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Celanese Corp. (CE)

Q4 2019 Earnings Call

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Scott Richardson
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OTHER PARTICIPANTS

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John Roberts
Analyst, UBS Securities LLC

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

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Matthew Blair
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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Celanese Fourth Quarter 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the introduction. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Chuck Kyrish, Vice President, Treasurer and Investor Relations. Thank you. You may begin.

Chuck Kyrish

Vice President, Treasurer & Investor Relations, Celanese Corp.

Thank you, Donna. Welcome to the Celanese Corporation's fourth quarter 2019 earnings conference call. My name is Chuck Kyrish, Vice President, Investor Relations. With me today are Lori Ryerkerk, Chief Executive Officer; Scott Richardson, Chief Financial Officer; and Todd Elliott, Senior Vice President, Acetyl Chain.

Celanese Corporation distributed its fourth quarter earnings release via Business Wire and posted prepared remarks about the quarter on our Investor Relations website yesterday after market close. As a reminder, we'll discuss non-GAAP financial measures today. You can find definitions of these measures, as well as reconciliations to the comparable GAAP measures also on our website.

Today's presentation will include forward-looking statements. Please review the cautionary language regarding forward-looking statements, which can be found at the end of the press release as well as the prepared comments document. Form 8-K reports containing all of these materials have also been submitted to the SEC.

Because we published our prepared comments yesterday, we'll now open the line directly for your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we will be conducting a question-and-answer session. [Operator Instructions] Our first question is coming from Vincent Andrews of Morgan Stanley. Please go ahead.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Thank you; and good morning, everyone. Lori, if you can just clarify on the outlook for EM for 2020, and the 10% EBIT growth. There was a lot of commentary in your comments about your differentiated volume performance from the innovation. And I just want to get a sense of how much volume growth you are expecting in the year and how much of that will contribute to organic growth towards the 10% target versus the self-help measures that you also discussed?

Lori J. Ryerkerk
President, Chief Executive Officer & Director, Celanese Corp.

A

Thanks for your question, Vincent. So maybe just to clarify, what we're saying for EM for next year is, we are saying 10% EBIT growth, but there will be an offset to that because of the – some offset to that because of the turnaround load next year in EM, specifically the Bishop POM turnaround. So, that 10% EBIT growth really comes from a couple items. One, we do believe we're at the end of destocking, so we're seeing more normalized order rate.

We are also seeing the benefits of the project wins; those from 2019 and moving into the wins for 2020. So, project wins from our existing customers, but also new project wins as we called out in the script from things like electric vehicles and 5G. Further, on the 10% EBIT we'll see some help from raw materials. And specifically, really the raw materials help that occurred in 2019, but we didn't see in 2019 because of the length of our supply chain inventory. So we should start to see some help from raw materials as we move forward.

And then, of course, additional productivity which is going to occur in EM, it has occurred. For example, Lebanon shutdown which happened last year or in 2019. And then, this year we've already announced the shutdown of our compounding facilities in Shelby, which will have decent help in 2020. And in addition, we have the help from some of our new capacity that's come on. For example, the four lines we've started out in China in the second half of last year which will help with our supply chain costs and being closer to our customers in China.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

And as a follow-up, if I could just ask you, you mentioned – in relation to the Clear Lake shutdown in the fourth quarter that exceeded price, you didn't respond to that, but you also noted that you were able to not see a volume decline. So, I sort of see a tension between those two things, and I'm just wondering if – how you weighted continuing to shift volume versus maybe letting the market tighten up a little bit and seeing improved margins? And just how you thought about that in terms of the overall profitability of the segment?

Lori J. Ryerkerk
President, Chief Executive Officer & Director, Celanese Corp.

A

Yeah. I took all things. So, I mean really good work by the Acetyl Chain team to offset the impact of the Clear Lake outage in the fourth quarter. A little counterintuitively because we had lower pricing, we didn't see as much impact from the shutdown in Clear Lake. You have to remember, although most of our volume goes from the US towards Asia, so we actually weren't shipping as much that way. So, that's actually a bit of a help although it costs more to produce in China obviously.

So when you put that all together, what we saw is with the shift downstream to derivatives moving more into VAM and emulsions, keeping what volume we did have in the Western Hemisphere where the pricing was somewhat better, we were really able to offset the impact of Clear Lake. But we did see it in the pricing. But there, again, the team was also able to offset nearly 50% of the pricing impact on the year, again due to the move to the Western Hemisphere and due to the moves with derivatization into emulsions into VAM and VAE.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC
Q

Thanks so much.

Operator: Thank you. Our next question is coming from John Roberts of UBS. Please go ahead.

John Roberts
Analyst, UBS Securities LLC
Q

Thank you. Do you have a special strategy review underway as was speculated in the press, or do you just have your normal ongoing strategy activities?

Lori J. Ryerkerk
President, Chief Executive Officer & Director, Celanese Corp.
A

So we've actually gone through a big strategy exercise in the second half of 2019. This is really as it relates to our core businesses. So, what we're going to do in the Acetyl Chain, you saw some of that in the emulsions announcement that came out. Obviously, the Elotex acquisition is part of that strategy as well to strengthen and further extend our Acetyl Chain. It is in engineered materials where you saw some of our comments around a move towards Asia localization, for example, which is about getting closer to our customers and shortening our supply chain with our customers.

