20-Jul-2018

# Celanese Corp. (CE)

Q2 2018 Earnings Call

# CORPORATE PARTICIPANTS

Surabhi Varshney
*Vice President-Investor Relations, Celanese Corp.*

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*

Todd Elliott
*Senior Vice President-Acetyls, Celanese Corp.*

# OTHER PARTICIPANTS

Michael J. Sison
*Analyst, KeyBanc Capital Markets, Inc.*

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

Robert Koort
*Analyst, Goldman Sachs & Co. LLC*

P.J. Juvekar
*Analyst, Citigroup Global Markets, Inc.*

Frank J. Mitsch
*Analyst, Wells Fargo Securities LLC*

Duffy Fischer
*Analyst, Barclays Capital, Inc.*

John P. McNulty
*Analyst, BMO Capital Markets (United States)*

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

John Roberts
*Analyst, UBS Securities LLC*

Laurence Alexander
*Analyst, Jefferies LLC*

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

Arun Viswanathan
*Analyst, RBC Capital Markets LLC*

Kevin W. McCarthy
*Analyst, Vertical Research Partners LLC*

# MANAGEMENT DISCUSSION SECTION

**Operator**: Good morning, and welcome to the Celanese Second Quarter 2018 Earnings Conference Call. All participants will be in listen-only mode. [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 Surabhi Varshney. Please go ahead.

## Surabhi Varshney

*Vice President-Investor Relations, Celanese Corp.*

Thank you, Brandon. Welcome to the Celanese Corporation second quarter 2018 earnings conference call. My name is Surabhi Varshney, Vice President, Investor Relations. With me today are Mark Rohr, Chairman and Chief Executive Officer; Scott Richardson, Chief Financial Officer; and Todd Elliott, Senior Vice President, Acetyl Chain.

Yesterday afternoon, Celanese Corporation distributed its second quarter 2018 earnings release via Business Wire and posted slides and remarks about the quarter in the Investor Relations section of our website.

Today's presentation includes statements about expectations for the future results and plans that are forward-looking statements. Actual results might differ materially from those projected in such forward-looking statements. And additional information concerning factors that could cause actual results to materially differ can be found in the posted materials.

We will also discuss non-GAAP measures, information about which, including reconciliations to their comparable GAAP measures, are posted in the Investor Relations section of our website. Form 8-K reports containing all these materials are available on the SEC's EDGAR system.

We'll begin with introductory remarks from Mark Rohr and then take your questions.

## Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

Thanks, Surabhi, and welcome everyone listening in today. Our prepared comments were published yesterday, so I will be brief and then turn the call over for your questions. We delivered strong consolidated results for the quarter with GAAP earnings of $2.52 per share and record adjusted earnings of $2.90 per share. Robust pricing across product lines resulted in a net sales of $1.8 billion, with adjusted EBIT margins of 26.6%.

All three businesses, the Acetyl Chain, Engineered Materials and Acetate Tow, grew adjusted EBIT year-over-year. The earnings growth, along with a focused effort to convert those earnings to cash generated contributed to our highest ever free cash flow of $500 million in the quarter. We repurchased approximately 900,000 shares and distributed roughly $73 million in dividends this quarter.

In the remainder of the year, we expect Engineered Materials to continue delivering steady growth by extending the success of the pipeline model and executing on M&A. In Acetyl Chain, we expect market momentum to carry through the third quarter before normal seasonality in the fourth quarter and first quarter impact that business. We do not see the recent tariff disputes as having any material effect on our business. And with that we are raising

2018 expectations for adjusted earnings to the range of $10.50 to $10.75 per share with free cash flow generation in excess of $1 billion.

---

Surabhi Varshney
*Vice President-Investor Relations, Celanese Corp.*

Thank you, Mark. I'd like to request all callers to please limit to one question and a follow-up. Brandon, please open the line for Q&A.

---

# QUESTION AND ANSWER SECTION

**Operator**: Thank you. [Operator Instructions] Our first question comes from Mike Sison with KeyBanc. Please go ahead.

---

Michael J. Sison
*Analyst, KeyBanc Capital Markets, Inc.*

Q

Hey, good morning, nice quarter there, guys.

