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Celanese Corp. *(CE)*

Q3 2012 Earnings Call

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Analyst, Jefferies & Co., Inc.

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Analyst, Morgan Stanley & Co. LLC

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Analyst, Credit Agricole Securities (USA), Inc.

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the Celanese Corporation Third Quarter 2012 Earnings Conference Call. At this time all participants are in a listen-only mode. Later we will conduct a question and answer session and instructions will follow at that time. [Operator Instructions] . As a reminder, this conference is being recorded.

I would now like to turn the conference over to today's host Jon Puckett. Sir, you may begin.

Jon Puckett

Vice President-Investor Relations, Celanese Corp.

Thank you, Shannon. Welcome to the Celanese Corporation Third Quarter 2012 Conference Call. My name is Jon Puckett, Vice President of Investor Relations. With me today are Mark Rohr, Chairman and Chief Executive Officer; Steven Sterin, Senior Vice President and Chief Financial Officer. Doug Madden, Chief Operating Officer; and Mark Oberle, Senior Vice President, Corporate Affairs.

The Celanese Corporation third quarter 2012 earnings release was distributed via Business Wire yesterday after market close. The power point slides for the call and our prepared comments for the quarter were also posted on our website at www.celanese.com in the Investor Section. All of these items have been submitted to the SEC in a current report on Form 8-K.

As a reminder some of the matters discussed today and included in our presentations may include forward-looking statements concerning, for example, Celanese Corporation's future objectives and results. Please note the cautionary language contained in our 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 in our slides or the press release as applicable. This morning Mark Rohr will provide some introductory comments and then we will field your questions.

I'd now like to turn the call over to Mark.

Mark C. Rohr

Chairman, President & Chief Executive Officer, Celanese Corp.

Thanks, Jon. And welcome everyone for joining us today. As Jon noted, we released prepared remarks last night so I'll briefly make a few comments before we open the call to Q&A. We reported adjusted earnings per share of \$0.93 on revenue of \$1.6 billion. This was a very good quarter given the challenging economic environments in Europe, slower growth in Asia and currency headwind. These results demonstrate the strength of our business, our technology platforms and the accomplishments of our teams around the world.

AEM delivered sustained revenues and margin sequentially despite weakened economic conditions in Europe. Operating EBITDA was \$109 million, down \$5 million or 4% from Q2 results, driven by lower equity earnings in affiliates. The base business delivered sustained margins due to higher pricing.

In Consumer Specialties, operating EBITDA increased sequentially and year-over-year \$87 million, primarily due to higher pricing on continued strong global demand demonstrating the value-added solutions we provide to our customers.

In Industrial Specialties, our Emulsion business delivered record performance, as we saw higher volume in Asia and North America. Operating EBITDA was \$36 million as soft demand for EVA applications resulted in lower revenue and earnings for the segment.

Acetyl Intermediates continued to experience trough-like conditions, which impacted both demand and pricing. Operating EBITDA was \$91 million, marginally lower than the second quarter. Although the current conditions are difficult, our cost position and ability to leverage technology positions us well when global economic growth returns.

Our adjusted free cash flow was \$158 million, driven by lower trade working capital compared to last year. And these results help us reduce our overall net debt position by \$124 compared to Q2. These results allow us to continue to pursue our balanced cash deployment strategy including increasing our dividend and repurchasing shares under our increased repurchase – share repurchase authorization.

Looking forward, the microeconomic environment remains uncertain and unfortunately we expect these conditions will continue through the remainder of 2012 and into the second quarter of 2013. But we are making progress on items that are under our control like customer focused innovation, productivity and cost control. And we expect fourth quarter earnings to be modestly better than the prior year's.

As we take an early look into 2013, we see a clear path to our long-term objective of 12% to 14% growth, but we don't expect it will come from a robust external environment. We see overall end market demand for our products flat early in the year before starting to strengthen in the second half. So our focus will be on Celanese specific initiatives we have been sharing with you for quite some time now. Items like the acetate facility rationalization, the Nantong expansion, the ethanol startup at our Nanjing facility and other ongoing productivity efforts. We will also increase the effectiveness and speed of our new product introductions to help us drive growth as we showcased in Houston last month.

With that, let me now turn the call back over to Jon for Q&A.

Jon Puckett

Vice President-Investor Relations, Celanese Corp.

Thanks Mark. Shannon, let's go ahead and open the lines for Q&A. I would just remind everybody that we'd like you to ask one question and one follow-up, so we can move through as many questions as possible. Go ahead Shannon.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] . Our first question comes from David Begleiter of Deutsche Bank. You may begin.

David I. Begleiter

Analyst, Deutsche Bank Securities, Inc.

Thank you, good morning.

Q

A

Good morning David.

David I. Begleiter

Analyst, Deutsche Bank Securities, Inc.

Thank you. Could you comment on what you're seeing in China for acetic acid pricing and volumes? And I know you don't expect things to improve until early next year, but just how low will things be in Q4 and Q1 in your view?

