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Celanese Corp. (CE)

Q4 2024 Earnings Call

CORPORATE PARTICIPANTS

Bill Cunningham
Vice President of Investor Relations, Celanese Corp.

Scott A. Richardson
President, Chief Executive Officer & Director, Celanese Corp.

Chuck B. Kyrish
Chief Financial Officer & Senior Vice President, Celanese Corp.

OTHER PARTICIPANTS

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Frank J. Mitsch
Analyst, Fermium Research LLC

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Michael Sison
Analyst, Wells Fargo Securities LLC

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

James Cannon
Analyst, UBS Securities LLC

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Patrick Cunningham
Analyst, Citigroup Global Markets, Inc.

Aleksey Yefremov
Analyst, KeyBanc Capital Markets, Inc.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

John McNulty
Analyst, BMO Capital Markets Corp.

Laurence Alexander
Analyst, Jefferies LLC

John Roberts
Analyst, Mizuho Securities USA LLC

Salvator Tiano
Analyst, BofA Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Celanese Q4 2024 Earnings Call and Webcast. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce Bill Cunningham, Vice President of Investor Relations. Thank you. You may begin.

Bill Cunningham

Vice President of Investor Relations, Celanese Corp.

Thanks, Daryl. Welcome to the Celanese Corporation fourth quarter 2024 earnings conference call. My name is Bill Cunningham, Vice President of Investor Relations.

With me today on the call are Scott Richardson, President and Chief Executive Officer; and Chuck Kyrish, Chief Financial Officer.

Celanese distributed its fourth quarter earnings release via Business Wire and posted prepared comments and a summary presentation of key 2025 actions on our Investor Relations website yesterday afternoon. 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 on our website. Today's presentation will also include forward-looking statements. Please review the cautionary language regarding forward-looking statements, which can be found at the end of both the press release and the prepared comments.

Form 8-K report containing all of these materials have also been submitted to the SEC. Before we open it up for questions, I'd like to turn the call over to Scott Richardson for some opening remarks.

Scott A. Richardson

President, Chief Executive Officer & Director, Celanese Corp.

Thanks, Bill, and good morning, everyone. I strongly believe Celanese is a company that has cash generation, productivity and cost reduction in its DNA. These core competencies have driven shareholder value over our 20 years as a public company.

We are keenly focused on invigorating and capitalizing on these foundational capabilities in how we lead and drive business every day to improve performance and drive value creation. My first two months as CEO have been about prioritizing and driving action. Decisive steps we've taken to-date include the following: We have executed on over $75 million worth of cost actions that we outlined in our Q3 earnings call. We have reduced our 2025 capital plan to $300 million to $350 million, which is about a $100 million reduction versus our spend last year.

We have added a new leader to the Engineered Materials business in Todd Elliott to bring a fresh perspective and new energy to reducing complexity and driving improved results. We have added Chris Kuehn and Scott Sutton to our Board of Directors to bring additional finance and operational expertise to our boardroom given the prioritization of cash generation, margin expansion, productivity and deleveraging.

And we have added a finance and business review committee to the Board of Directors, which Scott Sutton and I will jointly chair. This committee will help evaluate all options to improve the company's operating model performance, drive cash generation and review our portfolio.

We are taking the right steps to accelerate shareholder value creation and restore our performance at top decile levels in the industry. We are moving forward with intensity and aggressiveness, and are not hesitating to make bold changes to generate cash and deleverage the balance sheet.

We know the journey in front of us is not an easy one, but we are energized by the opportunity ahead. We will share wins no matter the size as we progress in the coming months, and I look forward to reporting on our progress as we advance our plans to improve performance and drive value creation.

Thank you. And now, Daryl, let's open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] One moment please for the first question.

Our first questions come from the line of David Begleiter with Deutsche Bank. Please proceed with your question.

David Begleiter Q
Analyst, Deutsche Bank Securities, Inc.

Thank you. Good morning. Scott, you mentioned some divestitures in the prepared comments. Could we get some sense of potentially the size of these divestitures and when they might occur?

Scott A. Richardson A
President, Chief Executive Officer & Director, Celanese Corp.

Yeah. Thanks, David. Look, we've been working aggressively on divestitures for some time now. And, we did a transaction a few years ago with the food ingredients business. And I would look at – most of what we're looking at is kind of around that size, some smaller, some maybe slightly, a little bit bigger than that. But that's kind of the right range to look at kind of the opportunities that we have.