In Acetate Tow, it is about looking for next generation uses of cellulosic acetate, as we see the decline in the tow industry and being able to move flake into other applications. All of those are outcome of that strategy review which we undertook in the second half of 2019. So we will be continuing to review that with our board here in the first half of the year and anticipate an Investor Day sometime mid-year, where we'll be able to share that strategy with you all in more detail. Obviously, that strategy anticipates some bolt-on M&A. Again, you saw that with Elotex. I will also tell you though the strategy is very focused on self-help, organic investment, organic use of cash to grow our own networks and our own capabilities short of anything that can happen with M&A.

John Roberts
Analyst, UBS Securities LLC
Q

And then secondly, in Engineering Plastics, how much did lower raw materials helped the earnings on either a sequential or year-over-year basis?

Lori J. Ryerkerk
President, Chief Executive Officer & Director, Celanese Corp.
A

So really, raw materials 2018 to 2019, we didn't see much help. In 2019, we expect to see more of that help roll into 2020 and that just reflects the long nature of the supply chain in Engineered Materials, where it has to be polymerized then it has to be compounded then it has to be moved to the customer. So, that is a fairly long supply chain, so we actually expect that help to show up more in 2020.

John Roberts
Analyst, UBS Securities LLC
Q

Thank you.

Operator: Thank you. Our next question is coming from Jeff Zekauskas of JPMorgan. Please go ahead.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

Thanks very much. If you had to compare your net turnaround costs in 2020 with your net turnaround costs in 2019, what would be the 2020 benefit or what's the difference as best as you can tell?

Lori J. Ryerkerk
President, Chief Executive Officer & Director, Celanese Corp.
A

Yeah. So, the impact from turnarounds in 2020 is a total of $70 million to $80 million and that's $50 million more than we had in 2019. So, it's a hurt in 2020 of $50 million which we will offset through additional productivity and other actions, and that's fully baked into our plan.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

So, in your materials you talk about an aspiration of $11 a share in earnings. To reach $11 a share, you've got to grow your EBITDA by, I don't know, $140 million. Given the current business conditions, if you had to size that $140 million to reach your aspirations, where would it come from?

Lori J. Ryerkerk
President, Chief Executive Officer & Director, Celanese Corp.
A

Yeah. So, let me kind of do that walk. So if we look at that $11 that we put out there as the challenge we put to the organization, if we start – I'm just going to do it on earnings per share [ph] because it's easier. (00:10:16)

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

Sure.

Lori J. Ryerkerk
President, Chief Executive Officer & Director, Celanese Corp.
A

If we start with the $9.53, we will see an uplift next year of $0.15 to $0.20, because we won't have the Clear Lake incident impact. So that gets us right to the $9.70 range. We add another $0.50 due to share buybacks and cash and other forms of cash deployment. And so that's another $0.50, that gets you to $10.20. We have put in $0.50 of net productivity, so that's also offsetting $0.35 of turnaround. So to put it in perspective, that's about $125 million of net productivity which we have to achieve to do that. We're targeting between $200 million and $250 million of gross productivity, so we can offset price increases, energy variations, et cetera, et cetera.

So, we think that's very achievable, consistent with what we've been able to do in the past. So, $0.50 of net productivity gets us to $10.70. And then, we need about $0.30 more of improvement, I would say, in demand. I mean, really we lost about $0.30 just in fourth quarter of this year, and that was really due to the stronger-than-expected seasonality in Engineered Materials as well as a really dramatic price drop off that we saw in Acetyls really in December. Both of those occurred in December. So if we just return to kind of the first three quarter level of demand and pricing in our businesses, we will recover that $0.30. So, that's how we get to the $11.

Obviously, we're not going to wait for the market to give that back to us. So we're also trying to identify is there other steps or other productivity measures that we can take to also recover that $0.30 and make sure we get to $11.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Okay. Great. Thank you so much.

Operator: Thank you. Our next question is coming from Bob Koort of Goldman Sachs. Please go ahead.

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

Thank you very much. Lori, in the prepared remarks you talked about operating rates in acetic, I guess, declining 7% globally last year. Can you give us some sense regionally how that looks and then what your expectations are in 2020?

Lori J. Ryerkerk
President, Chief Executive Officer & Director, Celanese Corp.

A

Yeah. So if we look at really utilization for the industry, full year, year-on-year 2018 to 2019, we saw almost a 10% drop in China utilization. Now, globally that was just over 5%. And so, most of that was coming from China and most of that in 2018 to 2019 was coming from demand. Interestingly, in the fourth quarter we saw that similar kind of 10% drop just third quarter to fourth quarter in China, and that was really due to less outages. It wasn't a drop in demand, third quarter to fourth quarter, it was because there were less outages in China in fourth quarter. And that really put us in an oversupply situation, which again we also then saw reflected in pricing.

Globally, fourth quarter was a little under 10%, again mostly driven by China, a little bit driven in demand in other parts of the globe.

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

And I guess in the past, maybe at your last Investor Day, you guys had talked about expecting some more takeout in the industry, some more capacity reduction. How has that path been relative to your expectations, and is there some left that you think might come out of the market in acetic?

Lori J. Ryerkerk
President, Chief Executive Officer & Director, Celanese Corp.

A

Yeah. It's a great question and one, frankly, we think about a lot. I mean, obviously if you look at the amount of supply that was in the market in the fourth quarter, you'd have to say not much capacity has come out in China.

