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Celanese Corp. (CE)

Q3 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to Celanese Corporation Third Quarter 2020 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 your host, Brandon Ayache, Senior Director, Investor Relations. Thank you. You may begin.

Brandon Ayache

Senior Director-Investor Relations, Celanese Corp.

Thank you, Doug. Welcome to the Celanese Corporation third quarter 2020 earnings conference call. My name is Brandon Ayache, Senior Director of Investor Relations. With me today on the call are Lori Ryerkerk, Chairman of the Board and Chief Executive Officer; and Scott Richardson, Chief Financial Officer.

Celanese Corporation distributed its third quarter earnings release via Business Wire and posted

prepared comments about the quarter on our Investor Relations website yesterday afternoon. As a reminder, we will 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 the press release as well as prepared comments. Form 8-K reports containing all of these materials have been also submitted to the SEC. Because we have published our prepared comments yesterday, we'll now open the line directly for your questions.

Doug, please go ahead and open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, at this time, we will be conducting a question-and-answer session. [Operator Instructions] Our first question comes from the line of John Roberts with UBS. Please proceed with your question.

John Roberts
Analyst, UBS Securities LLC

Q

Thank you. I would have thought that a lot of plastics inventory would have been left in the supply chain when the auto plants and other manufacturers shut down earlier in the year. So, I would have thought that Celanese would have lagged the recovery of the customers. But it seems like you've been pretty coincident. Maybe you could comment a little bit on that timing issue.

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

A

Yeah. Thanks for the question, John. I think what is clear to us is we were saying throughout 2019 that we were seeing a lot of destocking in the auto chain. And so we went into 2020 with much lower inventories in our estimation than is typical in the entirety of that chain. And as we went through the first quarter, auto was still running well certainly in the Western Hemisphere.

And so we really have not seen any buildup during the time we were down. And we've seen really steady demand consistent with – or even actually a bit better than you've seen auto builds recover. So, I think what's different this time than maybe in past recessions or past downturns is just the fact that we had gone through a pretty significant period of destocking already in 2019.

John Roberts
Analyst, UBS Securities LLC

Q

And then could you provide a little more granularity in your comment about rising raw materials, and is that causing you to activate your network any differently?

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

A

Yeah. So, the real impact in third quarter from rising raw material was ethylene pricing. So, we really saw ethylene pricing up throughout the entirety of the third quarter really in all regions of the world. I wouldn't say it's had a real difference in terms of our Acetyl Chain, in terms of our activation. We really haven't seen that pass through to our Engineered Materials. It's not been an impact there. Really, we have a long supply chain in EM.

But we did see the impact as you noted from our comment in the third quarter especially in acetyl. It really – we also saw some increases in methanol and CO at the end of the quarter. And some of those increases we weren't able to pass through in pricing in third quarter but would expect to be able to mitigate in fourth quarter.

John Roberts
Analyst, UBS Securities LLC

Q

Thank you.

Operator: Our next question comes from the line of Bob Koort with Goldman Sachs. Please proceed with your question.

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

Thank you. Good morning.

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

A

Good morning.

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

Lori, I think [indiscernible] (00:04:43) not too long ago stopped talking about discrete project in EM. So, I'm just wondering if you could give us some sense of what you might expect as we look into 2021 versus 2020, will it be proof of parity? Could it be better? It's your chance to be actually lower, how do you see those new project applications developing?

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

A

Yeah. So, we really stopped talking a lot about project wins, just recognizing that not all projects are created equal. And just because we had a lot of wins doesn't mean we are necessarily creating more value. But it is something we still track. I would tell you as of third quarter, we were well on target with the number of wins that we expected to have as well as with the margin expectations from those projects.

So as we go into 2021, I actually continue to expect to see the number of project wins going up. We've managed to build a lot in the pipeline, do some really good work by our commercial teams working virtually and using new formats for us like webinars and that sort of thing. And so we're seeing the number of projects actually continue to go up, as well as the value of projects continuing to build pretty significantly.

I mean maybe just a few examples of wins we've had during COVID and more recently. So as a result of one of our webinars – and we recently did one on electric vehicle batteries. We had over 200 customers [audio gap] (00:06:05) attend that series of webinars across the region. And as a result of all the work being done during COVID, we've also had some really good placement. So not just EVs, which are booming, but also we've had a big contract for LCP into one of the leading electronics manufacturers, which goes into smartphones and tablets and headphones.

So our commercial folks are doing a great job continuing to find those areas of growth, continuing to find those areas where our unique technology can really be applied at meaningful margins. And we – it feels very good for us going into 2021 with some of the wins we've had this year and have tee up for next year.

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

And can I ask you, you started doing your share repurchase before the proceeds came in. Was that just a function of expecting the world to heal and so it was a good time to start buying? And do you have a pretty short list of ways Scott can spend that money on M&A next year? Or is it still a – somewhat of a murky environment?

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

A

Yeah. So I think in terms of share repurchases, yes, we did start prior to the actual close because obviously we could see the close within sight. So we wanted to go ahead and get in the market and start those share repurchases and spread them out over a longer period of time. As a result of that, clearly, we're in really good financial shape. We've been quite active looking at M&A.

