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Celanese Corp. (CE)

Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to the Celanese's First Quarter 2022 Earnings Conference 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.

I would now like to turn the call over to Brandon Ayache, Vice President of Investor Relations. Thank you. You may begin.

Brandon Ayache

Vice President-Investor Relations, Celanese Corp.

Thank you, Darryl. Welcome to the Celanese Corporation first quarter 2022 earnings conference call. My name is Brandon Ayache, Vice President of Investor Relations, and 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 first 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 the prepared comments. Form 8-K reports containing all these materials have also been submitted to the SEC. Because we published our prepared comments yesterday, we'll now open the line directly for your questions.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Our first questions come from the line of Josh Spector with UBS. Please proceed with your questions.

Joshua Spector

Analyst, UBS Securities LLC

Q

Hi. Thanks for taking my question. I was just curious on the Engineered Materials EBIT guidance. I was wondering what's baked in there in terms of volumes sequentially? And you're pretty clear about the auto pull forward, but I wonder if there's any other puts and takes around that assuming you're getting incremental pricing, but I assume you're assuming some volume moderation for 2Q. And then similarly, for the rest of the year, thinking about how you're kind of framing up volume expectations for auto end markets and otherwise. Thanks.

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. Thanks, Josh, as we look at full year, so if we look at 2021 to 2022, we are assuming some volumes in there. Some of that is for Santoprene, but there is a couple percent growth in base business as well. And that really comes about as we see improvements in 2022 versus 2021 and the availability of a lot of our raw materials. So, things like glass fiber, things like flame retardants, and even some resins that we called out last year, now that we are getting better supplies of those, we're able to increase our volumes. And that really counts for the base volume increase.

And I said, we do have volume increase in there as well for Santoprene. I would say, we called out auto to be flat year-on-year. So, we're not assuming a large increase in volume to auto, although we do continue to see margin growth in materials into auto as we continue to high grade the materials we sell into auto. But I would say, really strength across all sectors, all of them growing a little bit in that volume.

Joshua Spector

Analyst, UBS Securities LLC

Q

And I guess just specifically on 2Q and that sequential volume move. Are you thinking that volumes are up or down into 2Q given some of the macro headwinds?

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. I think in Q2, we're expecting a little less volume. Again, we called out that we had about what we think was 10 million to 15 million of volume pull forward from 2Q to 1Q. Again, I think we called it out in our notes. Really, that was driven by demand being down in 1Q in terms of auto builds, but people wanting to go ahead and rebuild inventory. You might recall that we had said fourth quarter, we saw a lot of inventory reduction as people went in the year. And so, we think people were just rebuilding inventory in 1Q. And unless we see a rapid demand, which we're not forecasting for auto in 2Q, then we would expect to have that 10 million to 15 million not show up in the second quarter, if you will.

Joshua Spector

Analyst, UBS Securities LLC

Q

Okay. Thank you.

Operator: Thank you. Our next questions come from the line of P.J. Juvekar with Citi. Please proceed with your questions.

P.J. Juvekar

Analyst, Citigroup Global Markets, Inc.

Q

Yes. Hi. Good morning, Lori and Scott. Does DuPont's M&M business improve your ESG profile or keep it the same? And can you explain – can you maybe talk a little bit about nylon recycling, especially at the end of life in applications like autos, and what role will Celanese play? Thank you.

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

Thanks, P.J. On DuPont, our assessment so far, and obviously we have more learning to do, but our sense on DuPont is their ESG profile is similar to ours. They've had similar efforts in place to reduce the footprint of their facilities. They have similar efforts in place to purchase renewable energy for their electricity needs. We know they've also worked on recycling and making available recycled materials to those customers that want them. So, I would say I don't think they're necessarily far ahead of where we were in Celanese, but I also don't think they're behind. So, I think we have a good common platform to work from. Obviously, there's going to be some things we find they're doing better. There's going to be some things we were doing better. So, I think it will really just help accelerate our journey.

When it comes to recycled nylon, the challenge has always been how do you find high enough quality nylon so that the material you provide can meet the customers' specifications? So, in Celanese, we've done that by securing airbag scragpage, which is pretty consistent quality. We use that in Europe to make a recycled nylon. In India, we recycle fishing nets from the ocean and clean those and we make that into a recycled nylon. So for other uses, say, in auto, the challenge is really how do you collect it and how do you separate it, because collection itself is an issue as it is with all recycled materials.

But then the issue is, in auto and other applications, a lot of times they're put together with other materials, they're difficult to separate. I think it's a challenge we have as an industry and one we're just starting to look at. Some of our more recent discussions around that is we've been talking to customers not necessarily in auto, but also in some other applications, saying, hey, if you could do this entire component out of one material, it may cost you a few cents more, but it would make it more recyclable.

And so, I think that's what we're going to have to look at going forward, is how do we work with our customers to maybe simplify the amount of polymer, the types of polymers being used inside an application to make it easier to recover and recycle those materials.