---

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*

A

Thanks, Mike.

---

Michael J. Sison
*Analyst, KeyBanc Capital Markets, Inc.*

Q

First question on the Acetyl Chain, you talked about a lot of outages in 2Q. Can you maybe give us a little bit more feel on the regions where that happened? And then do you expect the utilization rate to stay at 90% for third quarter?

---

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*

A

Yeah. Let me start this and then I'll turn it over to Todd Elliott to maybe give more color. But we were, I think, in the last call we gave a perspective that we were in the mid-80% utilization rate. We have seen that push up to the 90% range this quarter and we expect that to move back down towards the mid-80% range as we go through the back half of this year.

Todd, would you like to add color to that and maybe some comments...

---

Todd Elliott
*Senior Vice President-Acetyls, Celanese Corp.*

A

Yeah. I mean we continue in an overall theme of a continuing improvement in utilization rates. And this really goes back over the last couple of years. We continue to see solid demand growth across multiple end uses. Demand growing at about 3% to 4% per year across all these different end uses. Limited supply, frankly, limited supply since the overbuild back in the 2009, 2010, and 2011 period. So we've seen a steady march up in operating utilization rates and we put that in the mid-80% level ending last year and through most of this year.

And to your question, there have been multiple effects from combination of Chinese energy reform, environmental reform late last year through the first part of this year, plus a whole series of unplanned outages in multiple regions over the course of the year. So that's pushed up instantaneous operating utilization rates up around the 90% range certainly in Q2. So, some of that will moderate, I think, as we look out but continued good environment.

Michael J. Sison
*Analyst, KeyBanc Capital Markets, Inc.*

Q

Great. And then, Mark, when you think about your outlook for this year, you're awfully close to your 2020 goals already it seems on an EPS basis. What is the best way to think about, I guess, earnings progression into 2019 and to 2020 given how strong 2018 has turned out?

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*

A

Yeah. I think in May, we put forth a view that we would generate about $30 per share equivalent of earnings over three years, $9, $10 and $11 per share. I think we're higher than that number now. So I would look at it kind of that way that somewhere between $30 and $33 per share or some cumulative over that period of time is what I would think. How that actually flows through like on a quarter-to-quarter basis is really hard for me to quantify in that. So we got off to a good start. We're going to finish very strong, probably closer to $12 and $11 in that range and we'll be somewhere, I think, in the high between those as we enter the next year. But again, it's a bit hard to call that specifically. It's easier to call the full three-year percentages next year.

Michael J. Sison
*Analyst, KeyBanc Capital Markets, Inc.*

Q

Right. Thank you.

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*

A

Thank you.

**Operator**: Our next question comes from Ghansham Panjabi with Robert W. Baird. Please go ahead.

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

Q

Hey, guys. Good morning. I guess, first off, following up on the last question, the mid-80% utilization rate, up to 90%, was that delta purely because of China curtailments either temporary or permanent or was there some other meaningful outages there?

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*

A

No. That's a global spin.

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

Q

And how would that parse out China specifically?

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*
A

Well, I think, you should look at China – and Todd, [ph] overwhelmingly (07:35), I mean, you should look at China as having a sort of a steady erosion, small bits of erosion to the overall capacity utilization over the next three years and not the kind of short-term impact we have with units being up and down like we've had this time.

Todd Elliott
*Senior Vice President-Acetyls, Celanese Corp.*
A

Yeah. I mean, most of the curtailment that we've seen has occurred during the winter months, end of year or start of new year, so, we saw that end of 2017, start of this year in 2018. Just the overall utilization picture in the mid-80% range is pretty healthy just to begin with. And then you overlay curtailments, adjustments that we've been describing. And then on top of that, there have been a series of unplanned outages that really go back to last year.

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*
A

And most of those are out of China. Is that right?

Todd Elliott
*Senior Vice President-Acetyls, Celanese Corp.*
A

Well, but even in other regions. I mean, Asia and I don't want to name competitor names, other parts of the world. And those have contributed to push up further up close to 90%. So, it's a combination of things that keep us hovering in the mid-80%-plus range. And, again, that's been a supportive environment.