David Begleiter Q
Analyst, Deutsche Bank Securities, Inc.

And one more thing. I know equity raise is not your first choice, but given this – what the balance sheet is today, what are your thoughts on potentially raising equity at some point to help de-lever the balance sheet?

Scott A. Richardson A
President, Chief Executive Officer & Director, Celanese Corp.

Look, our capital structure is to fund our acquisitions with that. In addition, we're unlocking cash from actions we've taken on the dividend, reduction in CapEx, reducing working capital. And we're aggressively working divestitures, as I just talked about. Look, equity is extremely dilutive and we don't believe that's a step that's necessary given the strength of the debt market.

Chuck B. Kyrish
Chief Financial Officer & Senior Vice President, Celanese Corp.

A

Yeah, David. Hey. I can add to that. Look, as Scott mentioned, we're taking numerous actions to reduce leverage. But what you're also going to see us continue to do in the meantime is be proactive in reducing the risk in our debt maturities. We have a plan and we're prepared to access the debt markets quickly and opportunistically. And the credit markets are very strong right now. The principles around that are going to be to extend a portion of our more near-term maturities. Aligning what remains with our cash generation. And we'll make sure and do that at a prudent and reasonable cost.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you very much.

Operator: Thank you. Our next questions come from the line of Frank Mitsch with Fermium Research. Please proceed with your questions.

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

Hey. Good morning. I want to dive into your outlook for the first half of the year. As you talked about the second quarter, you indicated that it wouldn't have the $100 million of non-repeating items that are impacting the first quarter. And yet, if I look at the dollar increase expected versus the first quarter, that only implies like $20 million or so of improvement from volumes and SG&A, et cetera, which frankly, looking at 2Q versus 1Q, that really doesn't seem like that much. Can you help explain some of the thinking there?

Scott A. Richardson
President, Chief Executive Officer & Director, Celanese Corp.

A

Yeah. Thanks, Frank. Look, we're getting some of that here at the end of the first quarter in that number, not a lot, but a little bit. And so that's that incremental in the second quarter is about that range you talked about. There's – most of – we'll be on the run rate in the second quarter, certainly, to get to the full kind of $80 million that we called out. And we're continuing to work additional actions. So, look, it's really important that we look at what we see right in front of us and be transparent with that.

We're working a number of other actions to list not just the back half of the year, but also work. If we can get more in Q1, we're going to do it and we're going to do everything we can to make that Q2 number bigger than that dollar you called out.

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

Got you. Thank you. And then the other thing in the prepared remarks was a comment that free cash flow for 2025 is expected to be higher than 2024. And I'm curious if you can kind of go through, kind of order of magnitude that The Street should be thinking about and how do you get there?

Chuck B. Kyrish
Chief Financial Officer & Senior Vice President, Celanese Corp.

A

Well, Frank, we haven't given the guide for earnings at this point in time for the year. But what I wanted to lay out are components in free cash flow below the EBITDA line that we do expect to improve significantly year-over-year, right? So, working capital was a use of cash last year, expected to be a source of cash. Cash tax would be significantly lower.

We've lowered CapEx, roughly $100 million, right? So those – before giving a guide for earnings as we're kind of working through several things, I just wanted to lay out areas in free cash flow that will improve year-over-year below EBITDA.

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

Thank you.

Operator: Thank you. Our next questions come from the line of Jeff Zekauskas with JPMorgan. Please proceed with your questions.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Thanks very much. Scott Sutton has been brought in to the Board of Celanese. I was wondering, Scott, if you played a role in bringing him in or what role you played in Scott coming to the Board.

Scott A. Richardson
President, Chief Executive Officer & Director, Celanese Corp.

A

Look, Scott and I have known each other for a long time and I'm thrilled that Scott has agreed to join the Board. I think, we have been on a path as a Board that's been very deliberate in how we refresh the Board with capabilities that are going to help us navigate the landscape that we're in. And Scott is the latest add in that. And, he brings unique capabilities and has a track record of accelerating cash generation, deleveraging, value creation. And I'm really excited that he's going to help us in this journey.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Okay. Second question is, in your prepared remarks, what you said was that over time, you reduced costs associated with the M&M acquisition by about $250 million. And then later in the script, what you say is that there's been competitive dynamics in your largest product lines, like nylon, which offset year-over-year improvements made to the cost position, as well as lower raw materials and manufacturing footprint cost reduction.