However, we believe China remains committed to their environmental targets. And so, we still expect some to occur in the future, but we just didn't see that much through 2019. Todd, do you have anything to comment?

Todd Elliott
Senior Vice President, Acetyls, Celanese Corp.

A

Yeah. Bob, it's Todd Elliott. I would add that that utilization drop over the course the year of about 7%, that is, to Lori's point, combination of some demand over the course of the year, more availability throughout the year relative to 2018 certainly. But we think the fundamentals are there if we – to the point also on EM similar to Acetyl is if we get a kind of normalization of demand patterns as we go into the new year 2020, we think that that utilization rate will come right back into that mid-80 range on a global basis.

So, we already saw improvement in pricing to start 2020 in the first quarter off of December levels that already started to move up. Need to see that through over the course of Q1, given the conditions in front of us there. But one other point that I think is important to mention. While acetic acid remains a key product for us, very, very significant in terms of our position, we're growing our derivatives as well. And you think about our volume profile year-to-year, we were down about 15% on acetic acid volumes in 2019 versus 2018, but we didn't stop at that point. We actually took about 6% more of our acetic acid and moved that downstream to VAM and to emulsions.

So, when you look at the volume profile of VAM and emulsions, they were actually up 8% 2019 to 2018. So we have actually intentionally moved our mix regionally, Western Hemisphere focus as well, and that'll allow us to add to the resiliency and actually create some more diversity. And in the step we just announced yesterday with the Elotex acquisition adds another [ph] lev (00:16:08) on that chain or another link on that chain which will allow us to take our emulsions business into now a powders product line and provide more resiliency as well going forward.

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

Got it. Yeah. That's laudable, and I also want to thank you guys. The continued way you present your earnings is very efficient and appreciated, and we're hopeful maybe your peers will start doing the same thing. Thank you.

Todd Elliott
Senior Vice President, Acetyls, Celanese Corp.

A

Thanks, Bob.

Operator: Thank you. Our next question is coming from Duffy Fischer of Barclays. Please go ahead.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Yeah. Good morning. Maybe another way to hit the acetic acid. In the last four or five months, there've been two very large announcements for new capacity, so you had ZPCC plus BP and then Reliance. Now, I know we've had a lot of announcements over the last decade that haven't come to fruition. If you were handicapping these two kind of helping us with our supply model going forward, how likely are these? And kind of in what timeframe should we expect them to come up, do you think?

Lori J. Ryerkerk
President, Chief Executive Officer & Director, Celanese Corp.

A

Yes. So look Duffy, if I look at the current economics around Acetyls, I think it doesn't support new investments. So, we really have to consider what other motivations these companies would have to build that acetic acid capacity, and I'll ask Todd to comment on that. But I would also say from experience, any new capacity being announced, now it's probably a three- to five-year period to design, construct, get permits et cetera depending on the location. But I'd say, it's three to five years before we would actually be able to see any of that capacity come online.

Todd, do you have...

Todd Elliott
Senior Vice President, Acetyls, Celanese Corp.

A

Yeah. I think that's right. On the first when you mentioned, we were asked that question last quarter and continue to see that as an integration step associated with the chain to polyester. So in our view, it's just an integration move and it's probably multiple years down the road.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Okay. And then a question around Ibn Sina. So after the expansion there, one, how was Ibn Sina run in the interim? And then two, do you see any change in the ownership structure with Aramco's investment in SABIC?

Lori J. Ryerkerk
President, Chief Executive Officer & Director, Celanese Corp.

A

Yeah. So, with Ibn Sina – of course, had a big turnaround this year that hit our earnings this year by about $30 million, but that's a normal turnaround. I think operationally we're happy with the Ibn Sina operation. So far we've seen no real impact from the acquisition of SABIC, the ownership change to Saudi Aramco. I don't anticipate that will really change anything and we certainly haven't seen anything yet.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Great. Thank you, guys.

Operator: Thank you. Our next question is coming from Mike Sison of Wells Fargo. Please go ahead.

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

Hey. Good morning.

Lori J. Ryerkerk
President, Chief Executive Officer & Director, Celanese Corp.

A

Good morning.

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

If I take a look at adjusted EBIT for the Acetyl Chain in the fourth quarter and even add back Clear Lake and annualize it, it's a little – it's below the $750 million to $800 million that you talked about in the prepared remarks in terms of your earnings level that you think is sustainable. So, I guess, is that kind of the outlook for 2020 to be in that range? And then if so, how do we sort of improve from fourth quarter levels?

Lori J. Ryerkerk
President, Chief Executive Officer & Director, Celanese Corp.

A

Yeah. So if you look at just fourth quarter, Mike, I mean two factors. So, Clear Lake $20 million and then typical seasonality in Acetyls is $20 million to $30 million. So I think if you add those back in, you pretty quickly get us back to that $750 million to $800 million foundational level that we believe we're at in Acetyls.

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

Okay. Great. And then, I think earlier, maybe in the fourth quarter, given where your stock was, the thought was that the portfolio made most sense to stay together. We're a little bit far from that level unfortunately now. So, any thoughts there in what you think you need to do to get a sustainable appreciation for the portfolio that you have?

Lori J. Ryerkerk
President, Chief Executive Officer & Director, Celanese Corp.