On the positive side, we've had most of our management team together now since June. So, we've been able to use that to really reset our sights on M&A, do a broader look at M&A targets. I would say we have not a short list but a pretty well-defined list of those things that we're interested in both from a bolt-on standpoint as well from a larger, more transformational M&A standpoint.

We do see the markets starting to get better. People – stock prices are improving. The discussions can get more serious. People are, I guess, feeling better about getting value for their assets. So, the discussions are ongoing. But, as we all know, this takes some time. So, I think, yes, it's probably well into 2021 before we'd be able to action anything.

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

Great. Thanks very much.

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

A

Thanks.

Operator: Our next question comes from the line of Duffy Fischer with Barclays. Please proceed with your question.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Yes. Good morning. First question is just kind of around the level of business today and when we think about that going into 2021. So if the world doesn't get better from here, your Q1 EBITDA was down about 15% year-over-year. This quarter was down about 17%. Does the world feel about the same as it did in Q1 and that we'd be flat at this level of economic activity in Q1 next year to start out? Or how would you gauge that economic level today and what we should use that to model into 2021 for you guys?

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

A

Yeah. Duffy, let me just start. If we look at fourth quarter, we actually see our volumes and pricing being up in fourth quarter on kind of the base materials. But we still do expect that December seasonality. So, in acetyl, maybe seasonality is happening today if we look at snow happening inside of the Western and Northern states. In acetyls, we typically see some drop off in demand for emulsions, and VAM and powders as we see slowdown in the construction industry due to weather.

In Engineered Materials, we typically see not so much of a volume drop but more of a margin mix effect as we see Western Hemisphere companies take time off over the holidays. That volume is usually replaced via pickup in

China and Asia, but usually at slightly lower margins. So, we still expect some seasonality in Q4 but on a growing base, if you will, of increased volume and pricing.

As we look to 2021, look, we have a lot of uncertainty right now with COVID. Our expectation is that 2021, we will continue to see growth and recovery back to 2019 levels sometime in 2021, so continued recovery out of 2020. The reason we provided the guidance we did is we don't know exactly what that looks like. And given all the uncertainties around COVID in the world today, it's kind of hard to call that. So, that's why we called our controllable actions, the things that we know will add $1.25 EPS over today's earnings. So if you took expected earnings for 2020 at $1.25, I'd say that's pretty much the floor of what we'd expect next year.

Maybe to put it in perspective, if you assume Q3 demand levels would persist for all of 2021, that adds kind of another $1 on top of that for volume growth and price growth. So, we are expecting a more positive 2021. But again, just uncertainties around COVID right now, what that might happen as we see going on in Europe and the US, we just haven't really put out a definitive outlook for 2021.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

No. That's very helpful on that dollar comment. And then, could you also line out what losing Polyplastics does as we anniversary that over the next three quarters? And is there anything else discrete like Polyplastics that we should think about taking out of 2021 when we go forward?

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

A

Yeah. I think the discrete things, Polyplastics, call it roughly $10 million a quarter, comes out starting now in the fourth quarter. So that needs to be taking its place. And then I think the really discrete things are what we called out in the earnings, so kind of $0.25 for productivity – net productivity into next year; $0.50 for lower turnaround expense into next year, that is for certain; and then another $0.50 for share repurchases, half of that being for the repurchases we did in 2020, offset by Polyplastics and the other half being for share repurchases we plan to do in 2021.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Great. Thank you, guys.

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

A

Thank you.

Operator: Our next question comes from the line of Jeff Zekauskas with JPMorgan. Please proceed with your question.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Thanks very much. I think, year-to-date, Other Activities in terms of EBITDA is maybe a benefit of about $46 million and at least on an operating EBITDA basis, I think it was about $30 million in the quarter. Can you talk about what's behind those trends, what – whether they're – whether they will continue and whether your pension reevaluation in the fourth quarter will be larger than it was last year?

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

A

Yeah. Jeff, the biggest chunk of the year-over-year Other Activities is that pension income component, which is in the neighborhood of – it's between $25 million and $30 million of benefit year-over-year. So that's the largest benefit.

You have seen a little bit of movement up and down in Other from quarter-to-quarter this year, particularly kind of hitting the low point here in the third quarter, largely driven by timing of some compensation and benefits payments. We'll see a little bit of an uptick, think about Q4 being slightly higher than Q2 was as we finish out the year, and part of it's just timing of when some of this stuff has come through.

So, in the end, as we look forward into next year, we expect a slight uptick in underlying expenses and that will more than likely be offset by the Q4 pension adjustment. I mean, a lot is going to depend upon what happens with markets. We expect interest rates right now to hold relatively low. And if things stay where they are, then we'll have a slight benefit in pension income next year which, as I said, will probably offset by some income – or some expense increases.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Okay. And then in terms of your share repurchase, it sounds like you're going to execute it regardless of the Celanese price. Is that true that it doesn't matter whether it's at $100 million or $120 million, you're going to spend the $500 million you've allocated this year and I guess a similar amount for next year? Is that fair?

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

A

Well, yeah, I think it's fair. I think the $500 million this year that we had – or what we have remaining this year is really to remain accretive on our Polyplastics sale. So that will continue.