Q

Mark C. Rohr

Chairman, President & Chief Executive Officer, Celanese Corp.

Well, David, we've certainly seen quarter-to-quarter sequentially, we've seen price decrease a bit and we've seen volumes decrease a bit as well. China remains a pretty anemic marketplace. I don't think we have any expectations that it would slide further. But everyone's a bit cautious as we enter the end of the year over concerns that people will take dramatic steps to drop inventory and that sort of thing. But absent that, I'd say we're pretty flat to a slight downward trend. Doug, do you have any comments on that.

A

Douglas M. Madden

Chief Operating Officer & Executive Vice President, Celanese Corp.

No, David. I'd echo what Mark said, if you put this in prospective whether we talk about where we were last year sequentially. Last year at this time as you know we saw high-utilization in the industry, you had pricing up probably a \$100 a ton higher than it is today. Sequentially, we seem to be very modestly down and we think that we've hit bottom, if that's the right term for China. So, our assumptions going forward has this looking very much for this year and frankly into next year the way we did in the quarter here.

A

David I. Begleiter

Analyst, Deutsche Bank Securities, Inc.

And Doug, just on Singapore, what's your thinking on that facility? Is it structurally impaired long-term? Have you found ways to lower the cost there? Just what are you thinking about Singapore longer-term?

Q

Douglas M. Madden

Chief Operating Officer & Executive Vice President, Celanese Corp.

Yeah, I think our view on Singapore today is the same as we've echoed. If you step back again and you look, just to put in perspective because we get ask this question a lot, Singapore continues to be utilized and to have a role in our global footprint. The reality is that over the course of the year we've operated that unit probably about 35% to

A

40% of the time this year whether that's for balancing our system, where there is a need for acid in the derivatives, whether that's to cover turnarounds like in the case that we just did in Nanjing and quite frankly to take, selectively, opportunities in the marketplace to position it. So going forward, Singapore still has value for us. Clearly we continue to look at options for improving it, but you know next year I think you probably see more the same in terms of operating that unit, barring any stronger recovery or restoration, post the New Year and whatever you believe might happen in Southeast Asia as well as in China.

Mark C. Rohr

Chairman, President & Chief Executive Officer, Celanese Corp.

A

David, if I can add a bit, from a cost position, there was a feedstock disadvantage there, raw material disadvantage in Singapore and we don't see that situation dramatically changing over the short time. They're periods of time when that cost disadvantage is overcome by other things, and that affords us the opportunity then to operate as Doug has mentioned.

Operator: Thank you. Our next question is from Laurence Alexander of Jefferies. You may begin.

Rob Walker

Analyst, Jefferies & Co., Inc.

Q

Good morning. This is Rob Walker on for Laurence.

Mark C. Rohr

Chairman, President & Chief Executive Officer, Celanese Corp.

A

Hi, Rob.

Rob Walker

Analyst, Jefferies & Co., Inc.

Q

Hi. I guess firstly just on POM, can you give us an update on the pricing outlook for POM and whether the gains you made this year will provide a tailwind to next year?

Mark C. Rohr

Chairman, President & Chief Executive Officer, Celanese Corp.

A

Yeah, let me answer that Rob. So this year you've seen – particularly in this quarter you've seen some margin improvement in POM largely coming from select price increases, some of that may actually be some mix effect as well and some favorable feedstock advantages in the raw materials. This is a, as you well know, this is a value in use model. We go into the marketplace with the products that we offer, the solutions that we're doing with the customers, and we seek higher value propositions. We don't adjust pricing up or down just based on raw material feedstock. So, we'll benefit as feedstocks move down and sometimes you see a little bit of compression, but I'd say directionally the same thing for next year, is we've got a healthy pipeline. We've got some enthusiasm for some of the markets that we are working in and we will continue to look at selectively, spots that we can go on in and move price.

Rob Walker

Analyst, Jefferies & Co., Inc.

Q

Thanks and then just a follow-up. You had good free cash flow this quarter, can you remind us the levers that you have to pull potentially if things worsen into next year and that kind of lingers a little longer, what you can, the levers you can pull to improve free cash flow next year? Thanks.

Douglas M. Madden

Chief Operating Officer & Executive Vice President, Celanese Corp.

A

Yeah. I'd just start with working capital. We are always continuously focused on making sure that our inventory balances are in line with what we anticipate market demand to be. We've also already taken actions around plant rationalization and productivity that's going to benefit us next year whether it's the Spondon shutdown or our general productivity programs built in our plants around energy cost reductions and waste reductions.

So, I'd say those are the two main levers. And then beyond that, Mark mentioned in his opening comments that we're focusing on accelerating those things that we control in the innovation pipeline. So, we'd expect to continue to push hard there and bring higher value products to the market faster.

Operator: Thank you. Our next question is from Vincent Andrews of Morgan Stanley. You may begin.