A

Yeah. Look, I agree. We still think it makes sense to keep it together at this point because of some of the dissynergies associated with splitting it. I think we see the whole market down right now, so it's kind of hard to say where we'll end up if we see some turnaround as we go. We're actually quite excited and optimistic about 2020. We think we have a good path laid out in front of us. We think we'll be able to continue to show the potential earnings capability and high multiple capability of this business as we move through 2020.

We're also really excited about our strategy for the next six years and the earnings growth potential associated with that strategy, again based on things under our control which is organic CapEx investment and productivity. So we think this continues to be a really high return business. We think, as we move into 2020, that will be more recognized by the market and just ask you guys to kind of watch this space.

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

Great. Thank you.

Operator: Thank you. Our next question is coming from P.J. Juvekar of Citi. Please go ahead.

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

Yes. Hi. Good morning. One of your competitors called out nylon pricing as quite weak. Can you talk about your nylon business, what you're seeing there in terms of price and volume? And how much of your EM business is more base polymer like nylon versus how much is sort of specialty?

Lori J. Ryerkerk
President, Chief Executive Officer & Director, Celanese Corp.

A

Yeah. Good question, P.J. If you might recall back, I think it's the second quarter earnings, we actually did call out softness in nylon pricing and demand back then. And possibly, we see it sooner because we don't polymerize. We buy polymer and we compound nylon. So we were seeing the softness back in mid-year. Frankly, through the second half of the year, it's been where we expected it to be. And so, that maybe the difference between us and our competitors.

I would say – again, if you look at our EM business, a third of it's really highly differentiated, kind of we're uniquely specked in. A third is differentiated where maybe we're specked in with someone else, but still differentiated. And then a third is maybe more towards commodity or me too type products. I think that's the best way to characterize our EM business. And we constantly work to minimize that last bucket and move things into the more differentiated space which, specifically to nylon, is what we've been...

[Technical Difficulty] (00:23:21-00:24:11)

Operator: You may resume.

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.
Q

Hello?

Chuck Kyrish
Vice President, Treasurer & Investor Relations, Celanese Corp.
A

Can you hear us?

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.
Q

Yes. Yes, we can.

Chuck Kyrish
Vice President, Treasurer & Investor Relations, Celanese Corp.
A

Okay. [indiscernible] (00:24:20)

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.
Q

So while you went out there was music – sorry, go ahead.

Lori J. Ryerkerk
President, Chief Executive Officer & Director, Celanese Corp.
A

Yeah.

Chuck Kyrish
Vice President, Treasurer & Investor Relations, Celanese Corp.
A

Okay. Go ahead, Lori.

Lori J. Ryerkerk
President, Chief Executive Officer & Director, Celanese Corp.
A

P.J., where did you lose us? So I know what...

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

I think you were talking about one-third unique, one-third differentiated, one-third commodity.

Lori J. Ryerkerk
President, Chief Executive Officer & Director, Celanese Corp.

A

Right. And so, I mean what I was saying, specifically to our nylon, since that's our more recently acquired business and I think I've talked about this also a little bit in second quarter. What we found with that acquisition is, they tended to have more commoditized nylon. And as we've gone through the last year and a half, we've been working to transition those to – with using our project model to transition that to becoming more differentiated, so it will be more insulated to the market demand like we see kind of two-thirds of our portfolio.

Scott Richardson
Chief Financial Officer & Senior Vice President, Celanese Corp.

A

Yeah. P.J., I think it's important that last bucket, Lori, you talked about. I mean, it's important that we play in that standard space because a lot of customers are buying a wide variety of different polymers and grades for various applications. And so, having a presence in that part of the portfolio is very important to enable really that higher margin part of the segment.

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

Thank you. Can you talk about the acetic acid cost curve? Because I think you effectively take good advantage of that cost curve by moving downstream or moving products around the world. Can you just talk about your observations on the cost curve? Thank you.

Lori J. Ryerkerk
President, Chief Executive Officer & Director, Celanese Corp.

A

So there's couple different aspects of that, P.J. The first I would start with is, the vast majority of our acetic acid is produced in Clear Lake. And the reason for that is the cost advantage we have with natural gas pricing in the US. So I think that's the first piece. And clearly, that was a little bit of an impact with the Clear Lake downtime in fourth quarter. But we see that as an advantage which continues well into the future and is the reason for our acetic acid reconfiguration project, which allows us to produce even more in the US, take advantage of that raw material as well as economy of scale productivity in lieu of making products somewhere else.

And then as we've talked about before, our ability which is unique we think in the industry – while we can go upstream and make choices around how we acquire CO and methanol or make it ourselves, whatever is most economic, and then making choices about where to take value out of the chain, whether we move material into VAM and VAE or into emulsions, and now another option to move into redispersible powder, we think that gives us a unique capability to manage a variety of economic conditions and make choices about where to take value out of the chain.

That and the fact that we're globally located, we can choose where to sell for any of the range of our products, whether it'd be Asia or Western Hemisphere, and take advantage of those. And we've seen it. We saw it in 2018, where it made sense to move a lot of acid into China because of pricing. This year we see the opposite where we've moved significant volumes; Todd mentioned them, into VAM, VAE and emulsions and into the Western Hemisphere to take advantage of better pricing.

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

Thank you.

Operator: Thank you. Our next question is coming from David Begleiter of Deutsche Bank. Please go ahead.

David I. Begleiter
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you. Good morning. Lori, can you just talk about, within EM, how much the business is auto-related, and how much was that business down in Q4 and how much was down in 2019?