And I would say for next year, the $400 million to $500 million we have allocated for next year is really the balance of cash flow following CapEx, following dividend payment. And it's got me want to comment further, but we generally like to remain in the market on a fairly steady basis regardless of the price. And we don't really see that changing as we go into next year.

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

A

Yeah, Jeff, consistency has been exactly how we've operated when it comes to repurchases over the year. We have been opportunistic from time to time. But we like to have kind of a set level that we remain in the market, and that's what we plan to do here in Q4 as well as into next year based on – with those levels that we outlined.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Okay. Great. Thank you so much.

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

Thanks, Jeff.

Operator: Our next question comes from the line of Vincent Andrews with Morgan Stanley. Please proceed with your question.

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

Thank you. On the elective surgery comments in Engineered Materials, I mean, it sounds like this is a deferral not a destruction of demand and it's just a question of when folks are going to get back and can do those procedures. But I just wanted to kind of understand the cadence of the destocking. I might have guessed it would have happened more in 2Q versus 3Q and it obviously caused the big mix disruption.

And so, maybe you can just bridge that with is this just something that once there's a vaccine, those people are going to get back and have their hips or their knees or what have you done? And how far in advance do your customers then need to rebuild the inventory that they're taking out now?

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

Yeah. Great question, Vincent. What we really saw in 2Q were no elective procedures happening. And I think if you read Johnson & Johnson [indiscernible] (00:17:13) that would back that up. I mean, just no elective surgery was happening in 2Q. So, basically, in second quarter, everybody was sitting there with the inventories they had at the sudden shutdown in March of all elective surgeries across the US, which is the primary market it goes into.

And so, we have seen in third quarter that elective surgeries are starting to rehappen. But what we're also hearing from our customers is people are using that inventory they've had sitting on the shelves waiting to see how fast this all comes back before starting to reorder. Look, it's not a long – we carry inventory, so it's not a long supply chain. They know we have it available.

We are starting to see some slight uptick again in fourth quarter, so we fully expect the volume to come back across 2021 and 2022. I think it's not just the hospital being open. But again, these are generally older patients getting this. So it's also people being comfortable, either because there's a vaccine or because they feel the virus is under control that people feel comfortable to go back to the hospital again to have these procedures.

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

And then, if I could just follow up on the comments about manufacturing facilities fully staffed and operating amid improved demand. Maybe more specifically in acetyl, what rates are you operating at in each region? As I recall, there was some – an asset down in Europe and maybe some lower utilizations in Asia. So just maybe checking on where those are would be helpful.

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

Yeah. So I would say for acetyls, I mean all of our facilities are back up and running. We do have a short turnaround in Clear Lake actually that we're in at the moment. We had a short downtime in Singapore. So a number of small maintenance downtimes that were planned into the numbers. But really, everything is up and running. All of our staff is back at full force. I would say certainly, for derivatives, things are pretty much running at 100% to meet the demand and in acid, we're running to meet demand as well.

So we are fully staffed, fully ready to go and actually have seen for the last several months the demand there to pretty much run full. As we pointed out, I mean for acetyls, we are just slightly under 2019 volumes already at this point in time.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Very good. Thank you so much.

Operator: Our next question comes from the line of Mike Sison with Wells Fargo. Please proceed with your question.

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

Hey. Good afternoon. Nice quarter. Lori, when you think about that dollar upside for 2021, does that assume that the Acetyl Chain, sort of the trends you're seeing now pricing at $300 and [indiscernible] (00:20:11) optionality focused downstream, its emulsions, its potters, would stay in that range for that dollar?

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

A

Yeah. So I was really just sorting that out as an example, Mark – Mike, sorry, as the range that we would expect to see. So, third quarter kind of being our best quarter this year. If we saw that continue next year, that would get you the dollar. There are any multiple of the ways to get there. I would say though as we look to 2021, I mean we are seeing an uptick in acetyl prices in China today up closer to kind of the mid-$300 mark up from the $300 per ton we were at in third quarter. So, clearly, that's an upside in acetyl.

As I've said, we're already getting close to 2019 volumes in acetyl. The story there is really when do we see utilization get tight enough we start to see some price recovery, which we think we're starting to see now. Again, some seasonality expected in derivative in December. But we would expect that – that's to come back in January.

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

A

Yeah, Mike. I think just to add, I think what's really important as we think about that is really contribution margin. And so, we may see pricing move up as raw materials move up. So we've seen a lot of our fundamental raws increased here over the last two or three months. And if that were to hold, these prices hold. So, we really look at contribution margins. So, it – you kind of – if the current conditions were to continue, as Lori mentioned, in the third quarter and what we see here in the fourth quarter, that dollar is the level you'd see.

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

Understood. And then I think in your prepared remarks, you talked about $400 million or so to be used for organic growth. Can you maybe talk about some of the areas that you're going to invest in to do – to drive some growth for the next couple years?

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

A

Yeah. So, we're predicting $400 million to $450 million of CapEx for next year. We're still finalizing that number, but I feel comfortable we should be well north of $400 million. It is to support organic growth as well as our run and maintain level of maintenance, which we typically have in there at around $150 million to $175 million. So included in that number is the restart of these two gas expansion at Clear Lake, that happens at the end of 2021.