P.J. Juvekar

Analyst, Citigroup Global Markets, Inc.

Q

Great. Thank you. And one quick question on VAM, you mentioned that things were really tight with three out of five plants down in North America, I believe. How does this VAM situation normalize in 2Q and second half? Thank you.

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. So, look, we expect that to normalize in second half – or sorry, in the second quarter. Two of those VAM plants were ours, so one turnaround in Clear Lake as well as the turnaround in Bay City. So we know those are coming back up and we should expect them to be back to full rates in the second quarter. So, we expect that to improve.

What that should do, though, is increase demand then for acetic acid, which provide a little bit of support for acetic acid pricing going forward, especially with the China acetic acid pricing. And VAM price continues to be high partly because of that, but also just because of a big demand for VAM. And I think you can see that in other people's reports that are really calling out strong second quarters as well as strong second half in some of the big VAM consumers.

So, I would expect the supply/demand situation to normalize second quarter, which really just should help us with acetic – holding up acetic acid pricing.

P.J. Juvekar

Analyst, Citigroup Global Markets, Inc.

Q

Thank you.

Operator: Thank you. Our next questions come 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 you used to say that your financing costs for the mobility acquisition were about 3%. How much higher are they now or how much higher do you foresee to be?

Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.

A

Yeah. Jeff, I think we're still working through that, obviously. I mean benchmark rates have moved up. A lot's going to depend upon where things are at when we go to market. It also is we're working on things in terms of how we want to optimally structure in terms of a regional debt mix. We're going to look at maturities and kind of optimize that as well. So, I think while we do expect to be higher than the 3% if we were to go to market right now, I think the overall interest cost, we believe, is not going to be materially different. With the higher cash flow, we do expect to come in with lower debt at closing is the current expectation. And then, with bringing synergies – the synergies forward a bit in year one, we ultimately believe, from an accretion perspective, we're going to be at or above what we had originally signaled earlier this year.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Q

Thank you for that. You have a big Acetyl Chain expansion coming on in the United States next year. Are you taking steps now or beginning to take steps to think about the curtailment of your offshore capacity? And how do you think about that?

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

So, the answer is we're not thinking about taking steps on our offshore capacity. We really like having the footprint where we have three different raw material providers, so coal in China, oil in Singapore, and gas in the US. We think having that global flexibility is very helpful. We really saw the benefit of that during the freeze in 2021. So, currently, we do not have any plans to alter our footprint consistent with the expansion of Clear Lake.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Q

Great. Thank you so much.

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 and good morning, everyone. Scott, I wanted to ask you, your prepared comments talk about you're looking at incremental ways to improve your own free cash flow, which is already kind of best in class in terms of conversion. But I'm then wondering, as you looked at the M&M acquisition, what did you think of their cash conversion and have you already identified kind of pre-close that there's going to be opportunities to improve the free cash flow generation of that asset as well?

Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.

A

Yeah. I think one of the big differences between the asset portfolios, obviously, is the M&M business having a really strong localized presence in Asia, particularly outside of China. When we put the networks together, we think that's going to be a really good opportunity over time to optimize the supply chain. And that should give us a really nice inventory benefit over time. So, I think that's probably the number one focus area, I would say, Vincent, as we get the businesses integrated, is focusing really on optimizing the manufacturing footprint between regions, which hopefully will allow us to have less product on the water. We've had our own organic investments at Celanese going into Asia to help with that. But we do think the combined portfolio should give us some ample opportunity there.

Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

Q

Okay. And then, maybe just in terms of Santoprene, it sounds like the synergy is going very well there. But I don't think I read that you were increasing them. Is it possible you wind up increasing the synergies there?

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

Look, I think that's a good possibility. I think we're kind of running at double the rate of synergy capture here early on in the integration. That's good because that pulls forward cash flow earlier, which is good from an NPV value. But I think, as with all of these acquisitions, as we get into them and as we really learn the details, not everything plays out the way we think, but in general, we always find more to go after and more opportunities that we didn't identify at the time of the deal. So, I don't have an updated number for you at this time. But I would say we're definitely, one, optimistic about the timing in which we can deliver the already identified synergies, as well as being optimistic about being able to deliver even more synergies over time.

Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

Q

Okay. Sounds great. Thanks very much.

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

Michael Sison

Analyst, Wells Fargo Securities LLC

Q

Hey. Good morning. Really nice start to the year and raised outlook. Just curious in terms of the Acetyl Chain. I've always been impressed of how well your team can figure out where to make the most money. So, just curious when you think about what they've done in April and where they're sort of allocating their volume heading into 2Q, can you give us a little bit of color on what's driving your even outlook near term.

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. I think if we look at second quarter, industry dynamics probably look fairly similar to first quarter in that China is still a little congested because of COVID and inability of ships and things to move out in China. We see inventories continue to be high there. And so, pricing probably, you can see where it is today. So, we see that continuing. We do see some help for acetic acid pricing with VAM returning into operation, which we had called out for first quarter. But that counteracted with everything else. Again, you can see where the pricing is today.