So, when you look at the M&M business from the time that you acquired it, like where do we stand now? Is the EBITDA really no different because price degradation has offset all of the cost improvements or can you give us like a – where did we start and where are we now with the M&M acquisition?

Scott A. Richardson
President, Chief Executive Officer & Director, Celanese Corp.

A

Yeah. We're – we have increased the EBITDA from M&M. When you look at the synergies versus where it was when we closed the transaction, Jeff, and we have seen margin degradation in some product lines within the M&M portfolio. We've also seen some margin degradation in some of the product lines in the historical Celanese portfolio.

We've also seen several product lines that have expanded margins. this is a critical area of focus for us this year. We're reversing this margin compression that we've seen, broadly across the standard part of the EM portfolio. It is a critical action for us that we need to deliver on to kind of lift the second half of the year.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Great. Thanks so much.

Operator: Thank you. Our next questions come from the line of Michael Sison with Wells Fargo. Please proceed with your questions.

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

Hey, guys. Good morning. Maybe a follow-up on M&M. Could you maybe just give us your thoughts on, is this a good business for Celanese longer term? I mean, what do you think the potential is here and how do you sort of get it there? And, I suspect there's some macro help that you'll need there. But just, what is the potential for M&M now going forward?

Scott A. Richardson
President, Chief Executive Officer & Director, Celanese Corp.

A

Yeah. Thanks, Mike. I mean, we've seen some challenges, but we've also seen some strength in several of the businesses. I mean, our high-temp nylon portfolio that we acquired with the business has been a nice source of growth for us in electric vehicle applications, with things like superior thermal shock characteristics in certain application areas.

We have also seen kind of the elastomeric products that we acquired have been – have given us kind of a new growth platform in athletic apparel and footwear that we didn't have before. So there are, really nice pockets of opportunity for us. And we've got to go really aggressively work that from a project pipeline standpoint.

And then, there are good parts of the nylon portfolio as well. And so, we've got to keep kind of keeping this machine moving from a pipeline standpoint. And we've also got to make sure that we, aggressively work the cost side of the equation, just given where the fundamental macro is at.

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

Got it. And then, most folks haven't given an outlook for the full year 2025. I understand that. But, should EBITDA be better in the second half versus the first half? And maybe if you don't have specifics, what should be better or could be better than the second half in terms of the walk for a better EBITDA? And then can you just give us your general thoughts on what the economic backdrop we should think about in 2025 for Celanese?

Scott A. Richardson
President, Chief Executive Officer & Director, Celanese Corp.

A

Our focus is on moving with urgency, Mike, to take decisive actions to be able to drive wins. The actions that we're taking, we believe, will be unique for us to drive value in the out quarters here. We talked about the complexity reduction $50 million to $100 million of opportunity in EM. We need to make sure that we're fully leveraging the Acetyl optionality model, which was challenging in the second half of last year.

Historically, we've been able to drive good value by flexing up and down the value chain there. And the third is getting back to this point I just talked about on reversing margin compression in both the standard parts of the Engineered Materials portfolio, but also in the Acetyls business.

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

Thank you.

Operator: Thank you. Our next questions come from the line of Ghansham Panjabi with Baird. Please proceed with your questions.

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Q

Thank you. Good morning, guys. Scott, first off, congrats on your new role and, best wishes with everything. I guess, going back to the EM segment and the new leadership there, just curious as to how we should expect strategy to sort of evolve versus what you have been doing. And then relatedly, can you just comment on your view in terms of channel inventory levels downstream to that segment, the customer level, et cetera?

Scott A. Richardson
President, Chief Executive Officer & Director, Celanese Corp.

A

Yeah. Look, Todd Elliot already is bringing intensity and focus around everything that we do, looking at cost and opportunities, whether it be footprint, warehousing, distribution, cost, G&A, et cetera. But also on the customer side, as you talked about and it really is about looking at the pockets of opportunity that are out there and accelerating in some of those higher growth segments like medical, like electric vehicles in China, future connectivity.

And so, really getting to that customer segment level, defending the base is going to be important. But then also accelerating growth and driving, project wins no matter the size.