It seems like the Bishop GUR, we've previously announced some expansion in our VAE and VAM facilities around the globe, so that number is built in there as well. So, a lot of things that you've already heard about but just really seeing them start hitting heavier capital next year.

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

A

Yeah. And our teams are pushing hard on cost reduction capital as well, Mike. And so, we're working to accelerate projects as we talked about earlier this year. And so embedded in that number is a capital needed for some of the productivity gains that we called out in the prepared remarks.

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

Great. Thank you.

Operator: Our next question comes from the line from Hassan Ahmed with Alembic Global. Please proceed with your question.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Good afternoon, Lori. Sorry to bore you, guys, but another question about the 2021 guide. I know you, guys, had said that obviously as the EPS stands right now, Q3 was the strongest quarter. But as I take a look at Q4 guidance, the midpoint, call it, slightly north of $1.50. And then I sort of think about the one-offs, seasonality, as well, some of the turnarounds, you come up with a number recurring which is north of $2, right?

So, I'm just trying to understand or get a better sense of run rate sort of EPS as one thinks about 2021. So, I mean it seems barring those one-offs, one is already north of $2, and then you have $0.25 worth of productivity, another $0.50 worth of buybacks. So, it seems without much improvement from Q4 levels, one could hit maybe $9 in 2021. Is – am I thinking about this the right way?

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

A

Yeah, I think that's right. If you look at where we are, we guided in the year somewhere $7 or slightly above $7. If you add on the $1.25 that is based on controllable actions that we outlined in the comment, that gets you to $8.25 plus maybe a little bit more. And then if you consider some level of recovery again as if it were Q3 for the year, you can quickly then get yourself to $9 or a bit north of $9 next year. Again, our big caveat on that is just seeing the resurgence of COVID and not knowing what that's going to do to market in Q4 and into next year that's why we haven't called out a specific level of recovery.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Of course. Of course. It makes complete sense. And as a follow-up, you pointed out a $5-million sequential hit from Ibn Sina. Now, if I recall correctly, there tends to be a quarter's lag between what oil prices do and the impact of that being felt in your results in Ibn Sina. So is it fair to assume that Ibn Sina could be somewhat of a tailwind come Q4?

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

A

Yeah. So, Ibn Sina is a quarter lag. So, if you look at methanol prices, they were at very low levels in Q2. That's the additional $5-million sequential hit we saw this quarter from Ibn Sina. Now with methanol prices recovering, we would expect to recover that $5 million from Ibn Sina in the fourth quarter.

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

A

But you won't see it flow through, Hassan, on the equity earnings line because it'll be offset by the roughly $10 million or so that comes out from Polyplastics. So if you just look at those two together, down $5 million Q3 to Q4.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Absolutely clear. Thanks so much, guys.

Operator: Our next question comes from the line of PJ Juvekar with Citi. Please proceed with your question.

PJ Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

Yes. Hi. Good afternoon.

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

A

Hi, PJ.

PJ Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

So a question about your BlueRidge cellulosic plastics, I think that's biodegradable plastic for food takeout, et cetera. How big is that market and how much polyethylene or PET can you replace with cellulosics? And how do you price it? Do you charge a premium or, let's say, PE?

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

A

Yeah. So, let me describe it this way. The accessible market for this material could be huge. The reason we went ahead and made the marketing announcement is we're at that point now we need to get material out to customers. We need to give them the chance to try it out. It is a more costly product than PE, that's why this hasn't really been a factor in the market today. But we also know that there are customers out there who are looking for a sustainable, biodegradable solution, who are less sensitive to the price point.

But that's what we really – that's why we made the announcement. We really are in the process of getting material out to customers. We've had a few small purchase agreements made for people who are going through trials. But we need more time, frankly, to find out what the price point is on this and what the demand is really for replacement of more traditional PE products.

PJ Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

Okay. Thank you. And then secondly, as you bring more of your acetyls production in the US, you are more exposed to natural gas prices here. And maybe, Scott, you can comment about that. Are you concerned about rising natural gas prices because of lower-associated gas production? And are you hedging any part of your natural gas purchases? Thank you.

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

A

Yeah. So, look, we don't expect rising natural gas prices to have a really material impact on our business. It does have the potential to slightly compress margins, but this is the value of our global network. The fact that we can choose where to make the acetic acid, where to sell it, we can flex our production levels. We can flex further down into derivatives, which are less raw material sensitive. So, we really are not expecting any material impact from this in the fourth quarter.

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

A

Yeah, PJ, we do take some short-term positions from time to time. But nothing that I would say is long-term in nature, if you will.

PJ Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

Okay. Thank you.

Operator: Our next question comes from the line of Matthew DeYoe with Bank of America Merrill Lynch. Please proceed with your question.

Matthew DeYoe
Analyst, BofA Securities, Inc.

Q

Hi. So, perhaps this isn't the case in EVs. But has COVID slowed the pace of innovation at CE or the customers at all? I would think just given restrictions around staffing in R&D labs, you may just have slowed down the pace and implementation of new business.

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

A

So great question, Matt. I know I would say what – when we first went into COVID, I mean certainly it had an impact as, one, I think people thought this was not a long-term thing. And so things were just put on hold for a short period of time. I would say all of our customers and ourselves included have now adjusted to the new world of COVID and if anything we've seen the pace of innovation pick up. Again, most of our folks are back in office, in facility. So we've been able to do a lot of things for our customers. We also see our customers coming back. And we also see them getting more comfortable with doing more remotely.