Lori J. Ryerkerk
President, Chief Executive Officer & Director, Celanese Corp.

A

Sure. So about a third of our EM business is tied to auto. And if you look at auto, auto was down about 6% globally in 2019 versus 2018. It's really all regions of the world. The US is a little bit better. Unfortunately, two markets that we play very heavily in, Germany and China, were down closer to 8%. And then if you look at what that impact is on us, I mean that's auto builds. But what we saw is, with destocking and many of the molders and things in between us and the auto build, we actually saw double that amount of impact in terms of demand on materials going into auto. So we're really talking kind of a double-digit impact if we were based just on build.

Now, fortunately, we've also been continuously working to get the volume per vehicle up that we have. So, since 2015 we've seen about 11% per year increase in the volume of materials we put into vehicles. Part of that being M&A, but just 2% to 3% in the base volumes, so that offsets some of that impact, but still clearly a significant impact this year.

David I. Begleiter
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you. And Todd, if you – just comment on where asset profitability is in China today, maybe where it was a year ago? And what your expectations are for it to go over the course of the year? Thank you.

Todd Elliott
Senior Vice President, Acetyls, Celanese Corp.

A

Yeah. I think we touched on it a bit. I mean, pricing did fall over the course of 2019 versus 2018; and probably, call it, about a 40% drop 2019 versus 2018. So, significant. And even during the fourth quarter, we saw it notch down each month to the low point in December. And that's why we intentionally pulled product out of the region, moved it elsewhere, moved the downstream, the derivatives, position that into different parts of the world, different applications to offset part of that development late in the year.

Going into Q1, going into this first quarter, we've already seen pricing up almost 10% in January. We think it's going to move over the course of the year. I mean, that's part of the ramp-up to our $11. We're going to play a big role in that. We're ready to work hard on our network, to move pricing over the course of the year. We've got to get through these two turnarounds or three actually in total. Methanol is down, as we speak here in Q1, and we have both acetic acid in Nanjing and in Clear Lake in Q2.

By the way, those turnarounds are unusual, in that they're every four years in the case of methanol and every three years in the case of acetic acid. So, we're going to get those out of the way. We've got Clear Lake now back at full strength. And so, we think we're well set up to move price over the course of the year once we get demand back to normal levels.

David I. Begleiter
Analyst, Deutsche Bank Securities, Inc. Q

So Todd, on profitability [indiscernible] (00:31:14) were people at breakeven levels in Q4 in China? Let's focus a little more on profitability not [ph] pricing. (00:31:19)

Todd Elliott
Senior Vice President, Acetyls, Celanese Corp. A

Yeah. We can't answer exactly where everybody is there. I think it was a tough, tough end of the year certainly for those producers in the space, given the combination of where methanol ended up, the MTO dynamics. I think it was a tough end of the year, but largely on soft demand and availability and just uncertainty. But I think that'll improve as we go forward. But our job is to maneuver within our network and position Celanese in the best way to take advantage of our network capabilities.

David I. Begleiter
Analyst, Deutsche Bank Securities, Inc. Q

Thank you.

Operator: Thank you. Our next question is coming from Ghansham Panjabi of Baird. Please go ahead.

Matthew T. Krueger
Analyst, Robert W. Baird & Co., Inc. Q

Hi. Good morning. This is actually Matt Krueger sitting in for Ghansham. How are you doing?

Lori J. Ryerkerk
President, Chief Executive Officer & Director, Celanese Corp. A

Hey. Good morning, Matt.

Matthew T. Krueger
Analyst, Robert W. Baird & Co., Inc. Q

Good morning. So sticking with the China theme, just wanted to dig into what impact could coronavirus have on the acetic acid market in China and how could this impact the global supply chain? Do you believe that any disruptions or related tightening would be a net positive or a net negative, given the kind of demand but also the capacity and pricing puts and takes there?

Lori J. Ryerkerk
President, Chief Executive Officer & Director, Celanese Corp. A

Yeah. Look. It's a great question. We don't know how long this is going to last or what the impact is. Our first priority right now remains the health and safety of the over 800 people that we have in China. At this moment in time, we don't have any employees affected and our operations continue as they were going into this. So, at this point we're not seeing an impact.

I mean, clearly if producers shut down, if this is extended, there could be a drop in demand, but there could also be a drop in supply. To that impact specific to Celanese, most of what we make in China stays in China. So, we think that will be somewhat balanced for us. But quite frankly, it's just too early to call until we see how this further develops.

Matthew T. Krueger
Analyst, Robert W. Baird & Co., Inc.
Q

That's helpful. Understood. And then, just wanted to touch on kind of the global growth mosaic. So if global growth were to decelerate from current levels versus kind of inflect higher in the back half of the year, which seems to be what we're expecting, where does the sequential – or what primary levers do you have under your control that could maybe drive earnings stability or earnings improvement even if global growth doesn't cooperate quite as much?

Lori J. Ryerkerk
President, Chief Executive Officer & Director, Celanese Corp.
A

Yeah. So, just to clarify, our outlook for 2020 is really based on an economic environment similar to the first three quarters of 2019. So, not a really increase in demand or increase in supply. And the real lever we have in front of us – in addition to working our business model, moving into derivatives and acetyls, the project model and EM, is productivity. I mean, the one thing I have to say is, in the nine months I've been here as CEO, I am just so impressed at the embedded productivity culture that exists in Celanese. I mean, it is not a once-a-year exercise. It is not even a once-a-quarter exercise. It is an everyday exercise for our folks to look for ways to reduce costs, improve raw materials, improve utilization. I mean, this is happening every single day.

