leverage. We're talking about around 67% volume leverage in terms of sales to EBITDA ratio, just to give you some ideas what order of magnitude we are talking about. In that sense, it makes, from my perspective, really sense to also have volume growth as part of the bonus system equally weighted to free operating cash flow and also ROCE above WACC. In that contextyour last question, how much do we support the respective resilient business? For sure, due to the fully integrated backbone, that means the entire chemistry just relying on 2 basic molecules in terms of our portfolio, it makes perfect sense to support the resilient portfolio. We are not runningthe resilient portfolio at losses just to support the respective resilient portfolio. The key for us is that we are fully integrated and that we fully leverage this integration also by running our respective assets fully flat out due to fully integrated backbone. In terms of our free operating cash flow, I would just like to hand over to Thomas.

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

Yes, Geoff, as you can see, our ambition is to have a free operating cash flow which is EUR 800 million per year in order to achieve the 100% STI targeted achievement. The guidance for 2019 is lower due to the phasing effects that I was alluding to, one being the tax one and the second one being the bonus payment for 2018, which was more at the 200% level. So I think the short answer to your question is, yes, we do expect over the -- at least over the 3-year phase, for which we have defined the bonus hurdles, that the free operating cash flow per year will clearly cover our dividend payout in each and every year.

Operator

The next question comes from Markus Mayer, who's calling from Baader-Helvea.

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

First one is on this cash flow bridge in your presentation. (inaudible) then roughly EUR 300 million are coming from that from capital cash inflow in 2019. Maybe you can quantify or give some color on your relative cost assumption for this net capital inflow. And the second question is on this cash return to shareholder item. It looks like the share buyback has now the lowest priority among the cash return to shareholders. Maybe you can elaborate in what kind of leverage would we consider share buybacks to be interesting for you and the shareholders?

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

Yes, let me maybe start with the share buyback. First of all, I think the overall priority that we have is to balance profitable growth and therefore, CapEx is one of the priorities that we have in order to lay the foundations for that in the medium to long term. And secondly, return all excess cash to our shareholders, and we have 2 means to do that. One being a dividend that should be stepping up or at least being stable every year and if then there is excess cash, then we would return it via a share buyback to our shareholders. In order to have the flexibility to act at each point in time, we have now used our 10% authorization for the buyback that we concluded in 2018. We will therefore ask as a matter of principle, for another 10% authorization. This does not automatically mean that we will pull this trigger and nobody should be too disappointed if we do not do this immediately, but I think it's a clear sign that we want to be ready. And therefore, I'd say, it's not our last priority, it's high on our list, but it's definitely, of course, the part that we will then use if the balance between CapEx and dividend yields additional cash that we can return to our shareholders. And then I think on the cash flow bridge for 2019, I think if I understood correctly your question was what is the underlying assumption in terms of the working capital improvement. And I think it's fair to say that our ambition is to generate between EUR 200 million and EUR 300 million from working capital improvement over the course of 2019, which would then have a positive effect in our free operating cash flow.

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

The question was basically, what are your raw material costs in those price assumptions for this EUR 200 million to EUR 300 million net working capital cash inflow?

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

Maybe there's no specific assumption. I mean currently, what we do see is that prices are essentially flat. And that is also baked into this.

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Operator

The next question comes from Tom Wrigglesworth, who's calling from Citi.

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

A couple of questions, if I may. Brunsbüttel, you're now saying -- as I understand it, you said second half of 2019, you are saying that you've pushed that out now into 2020? And can we just confirm that, that's effectively kind of a route-to-market decision rather than a kind of mechanical or operational issue that's causing delays? Secondly, on utilization rates, could you just tell us where industry utilization rates are across TDI, MDI and polycarbonate today? You said -- and just to confirm, you've said you're sold out, right? So you're at a 100%? And then thirdly, just by way of clarification, you said that you -- a 1% move in price was about EUR 140 million. So in essence, to go from where we are in spot today at EUR 1.8 million down to the low end of your guidance, you're saying you just need a 3% move lower in prices. So we're only 3% off a point at which we'd be deep into the cost curve so the high-cost producer would be leaking cash. Is that the right interpretation of pulling those 2 comments together?