So going back to my previous answer on wins, we are still seeing project wins, we are seeing high value project wins. And we feel very excited about the pipeline of wins in Engineered Materials for next year and the innovation that's gone into that. It really was helpful for us that at the end of 2019, we really focused our strategy on what we considered a few emerging trends around 5G, and electric vehicles, and medical and pharma, and sustainable solution. And that focus on that innovation and keeping that pipeline strong through COVID is really helping us now as we move into a recovery and we see those areas continuing to emerge as winning sectors.

Matthew DeYoe
Analyst, BofA Securities, Inc.

Q

Okay. And maybe on the same light. How long is it going to take you to fill out the new GUR capacity and what EBITDA contribution and expansion, what would that look like? I guess most is going to EV batteries too, maybe if you can provide a little bit more color there.

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

A

Yeah. So the expansion that we announced in Bishop, the 15 kt expansion, should be online early 2022. It is really supplying our global network for electric vehicles. And at the current rate of growth in electric vehicles, about 25% a year, quite frankly, that will be sold out the day it starts.

Operator: Our next question comes from the line of David Begleiter with Deutsche Bank. Please proceed with your question.

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

Q

Thank you. Lori, just on 2021, you highlighted a number of tailwinds for next year. Are there any headwinds we should be thinking about for next year from a bridge standpoint?

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

A

No. Not really, David. I mean, for us, the headwind is does something happen to the economy because of a reemergence of COVID. And that's why we haven't called out any specific projections for us in terms of volume and price growth. But no, we intentionally pulled a lot forward into 2020 this year in terms of facility changes, inventory draws, all of those things to take advantage of the low demand environment. So we really don't see any major headwinds going into next year.

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

Q

And just on EV, Lori. Where are your sales today for EV-related content and where can they be, do you think, in three to five years?

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

A

David, I'm – I don't think I have an exact number. I mean, I would say GUR – we had other applications besides EV. EV is certainly the fastest growing of those applications and we expect electric vehicles – the market for electric vehicles of which we are a pretty significant player in the lithium ion battery separators to grow at about 25% per year for the next five years.

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

Yeah. It's a tough question, David, because there's a lot of applications where we have content on a vehicle, but it doesn't matter if it's an ICE vehicle with an EV vehicle. So sometimes it's hard for us to partial that out. If we look at EV-specific applications, it's very low single-digits of the percentage of the EM's revenue today.

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

Thank you very much.

Operator: Our next question comes from the line of Ghansham Panjabi with Robert W. Baird. Please proceed with your question.

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

Yeah. Thank you. Hi. Good afternoon, everybody.

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

Hi, Ghansham.

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

Hi, Ghansham.

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

Hey, Lori, would you be able to give us a sense as to what the volume exit run rates for the Engineered Materials segment was as you cycled into the fourth quarter? What are you sort of baking in for the fourth quarter specifically? And also, I realize this is real-time, but what do you hear from customers given the incremental lockdowns in Europe at this point?

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

Overall for – we expect probably 10% growth. That's though for the company. I'm not sure I really have it specified between EM and AC. But we expect about 10% growth before the impacts of seasonality for volume and price going from third quarter to fourth quarter.

And I would say, what we're hearing from our customers – I mean, just if you look at our order book, that's probably the easiest way to talk about this. If you look at EM, October is showing some modest improvement over Q3, the average of Q3. November is pretty consistent with that. December is – we don't have as much view on that yet, but it's still showing that same kind of level of modest buying growth. But again, we get some margin impact in December. And so far, I would say, we have not really seen any indications of demand obstruction associated with the second wave of COVID either in Europe or in the US.

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

Q

Okay, great. Thank you so much. And then in terms of productivity, I mean, you're calling out, call it, $0.25 in EPS 2021 versus 2020, net of the $35 million at the midpoint of temporary cost savings reversal. This year, I think your productivity number is $200 million plus. Is the 2021 drop on a year-over-year basis a function of just lower CapEx this year and then as you ramp that up, that trend line improves materially in 2022? Or is there something else we're not considering?

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

A

Well, I think you have to look – I mean, look, 2020 was an exceptional year. We had an exceptional headwind. So, we went into this year planning to get about $150 million of gross productivity. We bumped that up, challenged the organization to $200 million, which we will get that this year. We also have another $30 million to $40 million of one-time costs.

So if you look at next year in comparison, we're currently targeting for at least $100 million of productivity on a gross basis. That's actually pretty typical to the level we've achieved over the last few years if you just – if you don't look at 2020. So, we put that target out there of $100 million. I'm quite sure we'll achieve that. It's a little – it looks a little lower when you look at the EPS because you have to offset that with the one-time cost savings we had this year, things like not running our facilities to full and not having travel and those sorts of expenses.

So, we fully expect those costs will come back in 2021 as we see ourselves running closer to full and so that – that discounts that EPS number a little bit. But actually the $100 million gross we have, it's pretty consistent with what we achieved most years. And of course, we'll push for more, but $100 million is what we baked in right now.

