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Celanese Corp. (CE)

Q4 2014 Earnings Call

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Chairman & Chief Executive Officer

Chris Jensen

Senior Vice President, Finance

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David I. Begleiter

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the Celanese Fourth Quarter 2014 Earnings Conference Call. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded. I would now like to turn the conference over to Jon Puckett. Please go ahead.

Jon Puckett

Vice President-Investor Relations

Thanks, Drew. Welcome to the Celanese Corporation fourth quarter 2014 conference call. My name is Jon Puckett, Vice President of Investor Relations. With me today are Mark Rohr, Chairman and Chief Executive Officer; and Chris Jensen, Senior Vice President, Finance.

The Celanese Corporation fourth quarter 2014 earnings release was distributed via Business Wire yesterday after market close. The slides for the call and our prepared comments for the quarter were also posted on our website, www.celanese.com, in the Investor Relations section.

As a reminder, some of the matters discussed today and included in our presentation may include forward-looking statements concerning, for example, Celanese Corporation's future objectives and results. Please note the cautionary language contained in the posted slides.

Also, some of the matters discussed and presented include references to non-GAAP financial measures. Explanations of these measures and reconciliations to the comparable GAAP measures are included on our website, in the Investor Relations section, under Financial Information. The earnings release, non-GAAP reconciliations, presentation and prepared comments have been submitted to the SEC in a current report on Form 8-K.

This morning, we will begin with some introductory comments from Mark Rohr, and then we'll field your questions. I'd now like to turn the call over to Mark.

Mark C. Rohr

Chairman & Chief Executive Officer

Thanks, Jon and good morning everyone. Our prepared remarks were released with earnings. So I'll keep my comments brief and open the line for your questions.

I'm pleased to report the completion of a record year with a record quarter, reporting 2014 adjusted earnings of \$5.67 per share, which reflects 26% growth over the prior year. For the fourth quarter, we reported adjusted earnings of \$1.28 per share; that's a 23% growth year-over-year.

Our results were driven by changing dynamics in the Acetyl Chain, the ability of our Materials business to identify, develop and provide specific materials to our customers, and strong commercial and manufacturing performance. Sales for the year totaled \$6.8 billion; that's an increase of 4.5%. And operating cash flow totaled \$962 million, setting a record for the company.

Consolidated segment income margins increased 240 basis points to 18.6%, really great performance. As we start 2015, our underlying business is quite healthy and should help us offset some of the headwinds we expect to see through the year, particularly the fall in euro to U.S. dollar exchange rate, lower crude oil, impacts on pricing and margins in the petrochemical industry, lower energy and raw material cost, the cellulose inventory correction, and uncertainty in the macroeconomic environment.

So, we have a solid list of actions our teams are working, that should help minimize the impact of some of these headwinds and set us up for growth through the year and into 2016. In this volatile environment, we expect first quarter earnings to be consistent year-over-year and our full-year to be in the range of \$5 per share to \$5.50 per share.

With that, I'll now turn it over to Jon for Q&A.

Jon Puckett

Vice President-Investor Relations

Thanks, Mark. I'd like to remind everybody, we like it as one question and one follow-up, and then we'll move to the next. Drew, go ahead.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] The first question comes from Duffy Fischer of Barclays. Please go ahead.

Patrick Duffy Fischer

Barclays Capital, Inc.

Q

Yeah. Good morning, fellows.

Mark C. Rohr

Chairman & Chief Executive Officer

A

Good morning, Duffy.

Patrick Duffy Fischer

Barclays Capital, Inc.

Q

Question on tow, when your competitors kind of called out some inventory issues after Q2 of last year, and you guys at that time didn't see it. Now it seems to be hitting you. Can you just talk about what's your visibility in that market? How comfortable are you, with the analysis you've done, that you'll be able to kind of deliver your internal budget against that business?

Mark C. Rohr

Chairman & Chief Executive Officer

A

Yeah. Thanks, Duffy. If I go back a bit in time, Duffy, it became apparent to us, as we were shutting down Spondon, there had been actually a slow – not slow, but a trend in the part of the industry to maintain high tow volumes. And I think that was a reflection of the overall tightness in capacity that existed for several years. We took down Spondon in 2012 and that sort of – in late 2012, and that sort of increased yet again. And we've reminded folks of that.

Our customers have, for the most part, managed that pretty well. I think others have gotten always signals of that and reported those results to you. We're talking just directly with our customers, Duffy, and they seem to indicate with tremendous sincerity that they want to go and take a step change in inventory. And when they look beyond that, they think of a return. But the insight [indiscernible] (5:34).

Patrick Duffy Fischer
Barclays Capital, Inc.