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Q

Got it. And then, obviously, Scott, we've been in a two-year global manufacturing slump. You've been pulling levers on the cost side and working capital as best you can. But what are some of the other contingencies you have at your disposal in that scenario that, the current paradigm continues for another year or longer in context of your debt load? Thanks.

Scott A. Richardson
President, Chief Executive Officer & Director, Celanese Corp.

A

Look, I believe there's always more that can be done, Ghansham. And, I think, we've shown that with cost, given where, the demand landscape is at. We are looking at really all elements of the business. And I just kind of highlighted on the Engineered Materials side of things with those action steps that we're taking to reduce complexity. We have some of the similar things on the Acetyl side of the house as well. And so, it's really about kind of taking a no-stone-unturned approach to everything that we're doing. And also, then looking at really almost every single customer interaction on how we can drive incremental opportunities and then also make sure we're really extracting full value on the margin side.

Ghansham Panjabi
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. Thank you.

Operator: Thank you. Our next questions come from the line of Josh Spector with UBS. Please proceed with your questions.

James Cannon
Analyst, UBS Securities LLC

Q

Hey, guys. This is James Cannon on for Josh. Thanks for taking my question. I just wanted to ask on the earnings power of the Acetyl business. I think previously, you said 2024 was a typical run rate for the near term. I think – if I think about the contract resets, that would be an incremental all-in $40 million, $50 million headwind this year. Is that the right ballpark or is there something to offset that gets us back to the 1.1?

Scott A. Richardson
President, Chief Executive Officer & Director, Celanese Corp.

A

Look, I'll echo what I just said, James. There's always opportunity for us to drive margins. And, we had some contract resets. The team is working really hard to offset those. That's been hard in Asia with where the supply/demand landscape is at. But we're looking for ways in which to kind of leverage our optionality model there and flex up and down the value chain to be able to offset that and get back to those levels that we were at in the first half of last year.

Operator: Thank you. Our next questions come from the line of Vincent Andrews with Morgan Stanley. Please proceed with your questions.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Thank you. Has anything changed, Scott, about the scope of assets that you might consider divesting? And I just asked that because you mentioned in the prior answer that the size would probably be similar to the divestiture that was done – the food ingredients. And my recollection was that in the past, more recently, we've been talking about maybe multiple smaller divestitures rather than the opportunity to sell a few things or one thing at a larger cost. Or are you looking wider, deeper or anything changed in terms of what you're willing to divest?

Scott A. Richardson
President, Chief Executive Officer & Director, Celanese Corp.

A

Yeah. We're looking at everything that has – that's not critical to kind of our core operating model, Vincent. And that's really, this engineered thermoplastic elastomers portfolio in the Engineered Materials business and our optionality model that starts with methanol and acetic acid and goes all the way through redispersible powders.

And if it's not in those operating models, we're taking a look at it, but it needs to facilitate de-leveraging. And so, that size I talked about was kind of in that range, but I also said plus/minus.

So, there is a series of smaller ones that we get to that when added up, we're in that range. And then there's some opportunities that are a little larger.

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

Okay. And then in the prepared remarks, you talked about the dissolution of the JV with Teijin on the Mylar. Is there anything else about your asset footprint that you're looking at? Maybe areas where you're not as advantaged or places where it might make sense to take capacity out of the market.

Scott A. Richardson
President, Chief Executive Officer & Director, Celanese Corp.
A

We believe in having an efficient footprint, Vincent, and ensuring that we fully leverage the strong technical capabilities that we have in-house here at Celanese. And I think, we have a long-term history of reducing our footprint, but yet adding capacity at our advantaged sites. And that principle, that core principle of manufacturing is what we're leveraging to these M&M assets as well.

By doing that, you get much greater leverage on fixed cost. And so, we're consistently looking at opportunities to do that. We've taken action, we've reduced our footprint by eight sites since we did the acquisition and we're continuing to look for opportunities to be as efficient as possible.

Operator: Thank you. Our next questions come from the line of Arun Viswanathan with RBC Capital Markets. Please proceed with your questions.

Arun Viswanathan
Analyst, RBC Capital Markets LLC
Q

Great. Thanks for taking my question. Hope you guys are well, and congrats on the new roles there. So, I guess, two questions. So, first off, I know that you've taken actions on eight sites there and evaluating some more options as well and divesting of other assets. But is it also the case that there has been some structural weakness in the auto market and you guys are potentially overexposed to underperforming regions such as Europe? Do you think – because we've seen this inventory overhang now for two or three quarters and then I think you guys have taken decisive action in Q3 and Q4 as well, but it doesn't seem like that's been enough to really clear out the inventory?