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

A

Yeah, Ghansham, we did have the tow plant shut down that occurred at the end of 2019, which was kind of a big item as we started 2020 that's in this year's number. And we don't have an item that large as we go into 2021.

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

Q

Okay. Perfect. Thank you so much, Lori and Scott.

Operator: Our next question comes from the line of Kevin McCarthy with Vertical Research Partners. Please proceed with your question.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Yes. Good afternoon. Now that you've closed the Polyplastics transaction, what is your estimate of the after tax proceeds will be the first part? And then secondly, of the proceeds, I think you mentioned you intend to use $400 million to repurchase shares just in the fourth quarter. And I was wondering as a practical matter if you determined whether to do that via an ASR or open market repurchases.

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

Yes. So for Polyplastics, we expect the after tax proceeds to be something greater than $1.3 billion. We are repurchasing associated with that $500 million to assure that the deal is accretive. We did do a portion of that in third quarter and we'll do the remainder in fourth quarter. Scott, you may want to answer the rest of the question.

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

Yeah. We – our strategy, Kevin, on repurchases has been to do open market, and that's our plan here in the fourth quarter, as well as for the $400 million to $500 million that we outlined for next year as well.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC
Q

Okay. Great. And then, Scott, as a brief follow-up for you, I just had a housekeeping question on free cash flow in the third quarter, like you mentioned in the materials yesterday that it was $351 million. So, apparently a strong number there. Of that amount, you said you used $184 million to return to shareholders. Can you speak to what the balance of the free cash flow was used for? It looked like net debt just declined a little bit.

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

Yeah, we did end up – we built a little bit of cash, Kevin, just mainly for uses, geographic mix of where we needed cash. So, our cash on hand increased by roughly about $100 million from Q2 to Q3.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC
Q

Okay. I'll circle back. Thank you very much.

Operator: Our next question comes from the line of Arun Viswanathan with RBC Capital Markets. Please proceed with your question.

Arun Viswanathan
Analyst, RBC Capital Markets LLC
Q

Thanks for taking my questions. I guess I was just kind of curious if I could ask this a different way. Maybe, if you could help us understand your own volume levels from an exit run rate standpoint in Q3 in both EM and AC on a percentage basis. Are you running maybe about 80% or 85% of normal in certain markets? Or how do you kind of characterize your exit run rates on volume in each segment?

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

So, I would characterize at acetyls, we are just 1% below our 2019 level. So, I would characterize it as we are running pretty full everywhere again. Maybe we don't run every acetic acid plant full every day. That's not how we run it. It's not our strategy. But we – our downstream derivatives, everything is running full.

I mean, in Engineered Materials, we are within 10% of where we were in this quarter in 2019, which is a pretty full quarter. So, with the exception of things that are down for turnaround, are starting to go down for turnaround like the IPH POM, I would say all of facilities are running full.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Okay. Thanks. And then do you have any updates on your footprint optimization plan in AC and then also potentially adding some capacity in EM in China? Thanks.

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

A

Yeah. So, as we said last quarter, for – we'd talked about the acetic acid expansion in Clear Lake and the optimization of our network to do that. We have delayed that expansion 18 months, just in light of lower oil prices and other things that make it attractive to continue to produce in other parts of the world. So that continues. So no – no announced plans of what we're going to do with the rest of our capacity.

And then in EM, we are continuing with a localization project in China. Again, a little bit of a change from where we were, say, half a year ago. And that originally we were looking at developing another site in China in order to continue to expand both our polymerization as well as our compounding and technology capabilities there due to some changes in Nanjing, which is where we have other facilities. We actually had some more land and facilities available to us, and so we've actually redesigned that project, if you will, to take advantage of the efficiency of being able to expand on our existing location.

So those plans are continuing. You'll see more about that coming up. But those plans are continuing on a pace consistent with how we see the demand continuing to grow in China and the Asia region.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Excellent.

Operator: Our next question comes from the line of Alex Yefremov with KeyBanc Capital Markets. Please proceed with your question.

Aleksey Yefremov
Analyst, KeyBanc Capital Markets Inc.

Q

Yes. Thank you. Good afternoon, everyone. You've recently announced a price increase in Engineered Materials of up to 10%. Could you tell us what's your expected realizations maybe over the next couple of quarters? And also, could you discuss what led to this announcement?

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

A

I'm sorry, Aleksey. I didn't hear the last part of your question.

Aleksey Yefremov
Analyst, KeyBanc Capital Markets Inc.

Q

Just could you discuss what led to this announcement? Do you see tightness in any product lines or something like that?

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

A

Yeah. Thanks. So, yes, we just did announce the price increase. I mean, as of all these things, they take a little while to work through. So if you think about it with increasing raw materials, with – so especially ethylene but also increasing raws, [indiscernible] (00:44:15) and all those building block chemicals that go into polymers, we announced the price increase to try to get out in front of that to make sure we didn't have margin compression.

So that's what goes behind the announcement. It takes us – it does take some weeks or months to work through the price increase depending on contracts, depending on everything else. But we do expect to see those price increases flow through as we move into the fourth quarter.

Aleksey Yefremov
Analyst, KeyBanc Capital Markets Inc.