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

Okay. Terrific. Thank you. And for my second question, I guess, on tariffs, you cited the potential for incremental growth opportunities, given the shift in trade flows which, correct me if I'm wrong, seems specific to Acetyls but is there any risk for growth for Engineered Materials in regions such as Asia? How are you sort of thinking about tariff risks specific to EM? Thanks so much.

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*
A

No, we don't. I mean, we don't see it as a real risk. I mean, the tariff concept is one of – it's sort of in and out of the U.S. and the punitive tariffs in support of that. We have a very global network. And to be honest, most of the material we make in China stays in China. And we have the ability to import into China from most regions of the world.

There are a few cases we're moving materials from the U.S. into China on the EM side and on one hand, it's not a lot and the other part of that we should have the ability to price most of that out. So, we don't see a material effect of this. And I'd be so bold to say, I think our network is so unique and our ability to supply locally is so strong, there could be some advantages that surface if this becomes permanent.

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

Yeah. Perfect. Thanks so much, Mark.

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*
A

Sure.

---

**Operator**: Our next question comes from Bob Koort with Goldman Sachs. Please go ahead.

---

Robert Koort
*Analyst, Goldman Sachs & Co. LLC*
Q

Thank you very much. I'm curious, maybe Todd, you could talk a little bit about it or Mark, that you gave us some more insight into some of the regulatory issues that are confronting companies in China. And I think the way to read it is most of those are slanted towards a benefit for Celanese but I was particularly intrigued by the comments around parks and maybe some additional closures and requests for voluntary curtailments. Can you give us a little more granularity on what you see happening over the next couple of quarters and whether that makes you a beneficiary or, perhaps, you're compromised a bit by these changes? Thanks.

---

Todd Elliott
*Senior Vice President-Acetyls, Celanese Corp.*
A

Yeah. I think the chemical park policy is pretty interesting and that's what is going to affect multiple provinces and we will, of course, be studying these as we go and trying to be engaged in Beijing and elsewhere to understand. I mean, the one – the Shandong Province changes is pretty fresh. Shandong ended 2017 with 199 parks. Their target is to approve only 75 parks plus 10 specialty chemical parks. So, you think about, what is that, 114 takeout parks as you look forward. And it's one of the first provinces to set standards for future chemical park design and all the regulatory environment. We think that will affect our broad industry going forward. We believe it will. We think already is affecting when you consider the change in park dynamics and then the relocations and permitting required. But it's evolving, we've got to understand it and study it and assess it as we go forward.

The one other note as, I think, we've mentioned before, the winter season effects relative to energy, gas versus coal and other steps on the environmental side as well. We were actually approached this summer in Nanjing by the Municipal EPA, this goes back about four weeks ago, where they requested not only Celanese but multiple companies in the park to reduce operations by 50%, citing a target to reduce ozone. Again, those are their words, not ours. And not required, we ultimately did not have to do anything but it's pretty interesting that that outreach occurred in the middle of the summer.

And then only days ago, also in Nanjing, 14 different companies in our park there in Nanjing, were brought into a meeting and another request was made to reduce electricity consumption, citing summer season, peak season for electricity. So, it's just a series of these sort of heightened steps to work that energy balance and then going forward like the park reference, the environmental picture for China going forward. We think it's going to have an effect ultimately and, as we said during Investor Day, kind of call out maybe a couple of percent utilization change by the end of the decade.

---

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*
A

Bob, for us, we have a phenomenal relationship and we're in one of the best parks that's there, the Nanjing park. We have a great, great relationship as do the other companies in that park with the park leadership. So, I think, you should look at this as being a cooperative kind of process for companies like ours. And so, it's never been to our disadvantage to support and work with these folks, and I wouldn't expect that to be the case in the future.

It does, however, reflect, as Todd said, this continued erosion of the weak and outlined kind of businesses that are there and the continued evolution of those away from operations.

---

**Robert Koort**
*Analyst, Goldman Sachs & Co. LLC*

Q

Hey, Mark. If I might ask on TCX, you've done a pretty good job of conditioning us to expect not much there. Now, you've got some sort of transaction. Can you give us a sense of the scale of that and does it makes sense if – given Todd's fairly bullish view on acetic acid operating rates in the industry, would it make sense for any companies to convert from acetic to ethanol capacity? Thanks.