Q

Okay. And then just on the numbers, you called out \$0.30. If I just kind of run that through your P&L, that's about \$60 million in EBIT; run that through the margins in that segment and that's about \$200 million in revenue, roughly, which is about a third of the first half revenue from last year. Are those the right numbers that we could actually see revenue down a third in that segment, in the first half?

Mark C. Rohr
Chairman & Chief Executive Officer

A

Yeah. [ph] EBIT (6:05) I don't tend to look at that way for – we've really looked at EBIT and EBIT numbers are absolutely, I think, what we're expecting.

Patrick Duffy Fischer
Barclays Capital, Inc.

Q

Okay. Okay. Great. Thanks, fellows.

Mark C. Rohr
Chairman & Chief Executive Officer

A

Yeah.

Jon Puckett
Vice President-Investor Relations

A

Thanks, Duffy. Drew, let's move on to the next question.

Operator: Next question comes from David Begleiter of Deutsche Bank. Please go ahead.

David I. Begleiter
Deutsche Bank Securities, Inc.

Q

Thank you. Good morning. Mark, also on tow, what will you get pricing-wise this year? Is tow pricing going to be up or down? And any change in your view as to the longer-term demand trends? And actually what's your view right now as to the long-term demand trends in tow going forward?

Mark C. Rohr
Chairman & Chief Executive Officer

A

Yeah. We have some mixed effects in pricing, because of [indiscernible] (6:46) we have. But generally speaking, the industry push pricing early in the cycle, and we got a little bit of pricing. As we ended the cycle, we gave up some pricing. So pricing, net-net with mix is down a little bit year-over-year, as well, I'd say, David, in that. The general trends that we see, I think, if I look at the world outside of China, we've been in this gradual decline. We haven't seen that slope change very much.

If you look at China, China certainly took a step change early last year that we talked at length about. They seem to be running pretty steady rates now and are anticipating pretty flat volume year-over-year.

David I. Begleiter

Deutsche Bank Securities, Inc.

Q

Very good. And Mark, just lastly on Acetyl Intermediates, [ph] could you do (7:35) help us with the bridge of earnings in 2015 versus 2014, taking into account the hit from the expired methanol contract, the over-earning of VAM in 2014? Any – could you help us with the bridge there, 2014 versus 2015, in AI?

Chris Jensen

Senior Vice President, Finance

A

Yeah, David. It's Chris. So the methanol contract, we've talked about that being, I think, \$0.40 per share to \$0.60 per share on a year-over-year basis. If methanol stays in lower level that it is now, we're going to be at the low-end of that estimate. I think your other question was more around kind of the VAM industry shift. It's really hard to clearly separate that from just everything else going on in the business, and in particular, our team's efforts this past year to really change the way we go to market, the way we approach customers, pricing, placing volumes. But having said all that, if we were guessing, I think we'd guess that, that number may be in the \$70 million to \$80 million year-on-year.

David I. Begleiter

Deutsche Bank Securities, Inc.

Q

[indiscernible] (8:50) VAM decline year-over-year?

Mark C. Rohr

Chairman & Chief Executive Officer

A

Yeah, David. And I think that's the number that Chris shared with you. It's the number we use internally, as we kind of [indiscernible] (8:58). But it's very hard to quantify. But right now, as we look at the bridge, that's the number that we internalize.

David I. Begleiter

Deutsche Bank Securities, Inc.

Q

Thank you.

Jon Puckett

Vice President-Investor Relations

A

Okay. Thanks, David. Drew, let's move to the next.

Operator: The next question comes from Laurence Alexander of Jefferies. Please go ahead.

Laurence Alexander

Jefferies LLC

Q

Good morning. There was a comment in your remarks about just broader destocking at both your customers and your suppliers. So can you elaborate a little bit on what you're seeing by end market? How do you think that might distort first-half trends versus back-half, and implications for your working capital?

Mark C. Rohr
Chairman & Chief Executive Officer

A

Yeah. Primarily in the Acetyl Chain, and how much of it is [indiscernible] (9:47) if you like, but what we've seen in the Acetyl Chain is a lot of – the folks that are closer to the petrochemical industry, people are just taking their time to purchase, David, is what I would say. They're looking for – I mean, Laurence – they're looking for that – so they're looking for the bottom.

So, we've seen some orders slip as we ended the year into January, and we've seen some slippage out of January. That's what I'm trying to respond to. So, I think until we get a sense of really where the floor is and where prices are moving, and a lot of folks, if they can delay purchases, are going to do so. It's one of the reasons, I think, we're – my personal view is, all of us are going to be off to a little bit of a slow start as we begin the year.

The second comment I'll make to that, Laurence, is Chinese New Year, as you know, falls a bit late this year, falls in mid-February-ish, and that – and Asia as, again, as you know so well, creates a little bit of a conundrum, as folks try to really anticipate what the world looks like after Chinese New Year.

Laurence Alexander
Jefferies LLC

Q

And then, in terms of what that might mean for your working capital days this year?