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

Oh, yes. I mean, let me start with Brunsbüttel. I think the way I would look at this is what we have envisioned is a mechanical completion at the end of the year. So that means that essentially the market effect, as you correctly said, will be almost fully in 2020 because also the mechanical start-up of such a facility takes several months. So I think we're absolutely in time and on budget with the project, but the market effect will only come in 2020. Then to your question, the percentage points, yes, I think it's right to say that, as I said, 1 percentage point price movement is EUR 140 million and therefore, mathematically, your assumption is correct. It takes 3 percentage points to come to the lower end of the guidance range. However, remember that not all of our business is price-driven. So this 1%, of course, would be a mathematical calculation across the board for all our products, while what we do see in reality is that many -- a lot of our portfolio is stable in terms of pricing, more than 50%, and it's the rest of the portfolio that moves the needle and that has to move much more in order to achieve the lower end of the guidance or to bring us to the lower end of the guidance. And then utilization rate, I would hand it back to Markus.

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

Yes, Tom, it's just on a calculatory basis. If you would take 12% TDI external revenue and just think about a TDI alone would be responsible for the price decline, you could easily come to the fact that we would talk about 20% to 25% price decline. Just to put this into perspective, what you really would need to see that TDI alone would lead to the respective achievement or lowering to what's the bottom of our guidance. So now talking about industry utilization from a calculation perspective, we would think that MDI next year, given supply demand balance, would be for full year 2019 at around 85% of industry utilization. It is important to mention in this context, again, and to really emphasize that we are talking here about an average industry utilization, which is entirely unequally distributed according to our historical experience amongst different players. And one of the key drivers here is your position on the cost curve. That means, while some still, as us, for example, running at full load and full capacity, others have a hard time to find air to breathe. That means, the average industry utilization is not necessarily indicative for the respective margin levels of individual players. If we're now moving towards TDI. Here again, 86%, at least based on our calculations for 2018 and for full year 2019, we would drop to 77%. But here, it is even more pronounced when we talk about the respective cost curve, how individual players are able to deliver under even stiffer and more challenging conditions. And we have a leading position on the cost curve. Do you want to talk about polycarbonate? I don't know. If you want to talk about polycarbonate.

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

Yes, please.

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

If you want to talk about polycarbonate, we are currently talking about 87% for last year, and we're expecting 81% for this year. And again, for the commoditized part, just as a reminder, we approached last year around 60% of the polycarbonate portfolio to be in, what we call, margin-stable more resilient area and 40% only in the more cyclical supply-demand-driven portfolio. And again, here we are on the left-hand side of the cost curve, means we are the lowest cost producer in the entire industry. And we thinkthat already in December

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we were somewhat approaching those mid-80s utilization levels, maybe even below. That might give you an indication of what would that mean in terms of the general pricing level for commodities in the polycarbonate arena and also how we dealt with this from profitability perspective.

Operator

(Operator Instructions) And the next question comes from Neil Tyler, who's calling from Redburn.

Neil Tyler ***Redburn (Europe) Limited, Research Division - Research Analyst***

A couple from me, clarifying earlier points you made, please. First of all, going back to this resilient portion of EBITDA, can I just ask for some explanation as to whether the difference between the lower and higher numbers they are a consequence of you shifting the sales strategy i.e. therefore, selling more of those resilient products or whether it's the margin of per tonne of those products that accounts for that difference? That's the first question. The second one, I noticed that the currency assumptions seem to be slightly different between the high end and low end. Could you give us an idea of what at constant currencies the guidance range for EBITDA would be? And then the final question, I suppose related to the first one. You mentioned the guidance on volumes assumes a sort of 40% operating leverage drop-through against something above 65% in '18. In light of your capacity constraints, do you have any further scope to switch the product mix to support higher operating leverage drop-through to further improve the contribution margin?