But we do continue to see really good demand and really good pricing in the Western Hemisphere. That hasn't changed. The congestion in China, obviously, keeps some material flowing out. So, there continues to be high demand in the Western Hemisphere and we continue to see high demand for VAM and the downstream derivatives. And we're going into the summer season, which is typically an even higher period for those molecules. So, I'd say, on average, what we saw in the first quarter, probably similar profile into where things go. But we do have moderating prices in China, which will also drive second quarter outlook.

Michael Sison

Analyst, Wells Fargo Securities LLC

Q

Got it. And then I apologize if I missed this. Scott, did you mention when you think you will close the financing? Is there some flexibility to do it earlier versus later?

Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.

A

Yeah, we'll have flexibility, Mike. I mean, right now, we're going to look at where the market is at and when we think it's going to be the most opportunistic time to go. But right now, we're still planning on sometime this summer.

Michael Sison

Analyst, Wells Fargo Securities LLC

Q

Okay. Great. 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, everybody, and Lori, welcome back.

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

Thank you.

Ghansham Panjabi

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

Q

Would you sort of take us through what's going on in China? Obviously, a lot going on with the curtailments last year that affected acetic acid and then the Olympics and so on, and now China, COVID. How do you sort of see the market evolving in context of some chatter about Chinese stimulus, et cetera? I guess, what are you seeing on a real-time basis?

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. Let me start with COVID. We haven't seen any, I would say, any significant direct impacts from COVID. Obviously, some of our folks have been locked down in Shanghai. They've had to go back to working from home. We have an RDP plant near Shanghai that's been shut down for a few weeks. We've been able to cover that in our network. So, I'd say the direct impacts have been pretty small. I would say we've had more impact due to the issues around warehouses and logistics. And if you see the pictures of Shanghai Harbor, just materials not getting in and getting out.

Now, Nanjing, where we're basically located, that's been fine. We've been able to get things in and out. But I'd say, it's a secondary impact. It's – our customers' inventories are building. They can't get product to export. In some cases, they can't get products imported in that they need. So, it's slowed things down a bit in China. That said, we are monitoring the impact on our operation. They have been really minimal to-date, any impacts that we've had. So, we've not built anything into our guidance assuming further slowdown in China. And that's supported right now by our order books which continue to be very strong as we look into the second quarter.

Ghansham Panjabi

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

Q

Got you. And then, on the EM segment, I think you're guiding towards the EBIT at the higher end of the original guidance. But really, 1Q was a partial pull forward from 2Q as well. So, I guess, what's driving that upgraded view specific to EM operating profit for the year?

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. I think, I mean, if you look at it we – call it, a \$10 million pull-forward, that would have said we would have had \$200 million in 1Q, which means that we'd have a \$200 million in second quarter if that involves the second quarter. So, \$800 million is kind of just – we're not seeing a lot of seasonality these days in EM. Everything's pretty full. Demand is high. So, we're expecting that to continue through the second half. Obviously, there is a lot

of uncertainty in the second half around COVID, around China. What's going to happen there? Again, we're not seeing that impact yet, so we're not building that into our outlook. Lot of uncertainty around Europe.

Again, no direct impact that we're seeing yet. But obviously, as the consumer confidence goes down or energy prices continue to rise, we may see changes in our customer profile. So, there is some uncertainty in the second half. But I would also say generally third quarter tends to be a good quarter for that. So, that's on the other side. And we have forecast automotive flat and IHS still expects to see automotive growth in the second half. So, if we get any growth, that's a counteraction to some of that other uncertainty.

So, given all that uncertainty in second half, we'll basically say that second half looks like first half, and that gets us to \$800 million.

Ghansham Panjabi

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

Q

Okay. Perfect. Thank you so much.

Operator: Thank you. Our next questions come from the line of Mike Leithead with Barclays. Please proceed with your question.

Michael Leithead

Analyst, Barclays Capital, Inc.

Q

Great. Thanks. Good morning, guys. Lori, could you maybe just – staying on EM for a minute, can you maybe just talk a little bit more about your ability to outgrow the auto OEM market? And just when you look out over, I'd say, the next year or so, just given your customer mix or even where channel inventory levels are, how would you size or think about your auto volume growth relative to sort of kind of that industry growth rate of auto, newbuilds?

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. Look, it's a great question. And let me just start with a few numbers for the first quarter, because I think it will help put things in perspective. If you look at global auto builds for the first quarter, they were actually down 7% from Q4. And this is industry data. But a lot of that was in China, like 20% of that was in China, again, reflecting the COVID lockdown situation there. If you look at where our biggest customers are, they tend to be in the US, which actually grew from Q4 to Q1; and in Germany, which also grew. And so, you kind of have to look at the various regions and the specific customers to really make sense. So, I would say, although we're even outgrowing – in this case, we outgrew even those segments that we're in, again, we do think a portion of that is pull forward from second quarter into first quarter just given everybody having low inventories and expecting kind of outsized demand going forward. There are certainly pent-up demand for auto going forward.