Q

Thank you, Lori. And also on Engineered Materials, your volumes were down 10% year-over-year. And you said in prepared remarks that automotive volumes were down 3% to 4% year-over-year. It also seems like appliances, electronics are doing well. So, is the minus 10% primarily due to medical devices? It just seems a bit tied relative to the weight of medical in your total volumes.

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

A

Yeah. So I would characterize that our volumes were down a little less than 10% year-on-year. If you look at all of our end market from an industry basis, that was – that is still down 10% to 15%. So, we're doing a little bit better, I would say, than the end market. Auto were down just 3%. Again, auto itself was down closer to 3%, but a little bit higher than that, closer to 4%. We were helped there by the fact that we think we're aligned on good platforms like trucks and SUV in the US and Germany, which has proven to be more robust, as well as EV.

Industrial is actually up a little bit year-on-year, which has been a help for us. Electronics is pretty flat, but we are seeing appliances down year-on-year closer to that 10%. And medical, as we said, is down about 15% currently year-on-year. So, just really two sectors, I would say, that have the biggest impact, appliance and medical. But remember, auto is the third, so even 3% down on auto is a fairly big impact for us.

Aleksey Yefremov
Analyst, KeyBanc Capital Markets Inc.

Q

Makes sense. Thank you.

Operator: Our next question comes from the line of Laurence Alexander with Jefferies. Please proceed with your question.

Laurence Alexander
Analyst, Jefferies LLC

Q

Hi. Thanks. Two quick ones. First, on EM, what is the culture around the growth platforms or your growth priorities, i.e., should we expect a reshuffle every three to five years so that 5G might be replaced by a new growth theme? Or is it a organic evolution sort of bottoms up driven by just the project mix?

And secondly, on acetyls, should we expect a zero carbon acetic acid production project in the next five years – to be announced within the next five years? And if so, would it have to be a greenfield or could your retrofit an existing facility?

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

A

Yeah. Great question. I would say on – sorry, let me answer the last question because I've already forgotten your first question because I've got to think about the last one. So for acetyl, what I think in the next five years, I would not expect a zero-carbon technology. I think it's difficult to do. I mean, there are always ways to get to zero-carbon through a purchase of credits, et cetera. I'm not sure yet that's what our customers demand.

That said, we constantly are looking at ways to reduce the carbon footprint of our existing facilities, whether it be through energy efficiency projects, the purchase of solar energy for our projects like we've just done a big contract in Clear Lake, the use of bio-based methanol which have a greener footprint. So we're constantly looking at ways to reduce our carbon footprint. I would just say at this point in time, we're not on track for a zero-carbon plan, again, unless we see a big change in demand from our customers.

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

A

Yeah. And on your first question, Laurence, about the Engineered Materials growth programs, I mean, this is our model. We work this. We're constantly working with our customers and evolving those focus areas and where we have our resources on innovation to be able to adapt to the changing landscape. So, yes, today, it's things like 5G, electric vehicles, sustainable and recyclable polymers.

As we kind of go over the next – and really, it's something we're evaluating really every year is where should our focus be and continuing to adapt. So, yeah, three, four or five years from now, we will be talking probably about some different things.

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

A

I would just add to that though. I think this is a little different than we did say several years ago, which was all bottoms up. We've added this overlay of themes because what we found is by waiting for the customers to come to us, we weren't necessarily getting to the right customer early enough in the development process to be their supplier of choice.

So it has to be both going forward. It has to be bottoms up as well as us looking at the landscape in the future and saying what are the emerging themes and how do we make sure we're there from the beginning, not waiting for someone to come to us.

Laurence Alexander
Analyst, Jefferies LLC

Q

Great. Thank you.

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

A

Thanks.

Operator: Our next question comes from the line of Bhavesh Lodaya with BMO Capital Markets. Please proceed with your question.

Bhavesh Lodaya
Analyst, BMO Capital Markets Corp.

Q

Hi good afternoon, Lori. This Bhavesh for John. So in terms of acetyls, we were a bit surprised to see acetic acid [indiscernible] (00:50:10) pricing being as soft as it was in China. And yet the industry itself seems to be running at pretty low downtime. Are you surprised at the high operating rates we are seeing right now? And then how should we think about the supply side of the equation as we think about next year?

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

A

Yeah. Bhavesh, you may remember we called this out in our earnings call in second quarter which was that we did expect modest volume recovery which we saw a bit better than expected. But we actually expected fairly flat pricing. And the reason was we said we didn't see the fundamentals in the industry to support more pricing. And I think in fact that's what we saw.

So we did see an increase in demand in China, almost at 10% Q-on-Q increase in demand. But we also saw outages fall by a third. So then more supply came onto basically meet that demand. And as a result, utilization in China was pretty flat right at that 70% level. And that's why we didn't think we'd see pricing increase and in fact, why we didn't see the pricing increase.

Now, as we move towards the end of the third quarter and into the fourth quarter, we are seeing raw material prices come up. That's starting to push prices up. Generally, that results in slightly better margins. But I would say, to really see a good strong price recovery, we're going – and margin recovery, we're just going to need to see that utilization especially in China continue to improve.

Bhavesh Lodaya
Analyst, BMO Capital Markets Corp.