Chris Jensen
Senior Vice President, Finance

A

Yeah, David. This is Chris. It's a little difficult to predict, because it will really depend on that slope on demand and volumes. You look back at 2014 and the working capital performance, the businesses did a really nice job of controlling that. We tend to look at that as working capital as a percentage of revenues, and we experienced some levels that were really, really good in 2014.

They managed that quite tightly. We watched this. And of course, the risk you face in kind of a deflationary environment is that you're holding some inventory that was produced at a higher cost than your current procurement of raw materials would suggest. So yes, there is a risk that if you see demand pressures, you get a little bit of creep, when you're looking at it as a percentage of revenues the way that we do.

Laurence Alexander
Jefferies LLC

Q

Thank you.

Jon Puckett
Vice President-Investor Relations

A

Thanks, Laurence. Drew, let's move to the next.

Operator: The next question comes from John McNulty of Credit Suisse. Please go ahead.

John P. McNulty
Credit Suisse Securities (USA) LLC (Broker)

Q

Yeah, good morning. Thanks for taking my question. So, with regard to the FX headwinds that you'd highlighted, they seemed a little bit bigger than I recall kind of the moves being in the past. And I guess I'm wondering how

much of that is tied to some of the closures that you've done in Europe and how much product you're maybe moving from say into the U.S. or other regions into Europe. Can you give us a little bit color on that and maybe an update as to how much of VAM and acetic you actually do move to Europe from the U.S?

Chris Jensen

Senior Vice President, Finance

A

Yeah, let me – it's Chris again. Let me give you just kind of the high-level picture of what we intended in the way that we put those remarks out there. So, we – in kind of, let's call, a more stable currency environment, we would estimate that a penny movement on the euro is about \$0.03 a year to \$0.04 a year for Celanese. But that's the view of how we work in a stable environment.

When you see this kind of a significant quick movement in the euro that we have, all that math would imply that the euro change year-on-year puts you at \$0.60 a share or \$0.70 a share, that's kind of the first order effect, and you can have second order effects that offset that. We'll certainly do what we can on pricing to recover some of that. You look at the strength of our business in Europe and parts of that are going to be in industries where a lower euro actually helps those export volumes. So, when we put that number out there, that's really kind of the first order effect.

Now moving on to your question about volumes, yeah that's a bigger impact today than it would have been before we closed plants in Europe. To kind of paint the picture for you, I can't walk through the details of volumes product by product, but let's call it, maybe a third of this is just the fact that we have business in Europe. So it's just translation.

Probably two-thirds or more of this is revenue based and the fact that we're now selling a substantial amount of acetyl products in Europe that are produced in the U.S. So you now have U.S. costs but euro-based revenues.

John P. McNulty

Credit Suisse Securities (USA) LLC (Broker)

Q

Okay. Great. Now, that's very helpful. And then, just with the second question, the \$100 million of raw material relief that was highlighted in the transcript, is that incorporated in your guidance at this point? It wasn't exactly clear to us if it was or wasn't.

Mark C. Rohr

Chairman & Chief Executive Officer

A

No. No. I think what we're just talking about there is that we're seeing some step change. I think in a full and complete sense, we could be down as much as \$300 million in raw materials. A good chunk of that is ethylene and a good chunk of ethylene remains formulaic, so we wouldn't get any – you know, it doesn't part either way.

So when we looked at that, we kind of looked at that the non-formulaic material base, John, and that's just simply a statement, a view of how big the number could be. What we'll attempt to do is keep it all. And what I'd say is that the [indiscernible] (15:13). So we'll work hard to keep as much of that as we can and work the system to not lose that value. Just want to give folks a range of the kind of a [indiscernible] (15:23) that we're going to try to capture part of it.

John P. McNulty

Credit Suisse Securities (USA) LLC (Broker)

Q

Great. Thanks for the color.

Jon Puckett

Vice President-Investor Relations

A

Thanks, John. Drew, let's move to the next question.

Operator: The next question comes from P.J. Juvekar of Citi. Please go ahead.

P.J. Juvekar

Citigroup Global Markets Inc. (Broker)

Q

Yes. Good morning. And thank you for giving us the FX sensitivity at \$1.15 to the euro. Now, are you taking any steps today to protect against any further potential weakening of the euro?

Mark C. Rohr

Chairman & Chief Executive Officer

A

No. No. P.J., we've debated long and hard about that, and, of course, maybe in hindsight, we should have done something. But I think practically speaking, our view is that we're not in the hedging business. We do take positions relative to receivables, so we do balance sheet work that sort of minimizes or protect sales that we currently have. But we don't go out beyond the realm of that 60-day kind of period.

P.J. Juvekar

Citigroup Global Markets Inc. (Broker)

Q

Okay. Okay. So, nothing related to your increased exports or anything like that?