Having said that, though, we generally have been able to outgrow automotive builds. As our folks have worked really hard to develop new products, high margin products for customers, for – light-weighting for EV has been a big push for us in the last few years and really making sure we're getting into those customers that are growing. And then as they are developing new designs, new generations of automobile that we have a large content in that. So, I'd say, we do have the ability to grow faster than global auto builds, grow faster [ph] even in (00:22:41) the segment auto build. And it's really down to our great folks in EM and their ability to innovate and work with our customers to really provide unique solutions.

Michael Leithead

Analyst, Barclays Capital, Inc.

Q

Great. That's super helpful. And then maybe just secondly, like in the prepared remarks there is a line about your internal initiatives to unlock incremental cash to help with deleveraging. And I think one area touched on was opportunistic divestitures. And I appreciate you probably don't want to front-run anything. But any context around size or scale of what you would be looking at would be helpful. And would you consider making another go at potentially monetizing the acetate tow business as part of that?

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. What I would say is – called opportunistic because that's what it is. I would think about it in terms the same way we did PPC a few years ago. It was an asset we liked. It was an asset that we thought was strategic to our portfolio. On the other hand, someone offered us a good bit of money for – more than it was value to us. And so, we're in the same situation with some other parts of our portfolio. Most of them have good returns, but if there is someone out there that values them more highly, of course, we would consider and I would say it can be small, it could be larger, but those are the sorts of things that we are looking at.

Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.

A

Yeah, we're putting most of our energy really towards small, what I would call, cash-harvesting projects. I mean, it could be – in the surface, a \$5 million project doesn't seem like a lot to unlock working capital, et cetera. But when you start adding up a number of these very quickly, you can get to a material number. And so, our team is working a pretty robust list of things and we're going to continue to do everything we can to unlock cash and take on less debt at close.

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

Maybe if I can come back to tow, we've talked in the past about tow and we've talked about why we think it will be hard to divest tow for all the reasons that it was hard a few years ago. That said, we clearly are not satisfied with the way the business is performing financially right now. Specifically, we're not happy with the kind of financial exposure we have with what have historically been three-year contracts and what that gives us in terms of lack of agility and lack of ability to pass pricing on in high-inflation environments like we're seeing now. So, while, of course, we would consider a divestiture just like we would anything, actually what we're really looking at is how do we develop more optionality in our tow business, similar to what we've developed over the years on our Acetyl Chain, and do that in a way to really help us improve profitability of the tow business as we move on in the coming years.

Michael Leithead

Analyst, Barclays Capital, Inc.

Q

Great. 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, Lori and Scott. So, Lori, in the prepared remarks, there was a line about how the bump up in your full year guidance is sort of predicated, amongst other things, on a degree of easing of raw material constraints. So I just wanted to sort of get your views on that. Were you guys seeing constraints on the raw material side? Were you being conservative in your earlier outlook in terms of availability? Did this have some sort of a higher raw material price baked in? So just any clarity around that.

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. Thanks, Hassan, for the question. Really referred to – and I mentioned this just a few minutes ago, but it probably wasn't clear. We did have significant raw material constraints last year in engineered materials specifically. And it was a little bit around resin, some of the resins, PBT things that we purchased. But more importantly, it was around things we used to not worry much about, like glass fiber and flame retardants where we just couldn't get enough to make the products that our customers demanded.

We saw that starting to ease last year. I would say if I look kind of the lower end of our range, we assume that those continued. What we saw in the first quarter is those constraints have been largely mitigated. Great work by our procurement team and others to really find alternative sourcing. And so we've largely mitigated that, which then means we can produce more volumes of materials that our customers want, which then moves us to the higher end of our range in Engineered Material.

Hassan I. Ahmed

Analyst, Alembic Global Advisors LLC

Q

Understood. And a bit more of a macro question. Look, I mean, obviously, a very impressive sort of bump up in your full year guidance and, at least, a verbiage of your prepared remarks sounds like you're pretty confident in achieving that. Now, I mean as I sit there and sort of hear some of the pundits out there talking about recessions and maybe a potential recession in Europe and slowing down in China. I mean, look, you guys are in all these sort of important markets, be it China, be it Germany, which obviously is impacted by geopolitics. I mean, what are you guys seeing relative to these sort of recessionary fear pundits out there that gives you more confidence?

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. So, I'll start out by just reiterating, we have not assumed any significant demand destruction in our guidance that we've given. So, we haven't assumed any demand destruction from inflation or from our customers being impacted by inflation. And that's really based on what we're seeing right now, which is, yes, there is a little bit of bumpiness, we're seeing more issue though from logistics constraints, especially maritime constraints especially in China, than we are kind of in the inflationary pressure at this point in time. And so, that's our assumption. Obviously, we're going to continue to monitor in all regions, but we continue to believe, unless something changes significantly through the remainder of the year, that logistics will continue to be a bigger issue for us than inflation.