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

Well, let me take the first question. Unfortunately, there is not a super clear-cut answer to that one. Because I think it's definitely a mix of both. You may have seen in one our earlier presentations that, yes, we have managed to increase the share of resilient business, especially in our Polycarbonates segment over the course of the year, and we have seen some low percentage point increase every year over the last 3 years. So that's definitely a positive factor. On the other hand, it is, of course, the case that the business is more resilient, but it's not completely immune against the price movements that the more commoditized business goes through. And therefore, it's a clear mix effect that you see here. But the truth is that, yes, we have stepwise increased the percentage of resilient business over the time, that is the main driver over the years 2015 to '17. The decline in 2018 is then more the Q4 effect, where the price decline, to some extent, also affected the resilient part of the portfolio. Then, I think, to your question, the FX assumption for the full year is that -- maybe I did not fully understand it, but our assumption is that we calculate with U.S. to euro dollar rate of 1.15. And that is the same rate for the upper range and for the lower range of the guidance that we've given. So we've not specifically included a FX sensitivity to that. And I think your last question -- sorry, what was that? Can you repeat your last question again?

Neil Tyler ***Redburn (Europe) Limited, Research Division - Research Analyst***

Yes, the last question is, what scope do you have for -- to further alter the product mix? I suppose related to your answer just now to improve the per tonne margin and improve the operating leverage over and above what you're suggesting will be a sort of 40% drop-through?

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

Well, if you look at the opportunities to leverage furtherby shifting within the given portfolio towards a higher resilient product mix, that is a very, very difficult balance. I'd give you an example. If you're, for example, seeing that we have some limitations in terms of growth, it is not only that we're shiftingwithin a given product group, let's say, from polycarbonate commodities towards polycarbonate specialty grades, but we're also looking in terms of how can we shift our baseload in chlorine and carbon monoxide as base chemicals, for example, within the different product groups that depending on which product groups gives us short-term opportunities to optimize our margins between TDI, MDI and polycarbonates. We are also shifting between those different product groups to optimize margins more or less on a weekly or monthly basis. That is what we're doing. A second topic that drives here little bit the complexity is that in a given year, where we, for example, quarter-to-quarter see some demand patterns changing, let's say, we have in the automotive industry a weaker first quarter in 2019 and therefore see a little bit less polycarbonate being sold in high-value applications, we on the other hand then push out huge volumes due to our cost leadership in the commoditized polycarbonate area. That means, it could look like short to midterm as if we are pushing out lowermargins and lower resilient business and jeopardizing the higher resilient and higher-margin business, which we don't. These are just tactical measures that happen in a given year. Long term, the strategy clearly remains, we want

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to shift and will shift the portfolio to higher-resilient, higher-margin business. However, short term, due to those tactical measures, the picture quarter-on-quarter also even within one year could look slightly different. I hope that helps a little bit. And the last question on the 40%, Ronald, maybe...

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

I mean, there's obviously one specific circumstance in 2019, which might give us a bit lower volume leverage. We have told you that Brunsbüttel is delayed. We bridge that a bit by external purchasing also some stuff, which gives us lower leverage. But then when Brunsbüttel will start up in 2020, we expect also an increase of volume leverage again.

Neil Tyler ***Redburn (Europe) Limited, Research Division - Research Analyst***

Okay. Just to circle back on the earlier questions. On the resilient portion, so is it fair to infer that currently, based on January prices, as the answer has been, that the -- you're at the sort of lower end of the range at EUR 1.3 billion, EUR 1.6 billion run rate for the EBITDA from those resilient businesses. And then the second follow-up, if you like, is on Slide 18. I'm just looking at the commentary on the box on the right-hand side that says the low-end scenario includes an unfavorable FX impact, the high-end scenario includes a favorable FX impact. So that's what I was just trying to quantify what each of those was?