Mark C. Rohr

Chairman & Chief Executive Officer

A

No, no.

P.J. Juvekar

Citigroup Global Markets Inc. (Broker)

Q

Okay.

Mark C. Rohr

Chairman & Chief Executive Officer

A

No, no.

P.J. Juvekar

Citigroup Global Markets Inc. (Broker)

Q

And then you talked about destocking in the Acetyl Chain in filter tow, can you talk about geographies? Is there a particular geography where you're seeing pronounced destocking relative to others?

Mark C. Rohr

Chairman & Chief Executive Officer

A

Well, I think you're seeing in the – there are two effects going on in that chain that need to sort themselves out. And one is just the general movement of the industry to sort out where the base is, what's methanol going to be, what's CO going to be? How is that relative from production point of view? And customers out there, they have their hands out, expecting prices to drop.

And so the destocking that I'm talking about really is, from a point of view of the consumers who are working their inventory out of their system as quick as they can and delaying purchases as much as they can, we see that in Asia and in Europe both.

The second effect that is unbelievably hard to quantify is this sort of global trade flow that's kind of – that we're entering into, the shift in global trade flows theoretically could happen as we get into the realization of what \$50 crude means to the industry. So, there, you can have different value equations for production in different parts of the world that they've changed from where they were, say, a year ago, and that's going to impact trade flows. And we – I'll be very honest, P.J., we've not fully sorted that out just yet.

So the combination of those things and the realization of those things means that the folks just are not – they're doing everything they can not to buy and try to delay that a bit. And of course, there's a limit how much they can do that, but they're trying to go seek and find the best price they can from folks around the world.

P.J. Juvekar

Citigroup Global Markets Inc. (Broker)

Q

Okay. Okay. So just to be clear, you said more destocking in Asia and Europe, maybe less in U.S.?

Mark C. Rohr

Chairman & Chief Executive Officer

A

Yeah, yeah.

P.J. Juvekar

Citigroup Global Markets Inc. (Broker)

Q

Thank you.

Jon Puckett

Vice President-Investor Relations

A

Thanks, P.J., Drew, let's move to the next question.

Operator: The next question comes from Frank Mitsch from Wells Fargo Securities. Please go ahead.

Frank J. Mitsch

Wells Fargo Securities LLC

Q

Good morning, gentlemen. In the release, you talked about [indiscernible] (18:38) especially in auto. I'm just wondering what sort of volume assumptions have you baked in to your guidance coming out of Europe, and if you could be a bit more granular in terms of particular areas of strength or weakness.

Mark C. Rohr

Chairman & Chief Executive Officer

A

Yeah. I think – just – let me talk just generally for a second, if I can, Frank. We've had a lot of success growing our penetration in auto over the last several years. To the extent now that we – for several years, we've enjoyed a growth rate in auto, so some multiple of the IHS data growth rates. So, for instance, last year, I think the overall industry grew 3.1%, and our volumes grew about 9% into that industry.

So, this year, if you believe the data, it would indicate that we're off a bit. I think North America is 2.7% if my memory serves me, down a bit in Germany. China is like 6% or 7%.

And globally, we're about 2.3% or so. So we expect auto overall to be down a bit this year, but we're still seeing these trends. So our actual performance as we start this year in auto is very good. And I'd say it's very good, and I'd say it's priced slightly better than it was last year, even though if you look at the trends, [ph] bill trends, it's (20:04) probably going to be down 2% in volume this first quarter.

Frank J. Mitsch

Wells Fargo Securities LLC

Q

Yes.

Mark C. Rohr

Chairman & Chief Executive Officer

A

[ph] Year-over-year (20:10). So, I don't know if [ph] that's really answer to it (20:12). But we feel good about what's going on there. I think the industry as a whole is moderate and [ph] has grown (20:16) just a little bit in areas like China a bit worrisome. I think you've read our reports on that. Brazil is pretty worrisome. Brazil is falling quite steeply.

Frank J. Mitsch

Wells Fargo Securities LLC

Q

All right. That's helpful. And I know you'd said in the past that you had a \$100 million EBIT bridge in 2015 some measures. I think it was improving plant operations. You're thinking that that would add like \$45 million, supply chain efficiencies would add about \$25 million, and innovation would about \$30 million. So, I take that altogether \$100 million, call it around \$0.50 a share. And then in the release, you said that your productivity actions or \$0.15 remain on track. Am I – where is the balance of that? Is that on track? And how should we think about that?

Mark C. Rohr

Chairman & Chief Executive Officer

A

Yeah. When we talked about the \$100 million, we were outlining steps that we needed to take to overcome the methanol.

Frank J. Mitsch

Wells Fargo Securities LLC

Q

Correct. Yeah.