Hassan I. Ahmed

Analyst, Alembic Global Advisors LLC

Q

Very helpful, Lori. Thank you so much.

Operator: Thank you. Our next questions come from the line of David Begleiter with Deutsche Bank. Please proceed with your questions.

David Begleiter

Analyst, Deutsche Bank Securities, Inc.

Q

Thank you. Good morning. Lori, just on EM, you mentioned surcharges in the quarter. How much of the price in the quarter was surcharges versus more permanent or structural? And how you decide whether to put in place a more structural or more of a surcharge type increase?

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

Great question, David. Look, I would say for the quarter, the price increases have really been to cover the additional cost just to offset the raws and energy. So, we typically pass-through price increases with raws, because those tend to go up more slowly and come down more slowly. We have a surcharge for energy. What I would tell you right now is between our pricing movement to cover raws and the surcharge, we are fully covering those increases and that's what you're seeing in the pricing.

Now, what we see on the other side is when energy comes down, that's going to go back to our customers within a month. That's how we designed it to give our customers assurance that they could get back to normal. As raws goes down, as we always have, pricing will eventually go down with it, but there tends to be a little bit of a lag. But I would say, right now, we're just trying to maintain margin. Our customers have worked really well with us in working around the constraints we've had in terms of logistics, in terms of raw material, working with us on pricing. And so, we want to continue to be able to serve those customers going forward. So, there may be some lag in pricing, but again, our objective has been to just maintain margins during this period, not necessarily to grow them.

David Begleiter

Analyst, Deutsche Bank Securities, Inc.

Q

Got it. And Scott, just on the M&M synergies, you mentioned an acceleration of year one synergies. What's driving that? And could you actually quantify what that could be for us going forward?

Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.

A

Yeah. I mean, I think some of the things we talked about early on was that we hadn't baked in a lot of tax synergies, particularly early in the deal, David, and we've been working on those types of things early days, and we think we'll be able to bring those forward. And some of those, what I would call, kind of back-end things tend to be able to happen faster. And we're more confident in that now than where we were. I also think we've done some pre-integration work both internally here and we've had some contact with the M&M team largely focused on business continuity in day one. But in those interactions, we are extremely excited. There is a lot of energy with the teams. It's a great group of people coming over from M&M. And we're really excited about the combined portfolio and being able to really partner with customers and accelerate some of the things we talked about on both the cost and revenue side of things as we go forward. So, just such a great complementary businesses with people that are really excited to get after it.

David Begleiter

Analyst, Deutsche Bank Securities, Inc.

Q

Thank you.

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

Good morning. Scott, it looks like your cash flow is trending roughly \$300 million for the better on an apples-to-apples basis, allowing you to absorb your deal-related and transaction fees. Can you speak to what you're embedding in that number these days for working capital this year and other swing factors aside from earnings variances?

Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.

A

Yeah. Kevin, we're not changing really the working capital assumptions materially versus what we assumed at the beginning of the year. So, we assume kind of the same type of inflationary environment that we've been in. Now, if that were to turn a bit and we get relief there, then we will have a fairly sizable working capital pickup that we have not baked in to that number. I mean, that increase that we put out there is really driven by two things: higher earnings as well as the reduction of CapEx by about \$50 million.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Q

Okay. Thank you very much.

Operator: Thank you. Our next questions come from the line of Matthew DeYoe with Bank of America. Please proceed with your questions.

Matthew DeYoe

Analyst, BofA Securities, Inc.

Q

Good morning. I just wanted to hash out a little bit the performance in EM EBITDA. So, I know JV income increased certainly, and I know price was up 7% sequentially, and you had Santoprene, but it seemed like you got all the tailwinds without any raw material headwinds or anything that we've kind of discussed. So, is there something that we're missing from – or that I'm missing from an operating leverage standpoint? Was lower acid a tailwind actually to raws?

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. Again, if we look – and Matthew, I'm sorry. I'm assuming your question was kind of fourth quarter to first quarter?

Matthew DeYoe

Analyst, BofA Securities, Inc.

Q

Yes, exactly. Sorry.

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

Okay. Yeah. Look, we had record revenues for the quarter. We saw demand remained strong, we had the growth especially in auto, again, some of that being pulled forward from second quarter. Our volumes were up, two-thirds

of it Santoprene, but about a third of it everything else. Our price was up, but actually, I would say, our price was up, but it was offset by the rising raws and rising energy. We saw energy going up – continuing to go up in Europe for the quarter.

We saw raw materials going up for the quarter. Ethylene costs were up globally, which certainly has a big impact in engineering materials. So, I would say, we actually continue to see increases in all of those areas. And that's really – so, price kind of got netted out with raw materials. And then, affiliates were up in the first quarter kind of typical with seasonality, but also good performance at KEP and Infracore in particular.