So, do you think the actions in Q1 will result in that inventory reduction or will they linger beyond into Q2 and Q3?

Scott A. Richardson
President, Chief Executive Officer & Director, Celanese Corp.
A

The value chain has too much inventory. We talked about that on our last earnings call. And we are – we're working to match our inventory levels with where the fundamental demand is at. Demand has held pretty stable here in the first quarter, but the value chain is rebalancing the inventory footprint and that's our channel partners. It's the tiers, the molders, and the end customers. And so, the line of sight that we have today based upon our outlook is that we would see that come to a close here in the first quarter.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Okay, that's great. And then if I can follow-up just on the guidance, it looks like the Q1 guidance again is in, the $400 million or so EBITDA range, maybe slightly below that. Do you expect that to kind of lift up through the year, maybe into the $1.5 billion to $2 billion range on an annualized basis? And again, that would be, more second half weighted. Is it mostly those cost and productivity actions that would get you there or does it require some recovery and volume growth as well? Thanks.

Scott A. Richardson
President, Chief Executive Officer & Director, Celanese Corp.

A

Look, our focus is on the decisive actions that we're taking right now. We can't control what happens in the macro, but we can focus on where we spend money, how we drive a level of efficiency, how we interact and access our customers to drive opportunities. And one of the things we called out is, a focus on smaller projects in Engineered Materials.

One of the great things about smaller projects is they tend to be able to be commercialized in 6 to 12 months. And so, it is – it's very important that we continue to work that with a level of aggressiveness, to be able to improve kind of that outlook in the second half.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Thanks.

Operator: Thank you. Our next questions come from the line of Patrick Cunningham with Citi. Please proceed with your questions.

Patrick Cunningham
Analyst, Citigroup Global Markets, Inc.

Q

Hi. Good morning. Thanks for taking my questions. So some estimates we see on acetic capacity, upwards of 3 million tons in 2025, maybe a little less on the VAM side, but still meaningful capacity in the next few years. Now, what gives you confidence that there will not be, significant incremental impact from near-term capacity? And what does this capacity mean for the utilization rates of your own network?

Chuck B. Kyrish
Chief Financial Officer & Senior Vice President, Celanese Corp.

A

We don't see a big change coming in the supply demand landscape, Patrick. And, where things are today is the Acetyl industry is operating below the cost curve and that's not sustainable. It's not been historically sustainable. And we haven't seen things degrade further, even though we've seen new capacity come into the marketplace from a margin perspective. And so, we continue to look at where are those pockets of opportunity up and down the value chain in Acetyls where we can hit it.

And the team was successful last year, growing, for example, our redispersible powders business, largely outside of China in other parts of Asia, like India and Southeast Asia, where there was a strong pull and growth for some unique applications such as composite insulation systems, large tile adhesives. And so, it's things like that that are going to be critical where we're partnering with our customers to get the full pull-through of that value chain, where we have unique technology.

Patrick Cunningham
Analyst, Citigroup Global Markets, Inc.

Q

Got it. Understood. And how should we think about incremental benefits from Clear Lake into 2025? I mean, are volumes any sort of offset to contract resets here? Or is there any reason why run rate utilization should get worse than where you exit the year, whether it's raw material availability or depressed demand levels? Just trying to understand the US operating footprint here.

Scott A. Richardson
President, Chief Executive Officer & Director, Celanese Corp.

A

Look, we're seeing the full run rate of the expansion as we exit 2024. And we've seen some – obviously, some slight offset from some of those contract resets, which is why we're working other opportunities to offset that. We've got some natural gas headwind in the US to start the year that has seen higher cost, but we do expect that that will wane and come off as the weather improves and we move into the second quarter.

Patrick Cunningham
Analyst, Citigroup Global Markets, Inc.

Q

Okay. Thank you.

Operator: Thank you. Our next questions come from the line of Aleksey Yefremov with KeyBanc Capital Markets. Please proceed with your questions.

Aleksey Yefremov
Analyst, KeyBanc Capital Markets, Inc.

Q

Thanks. Good morning, everyone. So, it sounds like you're deliberately reducing inventory in EM in Q1. Is it possible to size it in terms of the EBITDA so that we can understand how much could potentially come back in the second quarter from this deliberate action?