Mark C. Rohr

Chairman & Chief Executive Officer

A

And so I tried to say that in the script, we have done that, that's happening. So we believe that, with the actions that we've already taken and we're taking, that we'll be able to negate the methanol headwinds on an annualized basis. Beyond that, we are driving more productivity. And the \$15 million (sic) [\$0.15] (21:35) is what's immediately in front of us today. We're working to find other things and develop other activity. So, that's the – \$0.15.

Frank J. Mitsch

Wells Fargo Securities LLC

Q

Yeah.

Mark C. Rohr
Chairman & Chief Executive Officer

A

\$0.15. So that was above and beyond the numbers we gave last time.

Frank J. Mitsch
Wells Fargo Securities LLC

Q

Terrific. Thank you so much.

Mark C. Rohr
Chairman & Chief Executive Officer

A

Yeah. Yeah.

Jon Puckett
Vice President-Investor Relations

A

Okay. Thanks, Frank. Drew, let's move to the next question. Drew?

Operator: The next question comes from Cooley May of Macquarie. Please go ahead.

Cooley May
Macquarie Capital (USA), Inc.

Q

Good morning, guys. Could you [indiscernible] (22:13) raw materials in tow, particularly wood pulp, your ability to potentially maintain profit spreads in the back-half of this year? And then also, could this simply be a pushback among your buyers? You're seeing your raw material basket drop, just holding off on buying and looking to push price lower?

Mark C. Rohr
Chairman & Chief Executive Officer

A

Yeah. So, the first part – would you repeat the first part of that, Cooley? I'm not sure I really understood the [indiscernible] (22:39).

Cooley May
Macquarie Capital (USA), Inc.

Q

The raw material setting in acetate tow, particularly wood pulp, because per our data, it looks to be down significantly.

Mark C. Rohr
Chairman & Chief Executive Officer

A

Right.

Cooley May
Macquarie Capital (USA), Inc.

Q

Continuing a downward trend. And so I'm looking – I'm trying to figure out, is this an industry-wide issue? And where spreads are likely to settle out toward the end of the year? And if you're a buyer of wood pulp in Asia, why

would you buy here – why wouldn't you destock inventory, press price lower as much as you can? And how can you maintain a profit spread in that setting?

Mark C. Rohr

Chairman & Chief Executive Officer

A

Yeah. I think if the – if I go back to, from a consumption point of view, you cannot even see the price of tow in a cigarette. You can't even see it. So, from a point of view of a consumer, and I'm not trying to say consumers don't care about price, the consumers really are just about indifferent about tow price. They are extremely concerned about tow reliability and availability. Ergo, one of the reasons they kept all the inventory that they kept, Cooley.

So, I think, if you look at it from a point of view of a buyer, a buyer certainly don't want to be disadvantaged, on one hand. The other hand, they just want it there; they want the top quality. And I think we've shared in the past how there's – all tow is not the same. So it tends to be even some brand alignment around it, to make sure the experience is the same from stick-to-stick.

So we don't see that from our – that kind of broad pressure from our customer base. They – when they [indiscernible] (24:12) us about reliability and making sure we got the volume [indiscernible] (24:14). If you look at the cost side, there has been some reductions in wood pulp that's flowing through the industry and there may be some fringe buyers out there. So non-majors that are using that, as you've said, to try to put some pressure back on whoever their suppliers are.

But I don't think – I guess I would go to say, I don't think that's a trend. I don't think that in itself foretells the collapse of the business model, and I don't think it's necessarily sustainable.

Cooley May

Macquarie Capital (USA), Inc.

Q

Okay. Thanks.

Mark C. Rohr

Chairman & Chief Executive Officer

A

Yeah. Thanks. Yeah.

Jon Puckett

Vice President-Investor Relations

A

Okay. Thank you, Cooley. Let's move to the next question, Drew.

Operator: The next question comes from Kevin McCarthy of Bank of America Merrill Lynch. Please go ahead.

Kevin W. McCarthy

Bank of America Merrill Lynch

Q

Yes. Good morning. Mark, can you speak to the nexus between the collapse in crude oil and your future capital deployment plans? For example, I think you've been exploring a second methanol build-out at Bishop. Just wondering if the change in the energy backdrop alters your willingness to stay short in ethanol, as an example?

Mark C. Rohr

Chairman & Chief Executive Officer

A

Yeah. I think in that one, we're certainly really reviewing options with some of the partners that we'd been working with for that investment. And so, Kevin, we haven't made a decision today on that. I think you've seen methanol prices really move dramatically, particularly in Asia. And so the Asian dynamic, from my personal view, needs to sort out just a little bit, especially the role that MTO is going to play in the consumption of methanol there. And I think from that, then you can backup and get a better sense of what the economics and value equation looks like to produce in the U.S. So, I'll say that, that investment is still under consideration. It's what I will say to that.