Vincent Andrews

Analyst, Morgan Stanley & Co. LLC

Q

Thanks very much. Question is sort of about 2013 and the second half and maybe it's related to China; if you could just sort of give us a sense of what your view of the government turnover is going to be and any potential stimulus and the impact that maybe waiting for this is having on your business both before and then ultimately after? And I guess what I'm sort of wondering is about, if they stimulate, if it's more consumer oriented or consumer spending oriented than infrastructure, just how are you thinking about this in general?

Mark C. Rohr

Chairman, President & Chief Executive Officer, Celanese Corp.

A

Yeah, thanks Vincent, well you know they're in the middle of the fundamental change in the leadership structure in the Government of China. We have – coming up in November, we have the change in – the Communist party changes and then the government changes occur follow-on in March of next year. Our view is talking to government officials there and business leaders is that the uncertainty around government policies and policies that are going to be pushed or endorsed is causing some of the economic weakness that you see in China today. It certainly has had an impact on foreign direct investment. But you also need to realize that things like sovereign debt in Europe has had an impact on foreign direct investment in China.

So, what we see is the new government as it really positions itself in March of next year is going to be quite clear on the programs and policies that are important to it. And that in itself is going to provide opportunity for enhanced growth. We do believe there will be stimulus, although I don't think it's going to be the kind of infrastructure stimulus that we saw several years ago. We think it's going to be more directed at consumerism and steps that can be taken to improve quality of life for the citizens of China. So, we feel good about China in the second half of next year and we think growth is going to be stronger in the second half than the first half and we think growth overall in China next year will be much stronger than it has been this year.

Vincent Andrews

Analyst, Morgan Stanley & Co. LLC

Q

And is that what drives your view that 2013 improves in the back half, I mean other than obviously soft comparisons, is that what the real driver is?

Mark C. Rohr

Chairman, President & Chief Executive Officer, Celanese Corp.

A

Absolutely. It's the real driver and I think having said that, it's the unknown in all this for us Vincent is what the ripple effect is going to be of Europe. Europe's still sliding and, at least in our equation, we see it still sliding. We're seeing automotive trending down although there is a modest trend upward in theory this quarter in automotive. But we're seeing Europe trend down and the U.S. is a big question mark. So we're taking it on faith that things are going to stay about like they are through the first quarter into the second quarter next year. And China is going to be a real indicator for what should happen to our earnings and I think others' earnings later next year.

Operator: Thank you. Our next question is from Nils Wallin of CLSA. You may begin.

Nils Wallin

Analyst, Credit Agricole Securities (USA), Inc.

Q

Good morning. And thanks for taking my question. First off, interested in the margin improvement in Advanced Engineered Materials. How much of this is improving your cost structure versus bringing on your POM facility?

Douglas M. Madden

Chief Operating Officer & Executive Vice President, Celanese Corp.

A

Yeah. Thanks for the question. In the quarter, I think as I tried to indicate before, we've got prices moving up and we've got feedstocks moving down. Generally we'll think of that total in terms of margin. When you ask about our new facility, our new facility gives us certainly the capability to be able to expand and grow with the innovation programs that we're offering. So the short answer near term is that you've seen in that business the – I think the strength across the whole portfolio of products where we can selectively increase pricing. We've been doing that all through the year and we'll continue to seek places where we think that value can be improved. As feedstocks gets better, we expand the margins on that as well.

Nils Wallin

Analyst, Credit Agricole Securities (USA), Inc.

Q

Thanks. And just a follow-up, you noticed – noted rather weakness in EVA. Is that solely due to photovoltaics or are there other markets that are also pressuring that product?

Douglas M. Madden

Chief Operating Officer & Executive Vice President, Celanese Corp.

A

So, think of it largely influenced by photovoltaics and that's a marketplace that today is substantially oversupply. If you look between the movement here across the year, there is some timing in there as well where we would have had some of our sales and revenue. So when you look at Q2 versus Q3, you really have a stronger elevated Q2 as a result of some of that, but largely photovoltaics plays role and will continue through the first half of the next year, we think, to have an impact on us.

Operator: Thank You. Our next question is from Kevin McCarthy of Bank of America. You may begin.

Kevin W. McCarthy

Analyst, Bank of America Merrill Lynch

Q

Yes good morning. Kind of a big picture question for you Mark on acetic acid and maybe the shape of the global cost curve. If I look at history, your EBITDA margins today I guess are running about half of the prior peak in 2005 and, oh I don't know, maybe 600 bps to 1000 bps below the shoulder years in 2006 through 2008 and so as you look at the cost curve today, do you think that it's flattened, that is to say, do you think some of the medium

size Chinese competitors have become more capable or is that not the case and perhaps we're just seeing a weak demand environment here such that if the environment does improve, you could envision margins kind of going back up to that let's say mid-to-high teens level? I'd be curious to hear your thoughts on that.

Mark C. Rohr

Chairman, President & Chief Executive Officer, Celanese Corp.