Scott A. Richardson
President, Chief Executive Officer & Director, Celanese Corp.

A

It's really not that substantial, Aleksey. I wouldn't say it's kind of material like we saw in the fourth quarter.

Aleksey Yefremov
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. And as follow-up on EM as well. It looks like pricing came down maybe low-single digit for the segment in Q4. What do you expect from price in Q1 and potentially Q2? Another step down or stabilization?

Scott A. Richardson
President, Chief Executive Officer & Director, Celanese Corp.

A

What we are seeing right now is stabilization for the most part. we're having to be competitive in certain standard grade applications, but the team is also working tenaciously on offsets. I mean, this has been a headwind. But again, in the standard grade applications, where margins are at for the industry are really at unsustainable level. And so, we are working on opportunities to be able to turn that tide. The best way to do that is improving mix and that's where the criticality of working the pipeline and continuing to be successful in some of these more unique higher growth, higher margin segments.

Aleksey Yefremov
Analyst, KeyBanc Capital Markets, Inc.
Q

Thanks, Scott.

Operator: Thank you. Our next questions come from the line of Kevin McCarthy with Vertical Research Partners. Please proceed with your questions.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC
Q

Yes, thank you and good morning. Scott, are you essentially running Celanese today to maximize cash flow as opposed to maximizing earnings or is that not the case? And you're really trying to strike a balance between the two?

Scott A. Richardson
President, Chief Executive Officer & Director, Celanese Corp.
A

Look, cash is the priority, Kevin. given where our debt is at, we are looking to do everything that we can to unlock cash. And I think some of the actions that we have taken, whether it be the dividend, the reduction of capital, the reduction in working capital, and a tenacious focus there, as well as aggressively working on the divestiture side, it is a focus on cash first.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC
Q

Okay. And then if I may, want to follow-up on Acetyls. I think you idled some capacity temporarily in Singapore and Frankfurt, as you discussed in the prepared remarks last night. Do you do that because they go temporarily cash negative or perhaps for a different reason? And wondering if you could talk about your specific operating rate at Clear Lake in the fourth quarter and how you expect that to trend in the first quarter?

Scott A. Richardson
President, Chief Executive Officer & Director, Celanese Corp.
A

The Acetyl team wakes up every day, Kevin, and looks at the landscape that it's in and it pivots and it pivots up and down the chain. It pivots geographically where itself and then we match operating rates to the needs to maximize margin and EBITDA across the landscape and to meet our customers' needs. And that's – that is the model that that team will continue to operate on and we'll continue to focus on striking that right balance between volume and margin.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC
Q

Thank you.

Operator: Thank you. Our next questions come from the line of Hassan Ahmed with Alembic Global. Please proceed with your questions.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC
Q

Morning, Scott. First of all, congratulations on the new role and also congratulations on bringing Scott Sutton on board. Big fan. First question on the guidance. You guys talked about $0.25 to $0.50 in Q1 EPS and $ 1.25 to $1.50 as demand recovers in Q2. Now, I mean, if there is no change in the macro in the back half of the year, should we consider $1.25 to $1.50 as the run rate?

Scott A. Richardson
President, Chief Executive Officer & Director, Celanese Corp.

A

We're doing everything that we can to drive our run rate much higher than that, Hassan. And it's the actions that we talked about and, our focus on not giving a guide in the second half is because we have multiple actions that are underway. I mean, I talked about the complexity reduction in Engineered Materials, driving our acetyl optionality model to a level that was – that performed better than we saw at the end of last year. And then this margin compression component, in addition to everything else that we're doing broadly across the cost side in SG&A and the manufacturing footprint.

So, we believe that there are decisive opportunities and actions that we can take here at Celanese to lift the run rate performance, even if we don't see a change in the macro.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Understood. And in the presentation, one of the things that you guys talked about was – well, I guess, you gave six reasons to own Celanese shares today. And one of them was the strong earnings leverage, as obviously demand recovers. So, my question to you is, as you take a look at the geographic footprint you guys have, as well as the end markets you guys are exposed to, is the leverage the same today as it was in prior years, particularly, as you look at the sort of changing sort of dynamics globally with tariffs out there, with your exposure to EVs? And you guys yourself flagged, the higher exposure to EVs that China today has and how that today is a lower margin business than it was historically.