If I look beyond that, lower – if you bake in 2015, say we're [ph] 50 (26:22) forever, that challenges fuel ethanol more. We've been doing more work, of course, with all of our partners in China and in Indonesia and in India, and there continues to be a lot of engagement and debate and discussion in that. But I would say that, on the surface, Indonesian economics are not quite as strong as they were; in part because the government has moved away from subsidies of fuel. And so the government bogey is not quite the size it was. There's still a positive return on it, but it's not as good as it was.

I think if you look at other fuel sources that are out there, that move in concert with oil, it still remains a very attractive project. So, as we go through this year, I think we'll sort out. We'll have a better view of the longevity of crude pricing at these levels, and I think that could have an impact on future plans for ethanol.

Kevin W. McCarthy

Bank of America Merrill Lynch

Q

Great. That's helpful. Second question, if I may, on the financial side, I think you'd mentioned in the prepared remarks release last night that you expect your tax rate to dip below 20% in 2015. Just wondering if you could speak to what is driving that. And on the balance sheet side, what an appropriate leverage ratio might be? I think you'd indicated some deleveraging in the near future and how close are you getting to your target leverage here?

Chris Jensen

Senior Vice President, Finance

A

So, I'll talk about the tax rate first. And we didn't give a pinpoint number, just with some of the uncertainty, the geographic shifts of profitability can change that further. But, directionally, the reason it's going down is through some of this work we're doing with our Pan-European headquarters in the Netherlands. And in connection with that, it's changing some of the product flows in the company to a more favorable tax jurisdictions. So that's really the biggest part of driving that change on into 2015.

The second part of your question on leverage, we've never really put out specific leverage targets, but what we have said is we do want to continue to strengthen the balance sheet of the company. And I think if you look back at the past three years of what we've been doing, it demonstrates that commitment. Take that kind of in a couple of buckets, one is that level, so we paid down about \$230 million of debt and most of that was in this last fourth quarter.

If you look at another form of deleveraging is dealing with the underfunding in our pension plans. And both at the end of 2012 and at the end of 2014, we made incremental contributions of \$100 million in each of those years to bring that obligation down. And at the same time, I think you're aware that we embarked on the termination of our Retiree Medical Plan, which is consistent with what we've seen other companies do. And in the end, we funded about \$70 million into that, but it reduced the liability by a couple of \$100 million, just the way we structure that buyout.

And I'm pleased to tell you that this past quarter, there was another step back on the pension side. So there's a population of employees within that pension obligation, that our former employees have moved on to other companies, but we remain with an obligation to fund some level of pension for them.

We made an offer to those employees to [indiscernible] (30:19) and succeeded in getting a group of them to accept that offer, which on a gross basis, reduces that pension liability by over \$200 million, in exchange for about \$150 million that came out of the plan.

So it didn't come out of the cash that you see on our balance sheet, but rather came out of the plan. But again, it's another form of working that obligation down and working on deleveraging. So, I think in future periods, you'll see us continuing to work that down as part of the overall strategy for cash deployment.

Kevin W. McCarthy
Bank of America Merrill Lynch

Q

Thank you very much.

Jon Puckett
Vice President-Investor Relations

A

Thanks, Kevin. Drew, let's move to the next question.

Operator: The next question comes from Bob Koort of Goldman Sachs. Please go ahead.

Robert Andrew Koort
Goldman Sachs & Co.

Q

Thanks very much. Good morning.

Mark C. Rohr
Chairman & Chief Executive Officer

A

Good morning, Bob.

Jon Puckett
Vice President-Investor Relations

A

Good morning.

Robert Andrew Koort
Goldman Sachs & Co.

Q

You guys have been making some reasonable progress on VAE and other ethylene-based products. I'm wondering in light of the propylene chain falling apart, if you're going to suffer maybe some competitive substitution pushback there going forward? What are your thoughts on that?

Mark C. Rohr
Chairman & Chief Executive Officer

A

Yeah. There are some, I think, Bob, that's exactly right. There are some areas where we are seeing that. But Europe and Asia seems to be very – remains very, very committed to some of the virtues, especially in the coatings arena for those [ph] modern fuels (34:42). So, we're seeing still strong growth there, and we're still moving ahead with our expansion in Asia, build a new VAE plant.

Robert Andrew Koort

Goldman Sachs & Co.

Q

And, Mark, I guess maybe to get away from the near-term stuff, you've been there, I think, a little over three years now, and I think when you came in, there was a desire to drive towards a more specialty-oriented platform. Just wondering if you might assess where you are in that evolution, because it sure seems like the market is not giving you any credit for it. I mean, you've got a trading multiple that looks more like a pure-play commodity stock. You mentioned in your remarks that you won't be able to hold on to much raw material relief, which might imply you haven't high-graded the portfolio or maybe your products are more susceptible to some price dislocations. So, can you sort of tell us where you are in that journey and what you might have to do to get a rating more appropriate for where you think the portfolio sits?