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

Yes, let me start with that, I'm so sorry, maybe I didn't get this one. So I gave you the sensitivities for the price change and also for the volume change. So the sensitivity on the FX rate is, if I just take the U.S. dollar, that a 1% change in the exchange rate is plus/minus EUR 8 million on our results. So, yes, it is a factor. Relative to the 2 others, it is definitely of minor importance. And if you take the RMB, 1% change in the exchange rate would mean a EUR 7 million fluctuation in the overall result. But please remember, this is only translation effect. It's not transaction effect, because essentially we produce everything where we also sell the products. So again, only translation and the order of magnitude is way lower than for price and volume.

Operator

The next question comes from Christian Faitz, who's calling from Kepler Cheuvreux.

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

Three questions, if I may, short ones, I hope. First of all, in polycarbonates, you seem to blame the pricing delta on the Q4 margin decline. Actually, when I look at the sales decline, also the price factor in there, it was actually rather moderate. So why the steep margin decline in Q4 in polycarbonates? Second of all, can you share with us any observations from your people in the field about sequential demand development at present, particularly, in China, which obviously had been weak in December and January? And then third, you mentioned several maintenance shutdowns in this quarter in Q1, as we speak. Can you walk us through the biggest shutdowns you currently have?

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

So let me do the first one. So the margin decline in PCS in Q4, that was mainly driven by raw material price hits, especially in terms of phenyl, which was reflected here. And I think to your second one, what we do see is a relatively good momentum. So I would say, a reasonably good start especially in China, but still a somewhat weaker demand in automotive, especially in January. I think it's a little bit too early to say how this will evolve in February and March as the Chinese government has put in some stimulus. So I would say, good momentum in terms of volume that we see across the globe, but of course, still at relatively depressed prices where the prices that we have seen at the end of 2018 have essentially translated into the first 2 months of 2019.

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

I was -- on that, sorry to interrupt, but I was particularly interested how the order book has developed since about 2 weeks or so in the post the Chinese New Year in China?

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

I think reasonably well, good momentum. I think no -- if your question is, has it collapsed or has it significantly changed? No. But, please also remember our visibility in terms of order book and firm commitments is anyway relatively short. But we have come out of Chinese New Year with good momentum.

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

Yes. Christian, this is Markus speaking. So if we are looking intowhat you said, major or larger shutdown, we are particularly talking about propylene oxide, that is really the key that we're talking about. And other than that, we just talk about MDI shutdown, which ismuch smaller in terms of overall capacity shutdown compared to the polyether polyols. And the rest is just, I would say, minor shutdowns. However, they are adding up tojust in terms of size, up to the same amount, like for the 3 major larger shutdowns. So overall, in Q1, we would expect that roughly around 109,000 tonnes are the order of magnitude. We're building up inventories in this order of magnitude so that will not lead to loss of sales.

Operator

The next question comes from Charles Webb, who's calling from Morgan Stanley.

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

Just three quick ones for me, hopefully. Firstly, just on the destocking point, you say you're still destocking in Q4 and then I suspect a bit of that continue into January. Where are customer inventories now? I mean, are they at very historical low levels? Are they at normalized levels? Perhaps, you could help us there. Second question just around raw materials in CAS, in particular clearly still a headwind and you kind of point HMDA which we know is fairly tight. But how do you see that raw material -- all those raw materials developing through into 2019? That would be helpful. And then finally kind of circling back a little bit on the cash flow and on CapEx. When you set out kind of obviously this growth phase of CapEx for the next few years kind of moving this year over EUR 900 million, next year EUR 1.1 billion and the year after perhaps EUR 1.2 billion. But when you kind of guided to those number, the world was growing a bit faster than I suspect it is today. I wanted to understand if you're trying to balance Covestro's growth profile going forward and you have to achieve that kind of 4% CAGR core volume growth. Can you help us -- is there any flexibility in that? I mean, clearly the free cash flow profile -- operating free cash flow profile is changed a bit, given where profitability is today. Is there any flexibility going forward around that where you -- maybe certain projects don't make as much sense they did, perhaps, even 6, 12 months ago?