---

**Mark C. Rohr**
*Chairman & Chief Executive Officer, Celanese Corp.*

A

Yeah. Well, I think we were not able to as Celanese Corporation to convince the Chinese government to go to synthetic ethanol as a source. And you're well aware, Bob, of the money that was invested years ago and the energy we put into that. So this asset, we shut down the asset. We've written off the asset. We have a great partner in [ph] Chengzhi (14:24) that is there at the park with us. They are our provider of raw materials for the acetic acid business, and we've worked with them collaboratively on a number of deals that just haven't worked out yet.

This has been one that we kind of jointly surfaced and started working on. They have an interest of really trying to promote synthetic ethanol. They're very well-connected politically. And so, we think that is a better approach than us trying to do it on our own. So, we have, in essence, sold the assets to them, but we've got a LOI to – we've a lot of work yet to complete this to sell the assets to them for a nominal amount. There's no real money involved in that.

And we're contributing our TCX technology through a joint venture. And with them in that joint venture, the intent is to promote ethanol from synthetic uses. And our interest in that, of course, is to be the acetic acid provider for that. So that's where we are. And you should think that this is just – we've put this out as not the Holy Grail of success for acetic acid, but rather it's one more step that we believe will further keep pressure on this market in Asia. And if we're successful with this, we think, as we end this decade next, we should be seeing some acetic acid volume, some material acetic acid volumes heading this way.

---

**Robert Koort**
*Analyst, Goldman Sachs & Co. LLC*

Q

It's helpful. Thank you.

---

**Mark C. Rohr**
*Chairman & Chief Executive Officer, Celanese Corp.*

A

Thanks.

---

**Operator**: Our next question comes from P.J. Juvekar with Citi. Please go ahead.

---

**P.J. Juvekar**
*Analyst, Citigroup Global Markets, Inc.*

Q

Yes. Hi. Good morning.

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*

A

Good morning, P.J.

P.J. Juvekar
*Analyst, Citigroup Global Markets, Inc.*

Q

So, Mark, you're shutting down tow capacity in Mexico. I believe that's about 2% to 3% of global capacity. Could that tighten up the market temporarily? And my second question related to that is, have you looked at this new JUUL product, is it new type of e-cigarette that has taken off so quickly? You think that could potentially impact cigarette demand?

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*

A

Well, I'm going to answer your first question and ask you to repeat the second because I missed it, P.J., you're breaking up a bit. But no, there's no material impact to, as your math noted, to global capacity utilization in terms of our pulling out. It's just the ability to right-size our asset base with the customers we have and create productivity as a result of that. That's all you should read into that. And would you mind repeating your second question? I'm sorry.

P.J. Juvekar
*Analyst, Citigroup Global Markets, Inc.*

Q

Yeah. So, this is new JUUL product. JUUL is a new type of e-cigarette that has taken off very quickly, and cigarette companies seem to be worried about JUUL. I was wondering if you had a view on that.

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*

A

I'm looking around the room, and I think we're all pretty – we're not prepared to answer that question with any kind of confidence. So, no, it's just not been a subject of discussion between ourselves and our customers that are out there. But we'll take a look at that.

P.J. Juvekar
*Analyst, Citigroup Global Markets, Inc.*

Q

Okay. Thank you.

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*

A

Thank you.

P.J. Juvekar
*Analyst, Citigroup Global Markets, Inc.*

Q

And in Engineered Materials, can you discuss your pipeline for the second half? And you mentioned that at your Investor Day that if you don't do any M&A, your margins could improve from current levels. So, just talk about the pipeline and where could margins go with or without M&A?

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*

A

Yeah. So, I think, well, first off, there's going to be M&A, we're continuing to promote that we're active in the marketplace and we continue to bring in businesses. So, you shouldn't have a view that M&A is going to materially change over the next several years in our businesses, continuing to pressure from that, though, one I'm most interested in today, it's 8% margin, just to give you a reference point on that. So, you're going to keep having that pressure on overall margins.