Mark C. Rohr

Chairman & Chief Executive Officer

A

Yeah, well, it's a great question, Bob. When we approached this, starting in 2012, doing a real deep dive into our businesses, we really concluded that we had two core capabilities. One was around the Materials segment, which is about half the portfolio. And if you look at the businesses we have there, all the molecules we have and the chemistries we have, there's a real push to marry chemistry and application to drive that, and we've had tremendous success. And so if you draw a circle around Engineered materials and consumer, which is also material, you'll see really strong growth through that period of time.

On the other side, which is technology and technology leverage, we really felt that we weren't given our chance to leverage that. I'd venture to say, in 2012, virtually our entire contractual relationships that we had – the entire list of those contractual relationships with customers did not give us the ability to freely negotiate and freely drop pricing, and we've been working hard to change that. And we've had good success changing that in parts of the world. But I'd still say we're only about a third of the way thereabout.

So part of the ability that you saw last year of [indiscernible] (33:52) driving value and industry driving value is that we changed our approach to that industry and conducted ourselves to be very honest, more like a specialty chemical [indiscernible] (34:01) real-time value and real-time pricing.

So I feel that from a point of view of commerce, we're conducting ourselves in a way that's going to reduce our volatility over time and give us much consistent earnings growth and we've targeted earnings growth, double-digit CAGR, 12% CAGR over like a five-year period, and maintaining that is what's most important to me. And I think, in my world, that's a reflection of really conducting yourself as if it was specialty. We've not been recognized yet for that, but I'm quite confident we will as time goes on.

The last thing I'll mention is as we roll out internally our new strategy and we're looking – our new strategy, the updated version of our strategy looking forward to 2018, it's very apparent to all of those that we need to bring in more businesses into the portfolio. So [indiscernible] (34:56) is taking up more of a front-and-center effort for us to further build the chain, if you will, both on the C1 side and also the Engineered Materials side, in a way that we can further differentiate ourselves with customers and values that would go back to shareholders.

Robert Andrew Koort

Goldman Sachs & Co.

Q

Got it. Thanks.

Mark C. Rohr
Chairman & Chief Executive Officer

A

Thank you.

Jon Puckett
Vice President-Investor Relations

A

Thanks, Bob. Drew, let's move to the next question.

Operator: The next question comes from Vincent Andrews of Morgan Stanley. Please go ahead.

Vincent Stephen Andrews
Morgan Stanley & Co. LLC

Q

Hi. Thanks. Good morning, everyone. Could you just give us a sense of what the machinations are that allow 1Q to be flat year-over-year? May be just talk through the headwinds in the quarter and how the different segments should perform?

Mark C. Rohr
Chairman & Chief Executive Officer

A

You were breaking up a lot there, Vincent.

Vincent Stephen Andrews
Morgan Stanley & Co. LLC

Q

I'm sorry. I was just trying to understand how first quarter 2015 is going to be consistent with first quarter of 2014. I assume there're going to be puts and takes between the different segments year-over-year, given the headwind. So, I was just hoping you could help us reconcile that as we update our models.

Mark C. Rohr
Chairman & Chief Executive Officer

A

Yeah. I think – well, it's just a – I think as we enter 2015, we're talking about 2015 earnings. As we look at it here, in the bottom line basis, we think it's going to be fairly consistent with what we did in the first quarter of 2014. We're expecting – if I can talk about that some – we're expecting stronger performance in a lot of the businesses, like the acetic acid chain and derivatives, [ph] acetyl chain, (36:23) Engineered Materials businesses, and that'll be offset by cellulose, which we've talked about in the big inventory hit that's going to occur, a lot of that occurs in the first quarter.

And so, that's how we kind of come to that balanced number. Should get a little [ph] credibility (36:40) in tax rate, as Chris mentioned. That'll help a bit in there as well. But net of all those things, you come out about flat.

Vincent Stephen Andrews
Morgan Stanley & Co. LLC

Q

Okay. And just as a follow-up, you mentioned that the M&A is becoming more front-and-center in your strategic discussions. You also talk about the other side of that, which would be potentially selling things or making the overall structure of the company different. There's obviously, across the chemicals industry, there's a lot of debate at many different more conglomerate-oriented companies about pure play or the conglomerate structure or what have you, and you're obviously in a variety of different things.

So, do you look at your portfolio on a sum-of-the-parts basis and do you have any thoughts about, is it definitely that you're going to be adding versus, is there any opportunity to subtract or to make things different?