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

Yes, talking about the first question that you had about destocking. What we see is yet that there has been destocking, but currently we are thinking that we are approaching a level where customers need to buy, but their buying is -- although we think we have started very well again, especially after Chinese New Year in Asia Pacific, and have some momentum there, we still see and also can tell from the buying pattern that customers are extremely cautious. So they order just what they need. So they're living from hand into the mouth. We see that because the patterns in the order book indicate that customers are going for smaller orders and that they're also asking more for just-in-time delivery in that context. So that would indicate that demand is there yet, but there's also high uncertainty still persisting in the respective industry. If we're now talking about the second topic, the Coatings, Adhesive, Specialties, in terms of raw material prices, we have seen that in January Ascend actually has declared force majeure, one of the key raw material suppliers, and that means for us that raw material pressure will last at least during the first half of the year of 2019. And for your last question, I would like to hand over to Thomas.

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

Yes. On cash flow. I mean, to put into perspective, yes, we do say that our CapEx program is necessary in the prerequisite to secure the long-term growth but on the other hand, of course, we do observe very carefully what's happening in our environment, and we're not blindly executing the programs. So I can tell you that we are, of course, rescrutinizing, so to say, all the projects that we have on the agenda. Our flexibility for 2019 is relatively low and therefore, you do see the same number as we had announced it maybe 6 months earlier. But yes, for 2020 and beyond, we're going through an exercise to check and check again whether the projects make sense and whether there is some flexibility and the answer is, of course, yes. We can shift and flex a little bit of our CapEx program depending on the economic situation around us.

Operator

The next question comes from Martin Evans, who's calling from HSBC.

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Martin Evans ***HSBC, Research Division - Analyst of Global Chemicals***

Just one question on that chart,page 18 has been referred to a sort of talk about the growth from 2015, the IPO year, EUR 1.6 billion. I'm just trying to understand, there's been a lot of talk about resilience and your advantage on the cost curve and so on and your growth above GDP aspirations. But if, in reality, what's going to happen is that you basically go back to the 2015 profit number this year, give or take, based on your guidance, how would you characterize the business now in terms of being a better business than it was, sort of, 5 years ago rather than just essentially repeating the performance of that period in terms of the quality of earnings?

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

Well, first of all, we have a much higher utilization rate, which means we are using the assets much more effectively in efficiency. Secondly, I think the economic conditions in 2015 were significantly different than we're expecting them for 2019, in terms of overall growth rates for the industry, in terms of competitive pressure, but also in terms of outlook, if you look at the overall demand patterns. So I would say that with the current even more challenging business environment, comparing apples-to-apples, we would have not seen 2015 on the levels that we have seen in 2015, if the conditions would have been so severe as we're expecting them in 2019 to be, very short quick answer.

Operator

The next question comes from Sebastian Bray calling from Berenberg.

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

I would have two, please. The first is on the growth rate for MDI. I think the CEO of Wanhua was quoted late last year saying that he expected the Chinese volume growth rates for MDI would come down in the midterm, partly reflecting a decline in the growth rate of construction industry. Could you comment on how you've derived the growth rate that you have shown, the 4% to 5% volume growth for MDI? That's my first question. And my second is related to the potential for a buyback. What exactly are you comfortable with the market modeling here? If we put in, let's say, an amount that is smaller than the buyback for the past -- that you did last time, is that something which you're comfortable with for consensus? Or is it literally the market should wait until you have actually pulled the trigger and then we make the assumption?

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

Well, I think on the buyback, I think the way I would approach this is, we have said we want to steer the company towards a leverage which we think is appropriate of 1.5x, and that is still the case. So we're targeting towards that number and therefore, I think short answer to your question, I would rather than plugging in any number, I think it's -- it would be fair to assume, let's see, how the year unfolds and then wait for an announcement that we make. So I would not say that there's a specific assumption that we already have at this point that would make sense to use for any kind of model.