Scott A. Richardson
President, Chief Executive Officer & Director, Celanese Corp.

A

We have a core principle that we believe in having a very efficient manufacturing footprint. When we acquired the M&M business, their footprint was not as efficient as what we had historically here at Celanese. As a combined organization, we are looking at what is the right efficiency profile that we need and we're overlaying what we believe and where things are at from a demand perspective geographically.

And it's that matching that's really critically important. And, as a corporation, we are pretty evenly split between Americas, Europe and Asia in terms of where our revenue comes from. But Asia is growing and Europe is declining. And so, it's going to be very critical that we continue to drive that intersection point to a level that allows us to enjoy kind of that operating leverage that we historically have.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Very helpful.

Operator: Thank you. Our next questions come from the line of John McNulty with BMO Capital Markets. Please proceed with your questions.

John McNulty
Analyst, BMO Capital Markets Corp.
Q

Yeah, good morning. Thanks for taking my question. So, Scott, when you think about the acetyl capacity that's coming on in Asia, have you seen any offsets where you're seeing closures, assets coming down permanently? It looks like there's a significant amount of more capacity still to come. So just wondering how that gets placed and – or if it's just going to have to be where we wait for demand to absorb at all?

Scott A. Richardson
President, Chief Executive Officer & Director, Celanese Corp.
A

We haven't seen, I'd say, permanent capacity reductions. We definitely have seen the industry operating at lower rates. And, I think, what's a little bit different about this cycle on capacity adds versus what we saw 15 years ago, 15 years ago, with all – almost all new players in the marketplace. This is about 50/50, existing players adding capacity and some new players. And so obviously, for those with existing capacity, they're kind of flexing their networks up and down based upon what they need. So, we have definitely seen probably a little bit more kind of [ph] down to match (00:35:28) where demand is at.

John McNulty
Analyst, BMO Capital Markets Corp.
Q

Okay. Fair enough. And then I guess, do you see there being any risk that that capacity makes its way more meaningfully into other markets? Or does it really kind of stay in the markets that it's been over the last, whatever the last few years?

Scott A. Richardson
President, Chief Executive Officer & Director, Celanese Corp.
A

That arbitrage window is not open. And it's kind of stayed right at or below kind of what it cost to move product. And look, shipping is expensive and complex and storage is complex as well right now in other markets. And so, just given transit times, et cetera, we have not seen a lot of that material move out of the region.

John McNulty
Analyst, BMO Capital Markets Corp.
Q

Got it. Thanks very much for the color.

Operator: Thank you. Our next questions come from the line of Laurence Alexander with Jefferies. Please proceed with your questions.

Laurence Alexander
Analyst, Jefferies LLC
Q

Good morning. So, first on the divestitures, are these assets that you've decided you just don't fit in the portfolio and you will exit even if things get better or as things get better, would you keep them and focus on deleveraging through other means? And secondly, with acetyls, can you elaborate a little bit on kind of the execution issues in the back half of last year? And to the extent that they've been changed or fixed, should we see the improvements this summer regardless of the environment, or do you need a better level of aggregate demand in order to also fix the execution issues that you've identified?

Scott A. Richardson
President, Chief Executive Officer & Director, Celanese Corp.

A

Yeah. Let me hit your second question first. I wouldn't call them necessarily execution issues. I think, it was just a length in supply demand really driven by kind of where demand declined at the end of the year. And look, the team's doing everything we can to really flex that model up and down the value chain and look for pockets of opportunity.

On your first question around divestitures, look, I think, we have identified pieces that are not critical to kind of those core operating models. And we're looking at and having a lot of conversations. I mean, it has been a tough M&A market the last several years. And we are very principled, and I've heard from a lot of investors that are concerned about, us fire-selling assets. We're not in the business of fire-selling assets. Our focus is on divestitures to drive deleveraging. And it's going to be important that we continue to stick with that principle and be aggressive about doing deals as they present themselves to us.

Laurence Alexander
Analyst, Jefferies LLC

Q

Thank you.

Operator: Thank you. Our next questions come from the line of John Roberts with Mizuho. Please proceed with your questions. John, could you check if you're muted, please?

Scott A. Richardson
President, Chief Executive Officer & Director, Celanese Corp.

A

Okay, Daryl. Seems like John might be muted. Let's go ahead and take the next question.