Matthew DeYoe

Analyst, BofA Securities, Inc.

Q

Yeah. I wanted to ask you about that. So, I mean, I used to think of KEPCO as something like \$27 million contribution annually, I think. And that's going to move to the – one, is that still right? Two, because I know that moves into the line item by 3Q, so I just want to make sure I have that number right. And then, as we move into 2Q, what do you expect on the direction for JV income?

Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.

A

Yeah. Let me handle the KEP question, first. So, I think if you look at – what we said is, on an incremental run rate basis, once we get the synergies fully realized, we would expect to have about \$25 million to \$40 million incremental, Matthew. Now, Q2, Q3 are going to be what I would call a transition quarter. So, really, Q4 is when you're going to start to see that kind of things really flow through with the new flows, as we expect. And then, I think, we'll start to get in that first year of those synergies, we'll probably get about half of that number, will be my guess. So, you can kind of – there'll be a few million maybe incremental in the fourth quarter and then into Q1.

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

So, for affiliates in Q2, we expect that to be roughly flat with Q1.

Matthew DeYoe

Analyst, BofA Securities, Inc.

Q

Thank you.

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. I guess, first off, just when you think about the Q2 guidance for AC, the [ph] 425 (37:02) and the full year at [ph] 1.6 (37:03), obviously, it assumes a moderation that – in second half and in Q2. In Q1, I think you went into the quarter seeing – potentially forecasting some moderation which didn't necessarily materialize and that's been the case for a number of prior quarters as well. So, when you think about the rest of the year, maybe if you can just lay out some of the drivers that you see that drives that moderation. Obviously, there's some issues around China and there's some issues with feedstock costs coming down. But what else, I guess, would you cite as to some of those drivers?

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. Look, I would say, in Q1, we did see moderation. I mean, from peak to trough, the peak in Q4 to the trough in Q1, we saw about a \$600 per ton reduction in acid price in China. Even average to average was about \$300. So, I think we are seeing moderation in China acid. What I would say is that has been rough – pretty much an Eastern phenomena. So, we've been able to take volumes and pivot to the West, where we saw margins maintained in the Western Hemisphere. And we've been able to pivot to the downstream and with strong demand for VAM continuing. But also we noticed especially emulsions products, redispersible powders, EVA. I mean, I think we called it out in the comments.

But for the first time ever, 25% of our earnings in acetic acid were really were due to just RDP and emulsions product. So, it's pretty amazing if you think about it. So, I mean, that's the power of our model, as we look at it. I mean another way to think about this, I mean, we refer a lot to 2018 is, in 2018, 78% of our earnings in the Acetyl Chain came from acetic acid. In this quarter, 50% of our earnings came from acetic acid.

So, I think what we've called out, which is a moderating acetic acid, is absolutely true. The numbers support it for first quarter. We expect that to further moderate as we move into the second quarter. And in time, we – Western Hemisphere prices will start to trend down and margins trending down as well. Ethylene price is going to continue to increase in second quarter, so that's going to cause a little bit of further margin compression. And that will continue, we believe, as we go through the year.

Now, we've said that for a while. Fortunately, the moderation has started later and gone slower than we anticipated in our original outlook, which is why we've been able to raise our outlook on Acetyl Chain. I would also say, we talk a lot about foundational earnings, and I think previously we'd called out getting to a foundational level of earnings in the second half of this year. I think we typically call foundational earnings, we've been saying \$1 billion or slightly above.

But I think as we're seeing the industry fundamentals change with supply/demand continue to be tight even with the addition of a little bit of an extra capacity in China, we've really seen the strength of our models continue to develop, especially our ability to generate good margins and income out of our downstream derivatives. The stronger Western demand we've seen, our very bullish outlook by our customers, plus we have investments coming on, Clear Lake early next year; other VAM/VAE expansions towards the end of next year. All that additional optionality we're getting, clearly, we think, those foundational earnings are – level of earnings are growing something well above that \$1 billion.

And so, altogether, I'd say, while we are starting to moderate and returning to a more foundational level of earnings, that foundational level of earnings has increased measurably versus where we used to be.

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Q

Great. Thanks. And similarly for EM, would you say that the foundational level of earnings has also increased when most of your markets, including elective surgery, come back? Thanks.

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. Look, I think what we're seeing in EM is the really great work by our folks over all of the many last years to really grow our pipeline model, grow our programs, move more of our molecules into value applications, higher

margin applications where we are maybe one of two people who can provide that material, which gives us more pricing power, the ability to work with our customers to pass through the higher raws that we're seeing, moving into higher end markets.

I think you're seeing really kind of all the results of that work that's been going on for several years really coming to fruition and getting us to a level of earnings that we think we can maintain going forward through a wide variety of economic scenarios.

Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.