I mean, clearly going into 2020, we realized we have a big uplift required. And so, we have taken additional steps to try to identify other things that can happen. But just maybe a few examples. I mean, so we're constantly working on organizational efficiency. So, revamping our supply chain and how we manage that and moving to a more digitized modern system for supply chain is a way that we'll get credits this year and over the next several years; increasing digitization of all of our operations not just our manufacturing operations, but also the way we handle customer orders and every other aspect of our business; relooking at our global and regional org structures to make sure that they're properly sized and configured to best support our businesses going forward.

We also look always at our footprint. So you saw the announcement around shutting up compounding in Shelby. We shut down the Lebanon facility this past year. You're familiar with the Ocotlán shut down. I mean, these are all things we constantly look at doing which is how do we drive costs out, how do we improve efficiency, how do we improve utilization? Just a few examples. And I think this is something Celanese does extremely well. And I'm extremely proud to be a part of, which is continuously kind of keeping the future in our own hands rather than just being dependent on the market.

Matthew T. Krueger
Analyst, Robert W. Baird & Co., Inc.
Q

That's very helpful. Thank you.

Operator: Thank you. Our next question is coming from Laurence Alexander of Jefferies. Please go ahead.

Laurence Alexander
Analyst, Jefferies LLC
Q

Good morning. So, just related to that, two questions around sustainability. In your prepared remarks you call out sort of the overall outperformance of EM against the underlying market. If conditions stay weak for several years, do you see the gap of outperformance being stable or do you think over time you would converge or you'd lose some of that excess outperformance?

And secondly on productivity, with the step up that you're doing this year, how should we think about the ebb and flow? That is, if conditions improve, does the pace of productivity slowdown? Or do you now see a line of sight to three to five years of $250 million of gross productivity, because you've changed your approach or you found different angles that weren't previously gone after?

Lori J. Ryerkerk
President, Chief Executive Officer & Director, Celanese Corp.

A

Yeah. Thanks, Laurence. Look, on the outperformance versus the market, I think this is built into how we do business. And I don't think that changes under varying market conditions. So again, I talked extensively already about the strength of our Acetyl Chain and how that differentiates us from our competitors, because we have so much optionality around where to take value out of the chain and geographic optionality. That exists no matter if we're at high acetic acid prices or low, and I think it sets us uniquely apart.

In Engineered Materials, our project business model which we've now overlaid with more of a program focused on emerging markets, things like [ph] EVIG (00:38:20), medical, we think that will allow us to continue to outperform. And again, based on my experience I think our productivity measures far exceed and our consistency – productivity measures far exceed that of most of our competitors. So I think under any range of economic conditions, we will be able to continue to outperform the market and outperform our competitors.

Scott Richardson
Chief Financial Officer & Senior Vice President, Celanese Corp.

A

Yeah. Laurence, I think one thing that's important is that the shape of that productivity changes over time depending on where we are in the market. And so, if we get to a period of growth, our productivity tends to shift a little more towards revenue generation projects and debottlenecks for example. So, those are all things that – the program of productivity that we operate here really is always looking at the things in the hopper and then matching which projects we accelerate depending on where we're at from a demand landscape perspective.

Laurence Alexander
Analyst, Jefferies LLC

Q

Thank you.

Operator: Thank you. Our next question is coming from Kevin McCarthy of Vertical Research Partners. Please go ahead.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Yes. Good morning. I wanted to ask you about two different derivatives. First, in VAM, I think one of your competitors declared force majeure about three weeks ago. I was wondering if you could talk about your near-term outlook for VAM.

And then secondly, you announced intention to expand in VAE, 155 kiloton split between the Netherlands and China. I was wondering if you could just talk about what is driving that. Is VAE tight and, if so, why is that the case relative to other acetyl derivatives? Thank you.

Lori J. Ryerkerk
President, Chief Executive Officer & Director, Celanese Corp.

A

Yeah. So, I'm going to ask Todd to comment maybe just a bit broader, so we actually see both of these as great opportunities for expansion. We see demand continuing to increase, and we think we have a favorable cost and technology position. And clearly like in VAM, we actually have just completed 150 kton expansion. We have another 150 kton over the next several years that we can do through small and low-capital expansions in other locations.

And then, as you said, in VAE, we recently made the announcement about the expansions there, primarily in Nanjing and Geleen, but also some other areas. Again, we can do these in a very low-capital way which we think makes it very attractive for us and into the markets we're in.

But let me hand it over to Todd and he can add a bit more color.

Todd Elliott
Senior Vice President, Acetyls, Celanese Corp.

A

Yeah. Thanks. Thanks, Kevin, for the question. We're well-positioned in that building space, think of self-leveling flooring, wall texturizing, applications such as that, external thermal insulation systems, both today and then going forward with our powders acquisition. So, if you back up to the VAE news that we rolled out, the first wave of those are very targeted debottleneck, so some capability enhancements that we'll bring into Geleen in the Netherlands, as well as in Nanjing. Those are principally in reaction to customer pull. So, we are fairly full. And so, it's not a build way ahead and try to wait on demand. So, these are really in response to customer needs, position us for the near term. And then following that, the next wave will be polymerization expansion in those two sites looking out over the next several years, and that will dovetail nicely with the addition of the downstream step which is the redispersible powder largely built on VAE emulsion.