John Roberts
Analyst, Mizuho Securities USA LLC

Q

Can you hear me now?

Bill Cunningham
Vice President of Investor Relations, Celanese Corp.

A

We can hear you now, John.

Scott A. Richardson
President, Chief Executive Officer & Director, Celanese Corp.

A

Yeah. Oh, sorry.

John Roberts
Analyst, Mizuho Securities USA LLC

Q

Sorry. Yeah. Congrats, Scott, and welcome to [ph] both (00:38:50) Todd and Scott Sutton. Could you talk about the new JV rules in China? We have other companies with China JVs and I don't recall hearing anything about this. It's all JVs in China or something specific to the Celanese China JVs?

Scott A. Richardson
President, Chief Executive Officer & Director, Celanese Corp.

A

Yeah. I – look, I think some JVs have gone through some of this and some haven't. It's really related to the rules that govern certain JVs. And really, what changed here is that there's a rule that requires an audit to be completed before dividends can be paid. And so that audit gets completed here in the first part of the year. And so, we should see dividends starting in Q2. So that's a rule change that at least our JVs are now subject to.

Okay. With that – thanks. Let's make the next question the last one.

Operator: Thank you. You got it. Our last questions will come from the line of Salvator Tiano with Bank of America. Please proceed with your questions.

Salvator Tiano
Analyst, BofA Securities, Inc.

Q

Yes. Thank you. So firstly, I want to ask a little bit about, as you're thinking here about – thinking a little bit about the pockets of cost savings, I know, you mentioned also the $50 million – sorry, the $50 million to $100 million from complexity and $80 million is SG&A. But I think last quarter, you were talking about some of them and then cost synergies not being realized in 2024 and that's being pushed to 2025. And Clear Lake, obviously, the $100 million also not fully realized last year in part due to the force majeure.

So, are these part of these buckets you already gave or is there upside from this, especially on the Clear Lake side?

Scott A. Richardson
President, Chief Executive Officer & Director, Celanese Corp.

A

Look, we achieved $250 million of synergies as we exited last year, Sal. And, we still have more that are in our plan to be realized here this year. Clear Lake, we're on the run rate as we talked about. There's been some offsets from margin compression. And that's why I really talked about that is a critical element of focus for us on really reversing that trend as we go forward. So, we get the full value of these actions that have already been executed on.

We are looking at driving productivity every single day, looking at every dollar that goes outside of the company and where we can save and where we can prioritize. And this is a focus on cash. And so that tenacity will continue. Everything is on the table.

Salvator Tiano
Analyst, BofA Securities, Inc.

Q

Perfect. And I want to go back to your old exposure to [indiscernible] (00:41:45) the number of questions. I'm just wondering, how are things different in China versus Europe and the US when it comes to the OEMs? And a big tailwind for Celanese and others have been obviously light weighting, replacing metal, hood and other components with plastic. Is there a bigger or smaller opportunity right now in Chinese autos versus what you had in the Western Hemisphere over the past couple of decades?

Scott A. Richardson
President, Chief Executive Officer & Director, Celanese Corp.

A

Look, there's still a huge opportunity for us in China, and it's why we're continuing to put a heavy focus there. I think, one of the things that's really important is that the technical requirements of electric vehicles, particularly from a powertrain standpoint, are becoming a lot more demanding.

And there's also a lot of other applications where China is moving up this technical requirement curve. This requires materials with higher performance requirements. And we have, really, we believe the best portfolio to match that.

And, where our [ph] KPVs (00:42:49) sit in China, we're about half of where we are in the Western Hemisphere, and that's moved up substantially the last several years. But it is critical that we maintain that focus. Just really since the beginning of the year, we've had two sizable technical exchanges with two of the top five Chinese OEMs as a way to accelerate and drive business.

Great thing about China Auto is that commercialization time tends to be much shorter, kind of more like 6 to 12 months as opposed to 24 months in the Western Hemisphere.

Salvator Tiano
Analyst, BofA Securities, Inc.

Q

Perfect. Thank you very much.

Bill Cunningham
Vice President of Investor Relations, Celanese Corp.

And thank you. Thank you, everyone. We'd like to thank everyone for listening today. As always, we're available after the call for any follow-up questions.

Daryl, please go ahead and close up the call.

Operator: Thank you. This does conclude today's teleconference. We appreciate your participation. You may disconnect your lines at this time. Enjoy the rest of your day.