A

Yeah. And that model continues to evolve with the acquisitions coming in. I mean, the Santoprene acquisition has proven to be additive to the model. The team is bringing different ideas. The synergies are coming in strongly there. And then we would expect to replicate that with M&M as well as a way to continue to hone and take the best of these acquired businesses and continue to – really to grow that model there in EM and elevate those foundational earnings to a much higher level.

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Q

Thanks.

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, a question on the comments around – like appreciating the regional mix. As you think longer term, sort of after the Clear Lake expansion, what would be kind of the minimum levels of coal and oil based vertical integration you would like to keep in the portfolio? And can you also tie that to how you're thinking about the next few rounds of technology – the innovation cycle? My impression is you've been making faster progress, reducing CapEx and OpEx on the natural gas [ph] price (00:43:30) projects, is that true or are you getting the same progress on all three platforms?

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. Let me answer your first question. On the regional mix, look, as we bring Clear Lake in, one, we think it's great because it's based on natural gas, which even with the increases in natural gas, continues to be, we believe, the lowest cost producer of acetic acid in the world today. So, that's great optionality for us to have. But we get the credits for that project even if we run at the same rates as today and take it in the form of productivity, which is catalyst and other chemical savings. So, we like the optionality that Clear Lake brings.

But we also like the optionality of having material in China and material in Singapore. Remember, a big portion of our value proposition to our customers is the fact that we produce what we need in a region in that region. And so, the fact that we can produce in China for China and surrounding areas, in Singapore for kind of Asia outside of China, India and other areas, really has helped us, especially as we've gone through these issues around logistics and everything else, because we're not having to put everything we make on a boat and take it somewhere else. A lot of stuff can stay within the region where we've had a lot less logistics challenges. And obviously, we still ship

to Europe. And so, there's still an element to that. But it's very different than someone who has one plant in one place and it's trying to serve the world from there.

So, we like having the regional mix. We believe our technology makes us one of the cheapest producers for coal. In China, coal-based acetic acid is going to continue to be the marginal producer in the world today, even at these high oil prices, because [ph] it will offset higher coal (00:45:15) prices. Singapore continues to be an attractive place to produce acetic acid. So, we think all three of our plants continue to be well-positioned to be competitive to make acetic acid going forward. And again, we like the optionality that having three different facilities in kind of three unique places in the world brings us.

Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.

A

Yeah. And on the innovation front, Laurence, I would say our focus really is on aggressively looking at energy reduction projects across the globe. As gas prices, oil prices, coal, all moved up, our energy costs have moved up and we're looking at ways at which we can lower that. So, in this environment, those paybacks become more attractive. And so, our team is doing a great job of bringing those projects forward.

Laurence Alexander

Analyst, Jefferies LLC

Q

And then, does the European Carbon Border Adjustment program, is that a net benefit or a headwind for Celanese once it's implemented?

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. I'm not sure, but then – I don't know how we would be relative to our competition. I mean, what I would say is, our facilities in Europe tend to be highly energy efficient. So if you look at our European facilities, they produce only 20% of our Scope 1 and 2 greenhouse gas emissions, but they represent about 40% of our sales. So, I can't tell you exactly how that works out with the Border Adjustment, but I can tell you, we think when you look at all of the proposals under the Fit for 55 that we're pretty well-positioned given that we have a pretty efficient footprint already in Europe to start from.

Laurence Alexander

Analyst, Jefferies LLC

Q

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. In your prepared remarks, you're talking about improved product mix in Engineered Materials as one of the reasons for raising guidance. Could you maybe elaborate on this?

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. It's a little bit in line with what I said earlier that we've really focused on the years of adjusting our portfolio into higher margin, higher value end applications. So, maybe a specific example, say, last year versus this year, is last year we called out a lot of the time how medical, but really specifically implants because we weren't seeing elective surgery recover as quickly, was a drag on our earnings last year. And now if we look at 2022, we really see, not in first quarter, that's a seasonal thing with implant. People wait till they submit their deductible.

But we're seeing second quarter and beyond implant coming back to their pre-COVID levels of demand. And so, therefore, that's a positive product mix impact because that's a higher margin application than maybe other GUR applications that those go into. And we're seeing that in multiple places where we're seeing demand for our higher margin materials come up. We also have got new business, which is coming on that are higher margin and higher end-use applications. And so, for the same volume, we achieve a higher margin, and that's reflected in our comments on product mix.

Aleksey Yefremov

Analyst, KeyBanc Capital Markets, Inc.

Q

Thank you, Lori. And a follow up for Scott. What kind of discussions you had with rating agencies? And what's your level of confidence, if you kind of play out different scenarios for the back half of the year, that you'll retain investment-grade rating?

Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.

A

Yeah. I mean, look, we've had very open discussions with the rating agencies, when we – starting when we first announced the deal and we feel good about that. Ultimately, we're focusing on what we can control. And the raise of earnings guidance, we've got upside in kind of where things are coming out right now. We also have added Fitch. They launched here a couple of weeks ago. And as we kind of looked at it, and given the size that the company is getting to and we looked at peer companies, most companies have three rating agencies. So, bringing Fitch on, and those conversations were very good as well just recently. And they issued a first time credit rating, a BBB- with a stable outlook. So, we feel good about where things are and we feel really good about kind of where we're going to be at close, really driven by the increased free cash flow and the improved earnings.