We have a good pace underway in the mid-700-ish kind of new projects this last quarter. So, we should be able to press 3,000 at the end of the year, maybe a little short of that, but that kind of range. One of the things that the company has been doing with the team is we're rolling out sort of an EM strategy 2.0, so subordinated strategy. But it's how we approach the market and particularly around how we focus our effort in new projects. And that's taking on more of a program focus. So by that, I mean, is we're looking at the areas where we – of all the projects we do, where we have the highest margin, we think the highest ability to translate and we're moving our resources more in that area.

So, I'll use medical as an example. We gave an example of the medical kind of application earlier for you guys, and we're seeing tremendous upside potential by having this machine focus a bit more. And we think that's going to give us a chance as we end this year and next, in spite of some pretty tough impacts of the M&A is certainly be stable in our margins and hopefully start pushing the margins up.

P.J. Juvekar
*Analyst, Citigroup Global Markets, Inc.*

Q

Great. Thank you.

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*

A

Thank you.

**Operator**: Our next question comes from Frank Mitsch with Wells Fargo Securities. Please go ahead.

Frank J. Mitsch
*Analyst, Wells Fargo Securities LLC*

Q

Hey. Good morning and very nice first half of the year.

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*

A

Thanks, Frank.

Frank J. Mitsch
*Analyst, Wells Fargo Securities LLC*

Q

Just to follow up on that last question on M&A. You reiterated that you want to do $1 billion in buybacks between now and 2020. You did a $100 million this quarter. You've got great free cash flow. How do we think about the order of magnitude, buybacks versus M&A, for Celanese over the next couple of years?

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*

A

Well, I mean, they're kind of disconnected. As we outlined in May, a fair amount of excess free cash flow. And even with the $1 billion of buybacks, that was still there. So, we don't see – we don't think we have to slow down in either one of them and if I was going to steer you, I have to steer you to higher levels in both as we're going through the next several years.

Frank J. Mitsch
*Analyst, Wells Fargo Securities LLC*

Q

Mark, and keeping with the higher levels steering, obviously, you raised the guidance by about $1.5. According to our model, about a third of that came in this quarter on the Acetyl side of things. What are some of the assumptions for the back half of the year that have changed for you to lead to that higher guidance?

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*

A

Well, I think, as we roll through this and we're getting – everything is getting traction, I've mentioned a few things that we've been able to overcome and address that have supported our higher guidance. One is that we – this machine continues to work very, very well and it's in the face of, if I can say that, pretty steep pressure on short-term on raw materials and energy. And so, we've had to push a lot of pricing. And it's a real testament to the quality of the portfolio that we've been able to do that and not really suffer tremendously in volume or anything else.

So, we wanted to – in some ways, we kind of wanted that environment to really demonstrate to ourselves that we really have the power that we thought we would have, and that's been a pretty good story. The ability of the industry to accept and support the kind of level of pricing that Todd and company are seeing out there has also been good. I mean, we're not seeing people who run for the woods. We're seeing demand stay pretty good in that. We're not seeing big substitutions. I'm looking at Todd, while I say that. But – so even though it seems like these are big, horrific moves, from our point of view, they're not that big. It's just a culmination of lots of little small things that have got us to this point.

And the customer acceptivity, that was pretty good. We're driving about $40 million year-over-year of internal price being transferred to downstream businesses. And for the first time in, I think, our history, we've been able to get that through to all those businesses. So, we've not seen a deterioration of our margin because of recalcitrance on the parts of other markets out there accepting that drive. So, those things just tell me that the level of value that we generate in this business, plus or minus a little bit, is okay. It's good. And that gives us the ability to step out and be pretty confident of higher levels as we end this year.

I'm going to roll into that. I made a comment about fourth and first. We've done a lot of work in this regard, and we see typically 3% to 7% margin fall – I mean, not margin but volume fall off in the fourth quarter and also the first quarter. So, I think low seasonality impacts of – seasonality impacts on coatings and then Chinese New Year kind of thing. And last year, we didn't have that. So, Frank, I believe this year we'll have it is kind of my gut in it. It happens almost every year. And if you roll that through, that could be maybe a $50 million kind of impact with that business if you look at the little bit of volume, little bit of price, little bit of turnaround in there.

So, that's what you're seeing kind of baked in our numbers so, a good strong third, and then a step back a bit in the fourth. And as you look at next year, I think it will be the same. We'll start a little bit slower in the business.