Q

Got it. And then, good question on – in terms of how the sales are. So what percentage of the asset of the business is being sold to the derivatives, like emulsions and powders? And how should we think about maintaining that dynamic going forward, because it suddenly seems that that's smoothing out some of the volatility in the business?

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

A

Yeah, absolutely. And that's definitely part of our strategy which is to control as much of the chain as we can so that we always have the choice, not just geographically where to produce and where to sell but also where in the chain to produce and sell. So if you look at our flexibility, we move anywhere from 40% to 60% of our acetic acid into downstream derivatives. And we flex that depending on what's more attractive. And constantly, we try to – we're continuing to build more VAM, more VAE. We brought Elotex. We continue to do things to give us more flexibility of that chain and more ability to move things around.

I mean – and a good example, I think of that is if you look this year – this quarter, sorry, the third quarter, the amount of acid we sold into China was actually 20% less than what we sold in 2019 at the same time. Because of these kind of $300 per ton that wasn't attractive, we moved that volume into derivatives in China, which had better margins, and also into other regions of the world. And you can see that really as well in the total. If you look at kind of the share of acetyl earnings that came from some of the very end of the chain, emulsions and re-disbursables, last year, that was around 15%. This year, that's around 25%. So I think that just shows the flex – this is an example of the flexibility that we have in the model to really move to where the better margins are, whether it be geographically or asset versus derivative.

Bhavesh Lodaya
Analyst, BMO Capital Markets Corp.

Q

Great. Thanks for the time. Thanks.

Operator: Our next question comes from the line of Frank Mitsch with Fermium Research. Please proceed with your question.

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

Thank you, good afternoon and congrats, Brandon on your new role. If I could just follow up on that acetic acid question in China. I just saw something in ICIS that showed operating rates reaching levels not seen in a year, over 90%, seems rather high. So, I guess, are we ready to declare that China is fully back and we're restocking? Or how do we think about operating rates over 90% in China?

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

A

Yeah. I'd have to see the data, Frank, to be fair. There's a lot of different numbers reported. We are not seeing that kind of return in terms of utilization based on the numbers that we look at.

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

A

Demand is strong, Frank. I mean there's no doubt. It has improved in China. I don't know if we're ready to call it that it's back, if you will. But certainly demand was strong at the end of the third quarter. And so far, the order books, as we see things into November do suggest that the end of the year in China in acetyl should be pretty good.

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

Got you. Thank you. And Scott, I think [ph] Sony (00:55:20) has been talking about a 2020 free cash flow target most recently of $800 million plus. Following this very strong third quarter, you're about $30 million or $40 million sure. How do we think about 2020 free cash flow for the company? And I guess a lot of the discussion has been on 2021 and you're going to see higher earnings from productivity, turnarounds, recovery, but you're also going to see higher CapEx. Can you talk about what your expectations are in the free cash flow side?

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

A

Yeah. The $800 million to $900 million for this year is still a good number. We think we'll be in that range even with some tax payments that will be made relative to the transaction that we completed. So that's still a good range for this year. And then, as we look forward into next year, a lot will depend honestly, Frank, as to where demand is. But we think that working capital inventory levels will be kind of at the run rate where we need them as we end this year. So we shouldn't have a big working capital pickup that occurs next year.

And so, it should be pretty robust, and we feel comfortable with where cash flow is going to be to call out that – those repurchases of $400 million to $500 million for next year. And we expect those to come from free cash flow.

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

Great. Thank you so much.

Brandon Ayache
Senior Director-Investor Relations, Celanese Corp.

A

Doug, we'll make the next question our last question.

Operator: Our last question comes from the line of Matthew Blair with Tudor, Pickering, Holt & Compared. Please proceed with your question.

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

Q

Hey. Good morning. Lori, I just hope we could circle back to the electric vehicle space. I mean, it really sounds like your opportunity is in the battery side. Did you have any other opportunities we should be thinking about? And also, does the growth of EVs, does that help your existing plastics business into the auto sector? Thanks.

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

A

Yeah. No. There – we talked about lithium-ion battery separators because we are such a major player in that component. And clearly, that's the easy one to see. But frankly, EVs in themselves are a great opportunity for the polymer space. I mean – so you think about the – literally miles of electrical cabling, all of which needs connectors. That's a great opportunity for us.

You think about how quiet EVs are and the fact that now people don't want to hear all the squeaks and things that used to be covered up by the sound of the motor. So, great application for things like PAM that have really good tribology. And can minimize the amount of wearing between components that lead to those squeaks.

The electric vehicle has significantly more accessible polymer space, if you will, for us than a conventional vehicle just in terms of because it needs to be light in order to have range and all those things I just spoke about. So, we actually have a lot of placements in electric vehicles for any range of components from interiors. As I said, everything about the electrical system and more and more under the hood there as well. So, it is a big space for us. We see – continue to see it as a big opportunity. And one, as I said, we've really been focused on since the end of 2019.

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

Q

Okay. Thanks.

Operator: There's no further questions. I'd like to hand the call back to management for closing remarks.

Brandon Ayache

Senior Director-Investor Relations, Celanese Corp.

Thank you. 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. Doug, please go ahead and close out the call at this time.

Operator: Ladies and gentlemen, this does conclude today's teleconference. Thank you for your participation. You may disconnect your lines at this time, and have a wonderful day.