Aleksey Yefremov

Analyst, KeyBanc Capital Markets, Inc.

Q

Thank you.

Operator: Thank you. Our next questions come from the line of Matthew Blair with Tudor, Pickering, Holt. Please proceed with your questions.

Matthew Blair

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

Q

Hey. Good morning. Lori, you mentioned the two outages that Celanese had in the first quarter in your Acetyl Chain. Is there like a lost profit number that we can put on that? Or do you think the lower volumes were simply made up with higher pricing?

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. So, the majority of the outages in first quarter were outages that we were anticipating. So, they were planned turnarounds in Clear Lake for VAM, for methanol, for acid. Some of them we pulled forward from second quarter due to some unanticipated issues. But because we knew the outages were coming up, we were able to buy material from others. We store inventory, we make sure that we're covered for our customers, that we can provide them what they need during those periods of time. So, you really don't see a really big impact from that. And even from a cost standpoint – turnaround cost standpoint, last year, we spent about \$40 million on turnaround. We'll spend about the same this year. About half of that was in the first quarter. But again, with our average level of spending, it's not something that's really going to show up in any given quarter in a meaningful way. So, I think because of the planned nature of these events, they're really covered within our guidance and within the outlook, then kind of our ability to predict in a quarter.

Matthew Blair

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

Great. I'll leave it there. Thanks.

Q

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

Thanks.

A

Brandon Ayache

Vice President-Investor Relations, Celanese Corp.

Darryl, we'll take one more question, please.

A

Operator: Thank you. Our final questions come from the line of Steve Richardson with Evercore ISI. Please proceed with your questions.

Kieseane Riddick

Analyst, Evercore Group LLC

Hi. This is Kieseane on for Steve. Lori, it was interesting to see your CapEx guidance kind of reduce to \$550 million. I was wondering if you could speak a little bit more to that just in terms of was it due to cost savings or a push of some CapEx into 2023? I know it's a bit early to speak on that, but whatever insight you could provide would be great. Thank you.

Q

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

Sure. Look, in CapEx, we've called it out before. We think organic growth through CapEx is really our best use of cash. We get high – 20-plus percent returns on our CapEx and we're very deliberate about how we spend that money, very disciplined. It's also something we manage real time. So, Scott and I meet every quarter with the businesses and really go through where we are on CapEx, what new projects have emerged, where do we need to reconsider. And so, I would say, what you're seeing, the \$50 million reduction that we called out was really an outcome of that disciplined process, adding on the layer of the DuPont M&M acquisition.

A

So, with DuPont M&M, for example, we're getting a significant amount of compounding in Asia. Some of our CapEx we had earmarked this year was to expand compounding in Asia. And clearly, we don't want to go build something abroad if we've just bought something that will meet our needs and we think there's some extra capacity there. So, what I would say is we've deferred any decision on some of the CapEx where we believe there

may be overlap with DuPont. So, we don't spend money that we might regret later. But I would say it's a living thing. We may come back in another quarter and have a further reduction or we may have an add because, again, we believe CapEx is a really good use of our money. We get really high returns and so we'll continue to manage it, as we always have done, in a very disciplined way.

Kiesean Riddick

Analyst, Evercore Group LLC

Q

Great. Thank you. And just in terms of a quick follow-up, you mentioned targeting cash-harvesting projects. So, with the recent restructuring of the JV, could you speak on the process of the JV actually unlocking that additional value and should we expect to see additional announcements moving forward for other JVs?

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

So, let me – I'll ask Scott to specifically comment on the KEPCO JV there. What I would say is we took a big step last year already with the sale of PPC, Fortron, some of our other JVs. I would say we like the way they're structured. We believe we get good value out of those JVs. So, I wouldn't think that's the only target. I mean, we're really looking at all of our business, as I said, opportunistically, if something emerges where it makes more sense to sell to somebody, we would consider it. But our first focus, of course, is just continuing to grow earnings and continue to grow cash flow on a very robust and healthy base business.

Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.

A

Yeah. We've talked openly for a number of years about unlocking more value here. And Polyplastics was a sale a few years ago. We felt like that was the most opportunistic plan we had to be able to really unlock a lot of value there. For KEP, as we looked at that and worked with the partner, it was restructuring that venture. And we'll continue to look and be opportunistic if we can find ways with our partners to add more value for the Celanese shareholders.

Kiesean Riddick

Analyst, Evercore Group LLC

Q

Great.

Operator: Thank you. That is all the time we have for questions today. I would now like to turn the call back over to Brandon Ayache for any closing comments.

Brandon Ayache

Vice President-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 follow-up question. Darryl, please go ahead and close up the call.

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

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