And then, I think we'll be right back into some pretty powerful levels like we've been running so far this kind of year-to-date.

---

Frank J. Mitsch
*Analyst, Wells Fargo Securities LLC*

Q

So, is it fair to say that you continue to expect EM to be strong, but the majority of the upside in terms of the guidance raise is more tied to some of the positives that you're seeing on the Acetyls business?

---

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*

A

Yeah. EM has been a straight line business for us and, I think, for our investors. We expect EM to generate the kind of numbers we provided plus $100 million per year EBIT. And I think that's the machine we've got, and that's where we're focused on. And so I think that's going to be the real Steady Eddy there that we've got. We have plenty of M&A activities there that we continue to work as well. I think the story with the Chain business should really be that, hey, none of this should be a surprise to anybody. And the market receptivity to the high valuation today has been good, which gives us confidence that it has the ability to carry off for a fair period of time.

---

Frank J. Mitsch
*Analyst, Wells Fargo Securities LLC*

Q

Thank you so much.

---

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*

A

Sure.

---

**Operator**: Our next question comes from Duffy Fischer with Barclays. Please go ahead.

---

Duffy Fischer
*Analyst, Barclays Capital, Inc.*

Q

Yeah. Good morning, fellows.

---

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*

A

Good morning, Duffy.

---

Duffy Fischer
*Analyst, Barclays Capital, Inc.*

Q

Question just back on acetic acid. As you look at the returns for new capacity for you with lower capital costs and for competitors, what's the likelihood over the next year that we get some announcements around some new greenfield or significant brownfield expansions in acetic acid?

---

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*

A

Yeah. Duffy, we look out and we've kind of shared this with you guys. We shared a bit of it in May. When we look out over the next several years, we're adding about 250,000 tons of capacity that Todd has underway between acetic acid and VAM that, to be very honest, it's going to be adequate, we think, for the market in the next couple of years with some of the efforts we have underway to unlock some molecules and things like that. So, we think the market is probably kind of okay.

When you look beyond that, though, and that's the kind of timeframe you should be looking at, when you get in the 20s, there could be the need for some incremental capacity. I don't think this business supports a full-on greenfield site with all the kind of subordinated – I mean, secondary investments associated with doing that. So, I would be really surprised with that kind of announcement.

I would, however, say from my point of view that with our cost to do the brownfield expansion, especially in Asia and some areas like that, combined with our ability, perhaps, to have productivity to justify that, in other words, the ability to shutter some other assets that aren't necessarily as economically advantage as we would like them all to be, then I think we have a pretty compelling story that we could perhaps put to work at that period of time. So, Todd, do you want to make any comments on that?

---

**Todd Elliott** A

*Senior Vice President-Acetyls, Celanese Corp.*

Yeah. I mean, that configurability, I think that's what you're referring to...

---

**Mark C. Rohr** A

*Chairman & Chief Executive Officer, Celanese Corp.*

Yeah.

---

**Todd Elliott** A

*Senior Vice President-Acetyls, Celanese Corp.*

...we do think it's an advantage, and we'll keep looking at that and assessing the options there. As Mark mentioned, we're readying that 150,000 tons of new VAM capacity in Clear Lake. That'll start up in Q4. I was just there this week. So, that's on track to be ready at the end of this quarter – or end of this year.

We have 150,000 tons on top of that on VAM through technology debottleneck. So, that will be deployed across all five VAM units. We've got the first technology packages installed in Bay City, Texas. We saw that this week. That's already generating yields up around 5-plus-percent on top of the output there. So, that will be deployed across all five VAM units, that's 300,000 tons of additional capacity already kind of baked in and planned forward to support our 3% to 5% volume growth targets we outlined in May. Then a small step on acetic acid, 140,000 tons that we mentioned also in May, bring that on by 2020. And then back to Mark's point, we just continue to look at unique ways to consider highly configurable steps that are capital-efficient and kind of marched out over time that meet the customer needs.

---

**Duffy Fischer** Q

*Analyst, Barclays Capital, Inc.*

Great. Thanks, fellows.