A

Yeah, let me – let me kick it off and others may want to join in here, but we believe the curve has flattened to some degree, Kevin. Some of the larger producers in China have certainly improved their position a bit and – and so where we – where it was much steeper in those periods that you're talking about, it's now flatter. I think the second part of that as you can't overestimate the sloppiness – industry sloppiness associated with running at 75% industry utilization. In prior periods of time, we tended to run at a much higher average industry utilization, call it mid-80s, and so – so the ability to influence margins or have margins influenced by a disruption or an event like that was greater than it is just today and I think the combination of those two put us in – put us in a little bit different situation with acid. So, yeah, so it is a bit flatter.

Douglas M. Madden

Chief Operating Officer & Executive Vice President, Celanese Corp.

A

Kevin, let me just add, it's Doug. As you kind of walk through the chronology there and you go back and you mentioned the peaks in 2006, 2007, I think structurally the difference and I couldn't agree more with Mark's comments, first of all that there's been some catch up and some compression, but recall in 2006 or 2007 we had very high-cost Umbrella Technology that was out there. The guys in the Southeast that were operating on ethylene-based technology, which was the highest cost and you were talking about the difference in – in current technology platforms versus those of \$100 to \$150 a ton. Those are gone, those are shutdown.

Kevin W. McCarthy

Analyst, Bank of America Merrill Lynch

Q

Right.

Douglas M. Madden

Chief Operating Officer & Executive Vice President, Celanese Corp.

A

Those are finished and out. So, structurally if you're thinking about the peaks as it was in 2006 or 2007, I'd say we've had a structural adjustment that would make it hard for me to see those kind of numbers restored. Having said that and resetting to where we are today, it was just a year ago where the industry was operating at 90% plus and you saw pricing, at this time last year, you saw actually in Q2 swinging into Q3, acid pricing was \$600, pushing \$600 and then Q3 you saw it about \$100 higher than it is. I think that's real and I think that speaks to, still you saw our earnings up, and it speaks to the strength of the curve.

Kevin W. McCarthy

Analyst, Bank of America Merrill Lynch

Q

Okay. Thank you for that. That's helpful. And just a quick follow-up maybe for Steve, could you comment on the likely pace of execution against the new \$400 million share repurchase authorization? Thanks.

Steven M. Sterin

CFO, President-Advanced Fuel Technologies & SVP, Celanese Corp.

A

I'd say that our approach is consistent with what it's been and we continue to be – have a balanced use of cash. I'd also mention that, you know, our cash generation has been strong this year. We reported a very nice position at the upper end of our targeted range of cash in the \$930 million level we've – we just did – want to kind of keep

between \$500 million and \$1 billion strategic cash available to invest in the business. So I would expect as we go forward, that we still maintain cash in that range, that we are in the upper end of it. We do think that buying back shares makes sense given the multiple of the business today. But we also want to pay down debt, and continue to look at dividend increases. And invest in the projects that you've heard us talk about particularly in Houston around technology and innovation and the ethanol as well. So, yeah, I would expect us to continue to buy back shares over time and we're well positioned to do it with our cash.

Operator: Thank you. Our next question is from Frank Mitsch of Wells Fargo. You may begin.

Frank J. Mitsch

Analyst, Wells Fargo Advisors LLC

Good morning, gentlemen.

Q

Mark C. Rohr

Chairman, President & Chief Executive Officer, Celanese Corp.

Good morning.

A

Frank J. Mitsch

Analyst, Wells Fargo Advisors LLC

One of the things that I haven't heard a lot on, this conference call season, was records and obviously you guys set a record on the emulsion side and you talked about raws being a big part of that. Can you give us some more color on that, how sustainable is that and what is your expectations there?

Q

Douglas M. Madden

Chief Operating Officer & Executive Vice President, Celanese Corp.

Yeah, Frank, so you saw on the quarter Mark mentioned, record earnings. You have combination, our volumes were strong as you would expect for this time of the year. Also, we saw a combination here again of price movement up and advantage for favorable feedstocks as well. Now recall over, we say over time that's a business that tends to lag a quarter or two in light of its feedstocks, but I think what's noteworthy for us here is, is the success that we've had in being able to grow our vinyl space with these emulsions, displace other technologies and being able to get the value out of that that you would expect.

A

So going forward we're, Q4 and into next year is, as we've indicated, the outlook for that business I think is continued growth based upon the macroeconomic environment. The other thing I will mention is a large part of that business sits within Europe. And again, we've talked all about the headlines in Europe to the extent that we see a normal fourth-quarter. We would say that we would see normal seasonality in that business, barring anything where we see early pullback or any kind of unexpected destocking go on.

Steven M. Sterin

CFO, President-Advanced Fuel Technologies & SVP, Celanese Corp.

The one other structural thing I'd add is, to what Doug said is, we've also had success in China with our commercialization of our second unit. So when you think about structural changes in addition to what Doug said that does provide a consistent engine of growth going forward as well.

A

Frank J. Mitsch

Analyst, Wells Fargo Advisors LLC

Order of magnitude in terms of the capacity addition for that?

Q

Mark C. Rohr

Chairman, President & Chief Executive Officer, Celanese Corp.