So, it's really a looking ahead, it's adding a derivative capability, being ready for customer demand, customer pull, and then we'll activate those operations in conjunction with customer needs over the next several years.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Thank you very much.

Todd Elliott
Senior Vice President, Acetyls, Celanese Corp.

A

Thank you.

Operator: Thank you. Our next question is coming from Matthew DeYoe of Bank of America. Please go ahead.

Matthew DeYoe
Analyst, Bank of America Merrill Lynch

Q

Hi. I wanted to touch on EM equity earnings. And just based on the trajectory of methanol in 4Q, I would think EM equity earnings were biased lower to start the year. I would imagine it reverts. But what are you expecting for kind of full year 2020 over 2019?

Lori J. Ryerkerk
President, Chief Executive Officer & Director, Celanese Corp.

A

So, we do expect some uplift in equity earnings in 2020. I mean, the biggest piece of that, of course, being the absence of the Ibn Sina turnaround which was $30 million there, just there. And we also saw some softness in demand and pricing which affected some of our other equity earnings. I don't actually expect that to be much different in 2020 even with slightly lower methanol. I think we should see kind of this year plus the $30 million and maybe a bit more.

Do you have any other thoughts on that, Scott?

Scott Richardson
Chief Financial Officer & Senior Vice President, Celanese Corp.

A

No, I think that's consistent. The biggest difference is that Ibn Sina turnaround. And I think the rest of our joint ventures are in Engineered Materials and we may see some slight improvement driven by the lack of destocking as we go forward in those ventures. Now, what I will say is, those ventures are largely tied to Asia demand. So, they may be a little more susceptible to what's going on in China right now, but we are kind of planning a slight uptick.

Matthew DeYoe
Analyst, Bank of America Merrill Lynch

Q

Okay. And then maybe a bit of a throwback here, but oil prices were moving higher consistently through 4Q, while acetic acid was dropping. I mean, was there ever an opportunity to run TCX, or is that still just way out of the money and not really a consideration anymore?

Lori J. Ryerkerk
President, Chief Executive Officer & Director, Celanese Corp.

A

Not really a consideration. And the oil run up was pretty short lived, so it really didn't have any impact on how we ran or any of our decisions in the quarter.

Matthew DeYoe
Analyst, Bank of America Merrill Lynch

Q

Fair enough. I figured I'd ask.

Operator: Thank you. Our next question is coming from Arun Viswanathan of RBC Capital Markets. Please go ahead.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Great. Thanks. Good morning. Yeah, just following up on that question, just wanted to get your thoughts on the trajectory of methanol as it relates to VAM and acetic. What kind of decisions are you making to push more of your material down into VAM and acetic? I mean – and what's your margin outlook, especially given a weaker output for methanol? Thanks.

Lori J. Ryerkerk
President, Chief Executive Officer & Director, Celanese Corp.

A

Yeah. I guess, from a big picture overview, I would just say we don't really make decisions around investment based on kind of our outlook on short-term economics. I mean, what we have found in this business and what I continue to believe is true is having more optionality in the chain. Over a long period of time, it gives us the opportunity to optimize and stabilize our earnings out of the Acetyl Chain over the long term. So, methanol is not really what's driving our decision for VAE and VAM investment. I think, Todd described that – Todd, I don't know if you have any other comment [ph] on that. (00:45:53)

Todd Elliott
Senior Vice President, Acetyls, Celanese Corp. A

Yeah. I mean, methanol's a key raw material, a strategic raw material, we made the investment a few years ago to produce, therefore improving the balance between make-or-buy, and that's how we think about it. I think it's interesting when you look at our earnings profile last year 2019 versus even 2017, right, so we had $727 million of earnings this 2019. In 2017, with the exact same revenue, $3.4 billion of revenue and almost identical tonnage, just over 5.2 million tons, we increased our earnings by over $150 million. Just think about that. From $575 million back in 2017 to $727 million this last year and raised our EBIT as a percentage of sales from 17% to 21%. So, we aim for north of 20% EBIT margins. We do that with this optionality that Lori's outlined, and that's how we're going to run the business.

Pricing for acetic acid, partly to your question, we think is more influenced by supply-demand dynamics versus methanol.

Arun Viswanathan
Analyst, RBC Capital Markets LLC Q

That's helpful. And then just as a quick follow-up. Just curious on the cash flow side, do you think working capital is going to be a source of funds this year and, if so, could you size that for us just given the raw material backdrop? Thanks.

Scott Richardson
Chief Financial Officer & Senior Vice President, Celanese Corp. A

Yeah. Arun, I don't know that it will be a huge source of funds. As we see business growth, it tends to be fairly neutral to possibly a slight increase in working capital. We're going to continue to take aggressive actions around our controllable items in working capital to improve that, but I think it's going to be relatively flat.

The big change in free cash flow year-over-year is going to be the increase in CapEx. So, we expect capital to be around $500 million year-over-year and an expectation in our current cash flow forecast that we will have a payment to the European Commission.

Arun Viswanathan
Analyst, RBC Capital Markets LLC Q

Great. Thanks.

Operator: Thank you. Our next question is coming from Frank Mitsch of Fermium Research. Please go ahead.