---

**Mark C. Rohr** A

*Chairman & Chief Executive Officer, Celanese Corp.*

Thanks, Duffy.

---

Todd Elliott
*Senior Vice President-Acetyls, Celanese Corp.*
A

Thanks, Duffy.

**Operator**: Our next question comes from John McNulty with BMO Capital Markets. Please go ahead.

John P. McNulty
*Analyst, BMO Capital Markets (United States)*
Q

Great. Thanks for taking my questions. So, I guess, the first one, Todd, I believe in your kind of prepared remarks last night, you spoke to a quadrupling of the network activations. I guess, assuming that that's essentially turning customers on, which, I think, that's kind of roughly what it is, I guess, can you characterize the type of relationships that those open up whether they're kind of really just, hey, look you've got a great global platform and when there's an issue because of an outage, we'll take you on spot or if these are longer-term type relationships, I guess, how should we think about like the benefit of that conversion on these network activations?

Todd Elliott
*Senior Vice President-Acetyls, Celanese Corp.*
A

Yeah. Just to recap what these are, I mean, this is when we gather data from many, many sources around the industry, process that data and try to distill that into insights. Then, we have two or more insights and connect that with what we believe is the leading network, Acetyls network in the industry. We operate that network, look, for options that emerge out of that and then activate something. So, that could be a combination of things. In the second quarter, with 250 activations versus about 50 last year, most of those were price activations, right? That's where most of those were. So, that's a combination of working out there in multiple geographies, multiple product lines, many, many different cases, different customers to activate different price changes in the quarter.

There were several on the supply side, frankly, that within our own network in moderating, increasing, changing, shifting our own network to produce more or less depending on the region as well. The other piece there is on the supply chain side. So, this is a combination of sourcing or moving product from region A, B or C to best serve our global customers and also take sort of the best network optimized movements to support our business.

So, these can move around. They can be different sources or different types of activations depending on what's going on, but it really is supported by the broadest network that we believe is out there and really working those nodes and working those degrees of freedom to help the business generate value.

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*
A

So, John, I think the way I would kind of characterize this too is that we're students of our own business models, and we're students of the industry and we've put this in place. Todd's team put this in place as a method of really assessing our effectiveness and really creating opportunities and finding opportunities and acting on those opportunities, so we can measure the effectiveness of that. And it's been a really good process for us because what we found is that we can – as we can increase our degrees of freedom, we can enhance further our opportunities to drive profit.

And so, whether that's different logistic systems in places, contractual arrangements, whatever those things might be; it just gives us a chance to continue to support this market. And we think a very positive way for our customers with a lot of degrees of optionality to give them the best product at the right time at the market competitive price for them. So, that's been the work we've done there.

John P. McNulty
*Analyst, BMO Capital Markets (United States)*

Q

Got it. Okay. No, that's definitely helpful. And then, I guess another question just – I know you said in terms of the tariffs, it sounds like there's really not a lot of exposure there. I guess one question I had though with all the noise around the tariffs and with all the end markets that you indirectly end up touching, have you seen any demand-related reactions from some of the tariff noise that's out there, particularly in China? Is it having any impact in terms of how kind of the end customers for your products react, or are consuming the products right now, or are you too far away from kind of the end customer to actually see it at this point?

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*

A

No. It's having – actually it's having zero impact. On companies like ours, there's no impact. On our customers, there's no impact. And it's not even a subject of discussion. I think if you're a Harley-Davidson and you're selling 70,000 bikes in Europe, and it's $2,500 charge per bike, then you're talking $70 million, $80 million, whatever the number is. Then that's an impact. But that's not our business model. So, I think this is a political charade to some extent.

You've got leaders of countries bad mouthing one another over it. But practically speaking from a commercial point of view, we don't see nor do I say many multinationals will see huge impact of this swirling around. It's my kind of spin on that. And, again, unless you are very succinct, very focused one product line that may get – with no ability to produce outside the U.S. may get beat up a little bit. So no, we don't see it as a big deal.

John P. McNulty
*Analyst, BMO Capital Markets (United States)*

Q

Great. Thanks very much.

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*

A

Sure.

**Operator**: Our next question comes from David Begleiter with Deutsche Bank. Please go ahead.

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

Q

Thank you. Good morning.