I'm sorry Frank, one more time.

A

Frank J. Mitsch

Analyst, Wells Fargo Advisors LLC

The order of magnitude that that added to your overall Emulsions capacity, roughly what percentage increase was that?

Q

Douglas M. Madden

Chief Operating Officer & Executive Vice President, Celanese Corp.

We doubled the size of our Asia capacity with that last expansion and that's probably on a global footprint. Think about that as somewhere in about 15% range on our footprint.

A

Frank J. Mitsch

Analyst, Wells Fargo Advisors LLC

Great, great. And then lastly, and one of the things obviously you guys talked about in September was the CelFX technology and actually I've heard a thing or two in the marketplace since then that gives me a bit more confidence in that technology. Can you remind me of the timing of the opportunity that you see there, where do you think that can go to?

Q

Douglas M. Madden

Chief Operating Officer & Executive Vice President, Celanese Corp.

Yeah, love to hear what you're hearing by the way Frank, it's been great. Well I think as we told you in our Technology Day and don't put time limits on this, we're encouraged. We're out there with all the leaders in the industry. This product is being looked at, it's being sampled, it's being tested. Long-term with success, you can think about this maybe as much as 20% of the earnings of the business coming out but that's, I want to caution you, that's ultra-success. So pick a range within there, we're still early in the process. We think it has a place in the global market particularly in those markets today where in Asia where they use carbon-based filters, as we shared with you down in the technology. And if you kind of carve that out and look at it, pick a number 15%, 20% cautiously of what it might represent to the long-term success of the business.

A

Does that help you?

A

Operator: Thank you. Our next question is from Mike Ritzenthaler of Piper Jaffray. You may begin.

Mike J. Ritzenthaler

Analyst, Piper Jaffray, Inc.

Good morning guys.

Q

Mark C. Rohr

Chairman, President & Chief Executive Officer, Celanese Corp.

Good morning Mike.

A

Mike J. Ritzenthaler

Analyst, Piper Jaffray, Inc.

Q

I'd want to explore a little bit the inventory levels for the Specialty products in AEM if we could. We've seen from other companies that have reported this season that specialty polymers levered to the auto markets have produced pretty robust year-over-year growth versus what we've seen in Advanced Engineering Materials, which is flattish on the EBITDA line to maybe slightly down. So I think it would be helpful for a little bit more context around what's driving that, if it's inventory levels, at your customer levels or – at the customer level or some other factor?

Douglas M. Madden

Chief Operating Officer & Executive Vice President, Celanese Corp.

A

So, we talked about this business and having some visibility out there usually about 30 days, maximum 40 days on our view, is we also we talk to them and measure inventory. I'll tell you that that's something that we watch very closely. Typically today, the lead times between the time they order and the time it actually goes into production continues to be nearer. For us we don't think that there is a significant amount of inventory that, that's in the chain today. We've taking steps here to moderate our levels to be certain particularly going into the end of the year that inventories are lower.

The other thing I'll mention here is that as we've brought up and commissioned our new asset in Germany, certainly as we commission, we've run that through, we've got some inventory, we held – we've got inventory built for certain customers over a certain period of time that we committed to as part of this transition. But we're working those down and working those off. So, for the industry, don't think that there's a huge amount out there and for us we continue to monitor and watch it closely.

Mark C. Rohr

Chairman, President & Chief Executive Officer, Celanese Corp.

A

Okay. Just a few things on the financial side. Keep in mind that that business has a nice profitability position in Europe, because we've got a bit of headwind on currency when you compare it to last year, since that was your reference point. And also are even seeing the joint venture equity affiliate is on a lag and we saw some MTBE pricing decline in the second quarter that rolled through in the third quarter. So if you look at the base business, you've actually got a nice margin improvement growth.

Mike J. Ritzenthaler

Analyst, Piper Jaffray, Inc.

Q

All right. That helps. And then on the Nanjing facility starting up late 2013. For some reason I was under the impression that it was – that you were targeting midyear, but maybe that was for completion; if you could just kind of straighten that out for me. And then one final question on the catalyst performance, it was great to be able to see the unit at the Technology Day. Now, I was wondering if there was any update on the catalyst performance versus expectations.

Douglas M. Madden

Chief Operating Officer & Executive Vice President, Celanese Corp.

A

So, the unit is going to be mechanically complete sometime around midyear. But we think it will be kind of the end of the, it'll probably be in the early third quarter when that happens. So it's going to take us a little while to get it up and running, so we're calling it late in the year. I expect by the fourth quarter we will have it running, that kind of timeframe.

Catalyst is performing as anticipated. We're really excited by – about the performance and we're getting ready to – in a matter of weeks actually shut the unit down and modify it for Gen 2 operations, which includes a higher efficiency, lower cost catalyst as well. So we're very excited about the performance of that unit and looking forward to demonstrating Gen 2 and moving on with future installations.

Operator: Thank you. Our next question is from Bob Koort of Goldman Sachs. You may begin.