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

On your demand development for MDI, first, I think it is important to mention that we're talking about average growth rates, which see some fluctuations year-over-year. That's I think important to mention. Secondly, if you have only one market to serve, you need to really look at those single markets. We have a couple of markets we are serving. We are present in Europe, we are present in the United States and Mexico, and we are also present in China. That means, we see that in China there is a slowdown happening and we see this slowdown happening in the construction industry, but also in the appliance industry. If you remember that MDI is particularly used for insulation, for example, in refrigerators. Yet, on the other hand, we see the construction market and the demand for our highly insulating products in the U.S. is increasing. And that we also see that demand patterns are shifting, for example, from China into other countries that are producing for the U.S. demand, for example, Mexico, and that's why we come from a global perspective to a slightly different assessment. And we just have lowered a little bit the global demand for our MDI growth rates but just rounded them slightly down. So the 5% is still a 5%, yet, let's say, the second digit after the dot has been a little bit lower. But in principle, we see demand for MDI to be still strong above GDP for the years to come.

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

I don't want to overstate my welcome, but I appreciate this hasn't been touched on during the call. Can you quickly comment on why the environment for polyols was weak? And you expect this to stay the same in 2019 or improve?

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

Well, if you look at how polyols are used, mainly you use polyols in MDI one-on-one and in TDI 2 polyols part for 1 part of TDI. And If you look at the pressures that we had in terms of delivering TDI growth, you just see that the ability to sell polyols with TDI and the ability to sell polyols with MDI simply has been lowered simply due to the fact that there was hardly any TDI available. So there was hardly any growth - a topic that we touched earlier on when I answered the question of Georgina Iwamoto, and that also has driven down slightly the demand for our polyols. And that maybe has also led to the pressure on the polyols.

Operator

The next question comes from Isha Sharma calling from MainFirst Bank.

Isha Sharma ***MainFirst Bank AG, Research Division - Analyst***

Could you please help us with the EBITDA bridge for Q1? Because you have given a very precise guidance of EUR 440 million and we're already at the end of February, so hopefully you have some visibility there. Secondly, on TDI prices, given that there are historical lows that we have seen and we have not yet seen the full impact from the new Wanhua and BASF plants, how would you guide the prices? And how much lower can they fall given that they're already at historical lows?

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

Yes, let me maybe start with the EBITDA bridge for Q1, Isha. So -- and I'm doing a year-on-year comparison. So the starting point would be the EUR 1.63 billion that you've seen in 2018. Now in terms of the pricing delta, we're expecting around EUR 600 million negative pricing delta due to the lower prices, specifically in TDI and MDI, but also to some extent in PCS. I think the FX line I would classify as neutral. I would say on the volume side, it should be, let's call it, mid-double-digit negative. Remember we do see volume increase relative to Q4 but year-on-year we do see decline because Q1 2018 was very strong and the Others line should be, I would call it, low double-digit positive. So some relief on the costs side also due to bonus accruals, et cetera, et cetera. And that brings you then to this around EUR 440 million that we have guided to.

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

Isha, maybe some remarks on the TDI prices. If you look at nominal prices, you are right that we are somehow at historically low levels. Yet we also must take into consideration that those price levels were at higher input costs. So that means, we have not yet seen historically lowest margins in the TDI business. That is I think very important to take into consideration. Coming back to what I tried to explain earlier, I currently believe that in December and January, we have seen prices in that context that are approaching margin levels that are turning strongly towards historical low levels, but they have not yet reached historical low levels. So that means in turn, yes, there is still some way towards historically low TDI margin levels. And that still could happenwith the additional capacity now coming on stream. On the other hand, we have just seen in January that prices have not been lowered significantly, on the one hand, and secondly, we are also approaching, from a cost curve view, levels where the first producers should start to be cash negative, that also gives some support. So from that perspective, I think we are quite close but we have not yet reached historically low margin levels. Just to give you some indication.

Operator

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

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

Thank you all for participating, and thank you all for your interesting questions. If you have follow-up questions, don't hesitate to contact us, and see you latest for the next quarterly conference call. Okay. Bye-bye.

Operator

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

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