Mark C. Rohr

Chairman & Chief Executive Officer

A

No, there are opportunities. We've actually attempted some of those. And really tough, from a value equation point of view, [ph] one of the (37 :38) right thing to do at the time, to take that step. So you should have a view that we're locked into only one portfolio. What I will say is that these two cores – when you look at it from a two-core perspective, and you set aside the chemistry portfolio of individual businesses, there is lot of combined strength there. And so, we feel good about the two cores. But clearly, there are pieces of those that, at some point in time, may better fit somewhere else, and we'll be fine with that.

Vincent Stephen Andrews

Morgan Stanley & Co. LLC

Q

Okay, thank you very much.

Mark C. Rohr

Chairman & Chief Executive Officer

A

Thank you.

Jon Puckett

Vice President-Investor Relations

A

Okay, thanks, Vincent. Drew, let's move to the next question and we'll have this be the last series of questions.

Operator: Okay, and that question will come from Jeff Zekauskas of JPMorgan. Please go ahead.

Jeffrey J. Zekauskas

J.P. Morgan Securities Inc. Co.

Q

Thanks very much.

Mark C. Rohr

Chairman & Chief Executive Officer

A

Good morning, Jeff.

Jeffrey J. Zekauskas

J.P. Morgan Securities Inc. Co.

Q

Hi, good morning. Celanese buys quite a lot of ethylene. My guess is something over a billion pounds. Is that the right number? And how much of that comes under formulaic pricing and how much of it doesn't?

Mark C. Rohr

Chairman & Chief Executive Officer

A

That number is – generically, it's in the right range. I'll just put it – I'll just say that.

Jeffrey J. Zekauskas

J.P. Morgan Securities Inc. Co.

Q

Sure, yeah.

Mark C. Rohr
Chairman & Chief Executive Officer

A

It's in the right range. All of our buys are formulaic.

Jeffrey J. Zekauskas
J.P. Morgan Securities Inc. Co.

Q

Okay.

Mark C. Rohr
Chairman & Chief Executive Officer

A

We don't really buy – we don't buy on the spot market, if that's what you're asking.

Jeffrey J. Zekauskas
J.P. Morgan Securities Inc. Co.

Q

No. No. No. What I meant is that, obviously, ethylene prices have come down quite a lot. And so, I would think there would be some kind of tailwind that you would experience, at least in the beginning of the year.

Mark C. Rohr
Chairman & Chief Executive Officer

A

Well, I think there are some areas where those molecules go into specialty products.

Jeffrey J. Zekauskas
J.P. Morgan Securities Inc. Co.

Q

Yeah.

Mark C. Rohr
Chairman & Chief Executive Officer

A

Right? And that creates, in itself, an opportunity for us. There are other areas where they go into conventional products, where that formula in our customer base is kind of passed through, if that makes sense.

Jeffrey J. Zekauskas
J.P. Morgan Securities Inc. Co.

Q

Sure.

Mark C. Rohr
Chairman & Chief Executive Officer

A

So, the ethylene benefit that's going to roll to us as we go through this year. A chunk of it, we in effect, don't see because our customers-based business has a tie-back to that molecule.

Jeffrey J. Zekauskas
J.P. Morgan Securities Inc. Co.

Q

Okay. Then for my follow-up, I would think Ibn Sina might have a tough year this year. When you sort of size what the equity contribution might be, do you size it down 50% or 30% or some number like that, or do you not size it?

Mark C. Rohr
Chairman & Chief Executive Officer

A

Yeah. No, we do size that. Yeah, as you know, Ibn Sina, effectively the way that business works is basically it's MTBE sale, and MTBE has a reasonable correlation to crude.

Jeffrey J. Zekauskas
J.P. Morgan Securities Inc. Co.

Q

Right.

Mark C. Rohr
Chairman & Chief Executive Officer

A

So, we do expect, and our partners expect that the netback to that venture is going to go down. We've sized that in the range of \$0.15 to \$0.20, potentially.

Jeffrey J. Zekauskas
J.P. Morgan Securities Inc. Co.

Q

\$0.15...

Mark C. Rohr
Chairman & Chief Executive Officer

A

And that would be a full-year kind of perspective on it.

Chris Jensen
Senior Vice President, Finance

A

Jeff, another thing to keep in mind on that one is, we're picking up their numbers [indiscernible] (41:06). So, just bear that in mind.

Jeffrey J. Zekauskas
J.P. Morgan Securities Inc. Co.

Q

Yes.

Mark C. Rohr
Chairman & Chief Executive Officer

A

You'll start seeing it in the second quarter, whatever is going on.

Jeffrey J. Zekauskas
J.P. Morgan Securities Inc. Co.

Q

Okay, fine, yeah. All right. Thank you so much.

Mark C. Rohr
Chairman & Chief Executive Officer

A

Right. Thank you, Jeff.

Jon Puckett

Vice President-Investor Relations

Thanks, Jeff. And thanks everybody else on the call today. We'll be around for follow-ups later today. Have a great Friday.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect. Once again, the conference has ended. You may disconnect your line.

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