Robert A. Koort

Analyst, Goldman Sachs & Co.

Thank you. Good morning.

Q

Mark C. Rohr

Chairman, President & Chief Executive Officer, Celanese Corp.

Good morning Bob.

A

Robert A. Koort

Analyst, Goldman Sachs & Co.

Maybe I'll start by being a little obsequious but I really appreciate you guys putting out the numbers, the script and everything the night before. It gives us a great chance to study it and then ask more insightful and more time for questions. So, thanks to Jon and the team for that.

Q

Thanks.

A

Robert A. Koort

Analyst, Goldman Sachs & Co.

Maybe now I can ask some tough questions.

Q

Mark C. Rohr

Chairman, President & Chief Executive Officer, Celanese Corp.

Yeah, but that doesn't give you the right to ask tough questions Bob.

A

Robert A. Koort

Analyst, Goldman Sachs & Co.

When you guys take down Nanjing to connect up this ethanol unit, then do you expect that Singapore would be at full production to offset whatever production decline you might have?

Q

Mark C. Rohr

Chairman, President & Chief Executive Officer, Celanese Corp.

Yeah I mean the real key for us on Singapore is going to be, if I can say, that it's really going to be the economics of that unit. Can we run it and make any money? And that depends a lot on the feedstock cost position of that unit as well. So I don't know that we can forecast what's going to happen there.

A

Robert A. Koort

Analyst, Goldman Sachs & Co.

Q

And Mark I think if I heard you correctly, you've said there are periods when your technology advantage cannot offset the raw material disadvantage. So could you just help me quantify or qualify what that raw material delta, how from the outside would we track that?

Mark C. Rohr

Chairman, President & Chief Executive Officer, Celanese Corp.

A

Well, I don't know how much of that I want to actually share, but if you look at it in terms of dollars per ton, Bob. We share with you guys pretty specifically the sort of range of margins that were available through our technology upgrade. So, it happens if someone can back integrate and get a really sweetheart deal from a feedstock point of view that could trump that, that situation – the margin we have. I don't know if that's ever really happened in full sense, but it can take the edge off our margin.

Douglas M. Madden

Chief Operating Officer & Executive Vice President, Celanese Corp.

A

Bob, the only other thing I'd just kind of point you to generally is, is I think that if you were to look at margins today, I think it'd be reasonable to assume at some of these lower end margins today, that the other guys still remain modestly above cash cost. And that's, there's some difference in there between our technology and those swings in raw materials. But think about it being marginally even with those raw materials above those cash costs.

Mark C. Rohr

Chairman, President & Chief Executive Officer, Celanese Corp.

A

In very simple sense, Bob, we're not, I mean we don't crack ethylene, but if you look at it, it's almost like a feedstock methylene cracker point of view. Feedstock can be advantaged or disadvantaged and so some producers tend to have the economics that roll through because of their advantaged situation.

Robert A. Koort

Analyst, Goldman Sachs & Co.

Q

And speaking of cracking ethylene, is it conceivable your new methanol unit could be structured as an MLP for a much lower cost of capital?

Mark C. Rohr

Chairman, President & Chief Executive Officer, Celanese Corp.

A

Our new methanol unit could be structured as, methanol olefins you're saying? No, no, no, I don't think so. You're talking about it in Houston?

Robert A. Koort

Analyst, Goldman Sachs & Co.

Q

It seems like all sorts of crazy things are going in MLPs these days. So, once upon a time Borden Chemical I guess was an MLP that had a methanol plant. But, last question if I might, you've given the bridges before about what 2013 might look like and you've been pretty consistent that you could get \$0.50 of self-help, \$0.40 or \$0.50 and then whatever the macro brings you, are you still comfortable with that kind of range?

Mark C. Rohr

Chairman, President & Chief Executive Officer, Celanese Corp.

A

Yeah, I mean that's what we're saying with the 12% to 14% is that, that we're going to – we're kind of ignoring what the hell is going on the world and we're going to work hard to make sure we can deliver what we can deliver. And that's going to give us the 12% to 14% or so growth. We're not taking credit for the outside market or things that – we really calling the market pretty flat year-over-year, really.

Operator: Thank you. Our next question is from Hassan Ahmed of Alembic Global. You may begin.

Hassan I. Ahmed

Co-Founder & Head of Research, Alembic Global Advisors

Q

You know, if I could just carry on with this guidance conversation, you know, the comments you were making earlier. So if I were to keep Q4, 2012 numbers flat with Q4 2011 numbers, that would imply, call it around \$3.70 or so in terms of EPS. And then you talked about being able to sort of internally, be it from Nantong or Nanjing ethanol and the like and the Spondon closure generate another \$0.50 or so. So that gets me to \$4.20, so obviously fair to assume that you're not really factoring in any recovery in terms of acetic margins?

Mark C. Rohr

Chairman, President & Chief Executive Officer, Celanese Corp.