Frank J. Mitsch
Analyst, Fermium Research LLC Q

Thank you. Yeah, Scott, just to follow up on that, can you talk a little bit more about the $89 million you reserved for the European Commission investigation, where does that stand, where might that head to?

Scott Richardson
Chief Financial Officer & Senior Vice President, Celanese Corp.

A

Yeah. Look, right now, Frank, I can't throw out a lot of comment. I mean, based on everything we know to-date from the Commission, we don't expect to book any further reserve. And like I said, it's in our cash flow forecast for 2020.

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

Okay. And then, Lori, in the transcript, you highlighted that the GM strike had a bigger-than-expected impact in your fourth quarter than anticipated, and you outlined some reasons for that in terms of the supply chain from the Tier 2 suppliers, et cetera. I'm curious, is this something that was – if it didn't happen in the fourth quarter, is this something that could be a first quarter event? Do you expect this to rebound and impact your first quarter or perhaps second quarter?

Lori J. Ryerkerk
President, Chief Executive Officer & Director, Celanese Corp.

A

No, we really don't. I would say, we hadn't really expected much impact at all from GM because our assumption was once the strike was over, they start back up and kind of take that volume. They stayed down a bit longer, as did many of the auto builders, by the way, a bit longer through the holidays. And so, we saw more of an impact, but we do not expect this to continue into the first and second quarter.

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

All right. Thank you.

Operator: Thank you. Our next question is coming from Jim Sheehan of SunTrust Robinson Humphrey. Please go ahead.

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Lori, are transformative M&A options now completely off the table because of the potential dissynergies? It sounds like in the past that you said that dissynergies were not a barrier to considering that. So, if that's off the table now, why is that the case?

Lori J. Ryerkerk
President, Chief Executive Officer & Director, Celanese Corp.

A

So, maybe I should clarify. Dissynergies are not a barrier to consider it. It's just a hurdle that has to be come over, so the deal has to be good enough to be able to carry those dissynergies. So, as I said before, we continuously look at M&A both bolt-ons, like the Elotex deal which we just closed, as well as transformative M&A. If and when it happens, if it's a good deal, we'll do it, but we're trying to position our strategy so that M&A is an option for us, not a necessity.

Scott Richardson
Chief Financial Officer & Senior Vice President, Celanese Corp.
A

Yeah. Jim, I mean, we've been very consistent on this over time. I mean, we are focused on creating shareholder value. And so, we look at ways in which to do that and that's both bolt-on as well as transformative, and those deals – and the things we look at there are really never off the table.

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Thank you. And on nylon pricing, the prices peaked in the first quarter of 2019. So, do you think that supply/demand has balanced out here and that the first quarter of 2020 that these headwinds will be behind us, or do you see more downside risk in the nylon dynamics into the second quarter?

Lori J. Ryerkerk
President, Chief Executive Officer & Director, Celanese Corp.
A

Look, I think our current view on nylon is it seems to be more balanced. We think we're through much of the destocking. There's still some inventory out there, but generally, we would see it more balanced going into the year.

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Thank you.

Chuck Kyrish
Vice President, Treasurer & Investor Relations, Celanese Corp.
A

Donna, let's make the next question our last one, please.

Operator: Certainly. Our next question is coming from Matthew Blair of Tudor, Pickering, Holt. Please go ahead.

Matthew Blair
Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.
Q

Great. Thank you. I had two questions on just cash flows here. So, you've provided free cash flow guidance of $900 million. Could you just talk about the split you're thinking about for 2020 between buybacks and M&A?

And then the second question, your debt levels moved up a little bit in 2019, you're still within your leverage targets, but how should we think about debt in 2020, would you look to repay any or perhaps take out some more? Thanks.

Scott Richardson
Chief Financial Officer & Senior Vice President, Celanese Corp.
A

Yeah. Thanks for the question, Matthew. I mean, look, at the end of the day, we are always very consistent in how we look at cash deployment. Our first choice of cash deployment is going to be organic investment back into the company. And given the projects, they're extremely attractive from a return standpoint today, as Lori talked about earlier, that CapEx is moving up over the next several years. And so, we're going to be around $500 million of CapEx because it's just the projects are extremely attractive. And historically, our return profile on that was right around 20%. That's always going to be our first choice.

Then, we look at M&A and making sure we're very disciplined in looking at M&A, we're not overpaying, and that we're acquiring companies that have high degrees of synergies. But those are going to be episodic. And so when we don't have M&A right in front of us, we're going to deploy that cash for share repurchases. So, last year, we did $1 billion of repurchases. This year, given the fact we've already announced one M&A deal, I would see that number probably coming down a little bit. We're targeting at least $500 million this year.

Regarding debt, debt moved up a little bit as we pulled on the revolver. The early part of the year for us is always high cash outflows. So, Q1 is always a high cash outflow quarter for us. So, you see that revolver stay pulled on a little bit higher in the early part of the year and then come down throughout the year over time as we have consistently done it.

Matthew Blair
Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

Q

Very clear. Thank you.

Operator: Thank you. At this time, I'd like to turn the floor back over to Chuck for closing comment.

Chuck Kyrish
Vice President, Treasurer & Investor Relations, Celanese Corp.

Thank you. So, we'd like to thank everybody for listening in today. As usual, we're available after the call for any further questions you might have. Donna, feel free to close out the call at this time.

Operator: Ladies and gentlemen, thank you for your participation. This concludes today's event. You may disconnect your lines at this time, and have a wonderful day.