A

Yeah, I think what we are, I think that's – those are – I'm not going to argue with your math, that's roughly the way it works. But what we're saying is that, when we look at individual businesses and we factor in recovery and lack of recovery, we can see some businesses sliding, that haven't slid yet. So we are not comfortable that Europe is at the bottom and is starting to rebound. Europe still appears to be sliding a bit. So yeah, we have some positive uptick acetyls and other areas that we think could happen, equally, we think some other businesses may slide a bit. So the net of all that we think is pretty flat. So we're just – it's awkward for us to talk about it today without more clarity, I think as we get into the year we can provide clarity on that, but for now it's the things we control.

Hassan I. Ahmed

Co-Founder & Head of Research, Alembic Global Advisors

Q

Fair enough. And I mean of late it seems that at least in the Chinese spot pricing side of things acetic seems to be sort of moving upwards. What are you seeing out there, I mean, what's really causing that? Is it just rationalization of facilities or is there anything on the demand side that you're seeing?

Douglas M. Madden

Chief Operating Officer & Executive Vice President, Celanese Corp.

A

Yeah, I think while you see very modest movements we would consider it to be relatively flat \$10 to \$15 up at one point maybe reverses itself. Generally market conditions today keep it relatively flat.

Operator: Thank you. Our next question is from Chris Nocella of RBC Capital Markets. You may begin.

Chris J. Nocella

Analyst, RBC Capital Markets Equity Research

Q

Hi. Just a follow up on AEM, can you give us a sense of the current loading or maybe operating rate of the new plant in Frankfurt and maybe the margin potential of that segment as volumes improve and you fill out that facility a little bit?

Mark C. Rohr

Chairman, President & Chief Executive Officer, Celanese Corp.

A

Yeah. If you think about where that facility is today, I'd say think of it today as we ramp it up probably in the 60% to 70% range today. And frankly what it runs at really will depend on what the world looks like as we turn into 2013. Remember too that we added an additional 40,000 tons of capacity on top of what we had. So we shouldn't be alarmed by what its run rates are. That was intended to give us the kind of growth over the next several years.

Douglas M. Madden

Chief Operating Officer & Executive Vice President, Celanese Corp.

A

The one other area of growth to look at broader Asia is in our Polyplastics joint venture. We've got a new facility going into Malaysia that will serve the broader Asia region. So, that will also contribute to our capacity and ability to grow in that market.

Chris J. Nocella

Analyst, RBC Capital Markets Equity Research

Q

Okay. And just at the Analyst Day you mentioned that you're with – negotiations with a major Chinese state-owned refiner that's in process currently, is there any way to get a sense of the timing of when we could some additional steps? Do you think it's sometime this year or maybe potentially early next year?

Mark C. Rohr

Chairman, President & Chief Executive Officer, Celanese Corp.

A

Question about China or the Indonesia announcement?

Chris J. Nocella

Analyst, RBC Capital Markets Equity Research

Q

The Chinese state-owned enterprise?

Douglas M. Madden

Chief Operating Officer & Executive Vice President, Celanese Corp.

A

So, we're in dialog with multiple customers in China. I would say at this point given where we are in discussions and negotiations, it probably wouldn't behoove us to set a fixed timeline on that, but I would say is that the discussions are progressing well, that there is interest. We continue to identify additional value that ethanol can bring to the marketplace and we're making forward progress and the number of folks that we're talking to is increasing. So, I'd say in general we're heading in a positive direction, but it's – China is a big complex market and this is a new application, new product application for China. So, I wouldn't tie down a specific timing at this point. We'll keep you updated on our general progression and discussions.

Operator: Thank you. Our next question is from Jeff Zekauskas of JPMorgan. You may begin.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Q

Good morning.

A

Good morning, Jeff.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Q

In the 1.3 million metric ton methanol plant you plan to build, is it possible that you might go it alone without a partner? And secondly in which quarter and in which year do you expect to bring that plant on?

Mark C. Rohr

Chairman, President & Chief Executive Officer, Celanese Corp.

A

Jeff, I think, could we do without a partner, yes. I would prefer not having that much cash tied up in it. So we are going to try, we're going try to, we're going to try to bring a partner in. We are looking at completion by mid 2015.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Q

In 2015, okay. And then secondly in your commentary you said that the acetate facility rationalization at Spondon might reduce fourth quarter volumes in acetate tone. I was wondering why that would be the case because presumably you would build inventory at Spondon as you closed it. And then secondly in the course of your commentary you said that there were various businesses that could slide, that haven't slid yet, which were those businesses?

Douglas M. Madden

Chief Operating Officer & Executive Vice President, Celanese Corp.

A

So Jeff, let me take the, let me take the acetate question and...

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Q

Sure.

Douglas M. Madden

Chief Operating Officer & Executive Vice President, Celanese Corp.

A

And your logic is right. So we are transitioning now with the shutdown of Spondon. We have been, we have been over time building some inventory to support it. Part of this transition has us bringing that down, has us de-bottle necking our other facility at Lanaken which we shared with you. The ability for us to transition over time, and the plan includes continuing to build inventory as we go forward. So you would see a hit in the fourth quarter. Have we rebuilt all the inventory to replace Spondon, the answer is no, we've not. And that's been part of a conscious plan.

So I think as we kind of move through the latter part of this year and frankly into next year, as we balance that system, as we get those lines running and continue to build inventory support, you will see some modest decline over time. We would expect that though as we move into later part of next year, that we'll start to see that more normalized. The other thing I will add to you – we'll add here is, we also have a major turnaround coming into a facility that is under plan for early 2014. So, you're balancing several things in your inventories to bring Spondon down as well as to think ahead for that as well and that's why you transition all the way through the quarter. Having said that, it will not have an impact on the profitability of the business and we'll continue to see some improvement in that business across that time.

Mark C. Rohr

Chairman, President & Chief Executive Officer, Celanese Corp.

A

Jeff, let me try the second one there. My worries are specifically eurocentric. We just went through a process where we saw Germany initially announcing that there will be some positive auto builds quarter-to-quarter only to have that reverse with announcements of extraordinary shutdowns. Europe is currently forecasting volumes down 5% or so in the auto sector and you already got France and Spain at just record low volume productions and you've got Germany coming off further so that number is going to get worse. And I don't yet see a resolution to the sovereign debt crisis. So, we are concerned that that will ripple into other markets and activities there and that's the real basis for me saying other businesses could slide. Doug, you want to add anything?

Douglas M. Madden

Chief Operating Officer & Executive Vice President, Celanese Corp.

A

Well I would only add, I mean, just to piggyback on Mark's comments. You can apply the same logic to where our industrial specialty businesses has significant exposure into Europe and we're just uncertain of what happens there. Also we mentioned earlier, things like photovoltaic that in our EVA business, that's going to take us the first half of next year to work through as well and we anticipate softness there where we saw quite a bit of strength in that market in the first half of this year. So, there's a lot of puts and takes I think to the cautious tone that you're hearing here.

Mark C. Rohr

Chairman, President & Chief Executive Officer, Celanese Corp.

A

Yeah. And the last thing I'll say is Germany just announced a further reduction in GDP forecast, from 2% down to 1%. So, that process has not run its full course and we're going to work to manage that in a way that's good for Celanese and our shareholders. But it leaves me a little concerned that we'll see some take away from base business as we enter next year.

Operator: Thank you. Our last question is from Duffy Fischer of Barclays. You may begin.

Duffy Fischer

Analyst, Barclays Capital, Inc.

Q

Good morning.

A

Good morning Duffy.

Duffy Fischer

Analyst, Barclays Capital, Inc.

Q

I want to go to the Nanjing retrofit with TCX, and with the oversupply of acetic acid in China today, what's the potential for additional retrofits at Nanjing

going to ethanol? And then both with what could be an additional retrofit and the original one, what's the variability to swing that between ethanol and acetic acid as you get to some equilibrium point and would want to have some flexibility down the road?

Douglas M. Madden

Chief Operating Officer & Executive Vice President, Celanese Corp.

A

Well, there is the possibility to do additional ethanol at Nanjing. It is certainly something, as we look to implement Phase II that we're going to consider in that we'll always design that, if you look at it from a Nanjing point of view where you've got some feedstock flexibility. The more you move into fuel, however, the less feedstock flexibility you have by definition, because you'll be satisfying the third party and their demand for ethanol is part of the fuel circuit. But in the industrial market, we have capability to put it into ethanol or put it into SVAM or acid or we can go a number of ways. So building out that unit to give us more flexibility is something we are looking at.

Duffy Fischer

Analyst, Barclays Capital, Inc.

Q

Okay. And then we've talked a lot about acid, but within AI can you talk about the downstream derivatives, you talked about the flattening curve at the acid level, what's happened with the competition in the downstream derivatives particularly in China over the last year or two?

Douglas M. Madden

Chief Operating Officer & Executive Vice President, Celanese Corp.

A

Yeah, it's probably the same kind of response we've given before. In the downstream derivatives it tends to be more of a demand issue than anything else. I don't know that I'd call out by any means a competitive issue. And a lot of what that downstream derivative, again, is tied to things that happen globally, a lot of it is consumed in Europe in the downstream esters, the acetyl esters businesses specifically.

You typically have seen margins hold up a little bit better there but it's volume and demand. India has had an impact, a substantial amount of that particularly in Asia, that's consumed and used in India and I think you know the story there as well, but this year you've seen very modest growth relative to what India has been, and we would look for some recovery and strengthening their in the downstreams to contribute as well. So Duffy I just leave it, as we see it, less as a competitive issue and just a real demand issue.

Operator: Thank you. I would now like to turn the call back over to Jon Puckett for closing remarks.

Jon Puckett

Vice President-Investor Relations, Celanese Corp.

Thank you Shannon. We appreciate everybody's time today and I'll be around for questions throughout the day and the rest of the week.

Operator: Ladies and gentlemen, this concludes today's conference. Thank you for your participation. Have a wonderful day.

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