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*

A

Good morning, David.

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

Q

Mark, on Acetate Tow, can you give us an update on any strategic options you're pursuing here. And is that still a very high priority, or is it may be less a priority given the performance of the rest of the businesses?

---

**Mark C. Rohr**
*Chairman & Chief Executive Officer, Celanese Corp.*

A

Well, I won't give you any direct color. I think we continue to look for ways to make sure that business has stable earnings and we've had a good first half this year.

With regard to that, will be flat year-over-year. So, you can do the math on that. Will be down a little bit in the second – the next two quarters, which is pretty typical for that business given the front-end loaded. So, our view is really how we make sure we keep this business flat 2018, 2019, and 2020.

The Ocotlán shut down was a piece of that. It gives us a chunk of that $50 million that we were going after to cushion that business, but it's only a chunk. Our first priority is to continue to focus in and take those steps necessary for us to self-generate that $50 million of cover that we think this business needs to make sure it's flat as we go through these next three years. That's the highest priority, David, where we spend the most of our energy and effort.

Second to that is, we continue to look for ways to work with others to unlock additional synergies and we've not reached a point we can talk about any of those yet. The secondary consideration for us is not – certainly not the end of the world if those don't work out. But we're hopeful we can find a way for one of those to work out.

The last thing I'd say is, strategically, it is very much our strategy to make this topic de minimis. And we want to do that not by reducing earnings in it, but by maintaining earnings, and also then growing business elsewhere. So, it's becoming a smaller and smaller portion of our free cash flow. And if you set aside the dividend from China, which in itself is pretty secure, and we think for very long period of time, you're getting in now to a business that's certainly less than $200 million of contribution. And what's going to be well over $2 billion of EBITDA this year. So, we think we're heading all three of those in the right direction.

---

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

Q

And, Mark, you touched this earlier, but in terms of these high prices in acid and VAM you mentioned no demand destruction or substitution yet, but are you concerned at some point you might see some, and what level do you think that might occur?

---

**Mark C. Rohr**
*Chairman & Chief Executive Officer, Celanese Corp.*

A

Well, I think what I would – the way I'd characterize this is I don't think the price is very high. I think it's adequate. And I say it, because if you look at it from a point of view of the average producer out there, they're not making our margins even today. Methanol is north of $400, maybe $500 in China, coal prices are up, and yadda, yadda, yadda, these guys are not raking in tons and tons of profit. And we've seen recently that bad debts out there in China and the negative consequences of these enterprises, these big state-run enterprises failing is pretty horrific. So, the first position I'll take is pricing is not that high. It's what it should be kind of level.

We've not seen any indication and don't believe that there's any real – going to be a real impact on consumptive materials. If you look at the role of acetic acid as a derivative play, then in the end product game, it's kind of de minimis. Higher oil prices, I think, directionally helps that David, I'll say that. So, yeah, if oil prices drop back to $20 a barrel or something horrific like that, the net debt – then you could get some substitution to oil bases again maybe.

But I think in the sweet spot we're in now, which is oil $60 to $80, coal under the pressure, it's under the fact that from a grassroots basis, there's still not a lot of great return in this business. We think we're kind of in a pretty sweet spot, we should stay there for some period of time, and I don't really see a lot that would knock us materially off of that.

---

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

Thank you.

---

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.* A

Sure. Thank you.

---

**Operator**: Our next question comes from John Roberts with UBS. Please go ahead.

---

John Roberts
*Analyst, UBS Securities LLC* Q

Thank you. In the Engineered Materials segment, is there a way to think about how much of the raw material inflation is just transfer pricing from the Acetyl segment, and how much is external pressure that you're facing?

---

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.* A

Yeah.

---

Todd Elliott
*Senior Vice President-Acetyls, Celanese Corp.* A

Yeah, John. Now, I would characterize it as almost all external pressure. So, there's not a lot of transfer price impact in EM from the upstream side.

---

John Roberts
*Analyst, UBS Securities LLC* Q

Okay. And then, is there a way to think about the contribution of network activations to the Acetyl segment? Is there sort of a base level of fee income or a base level of margin contribution that you think that provides above which then we have the – just the market ups and downs on top of that?

---

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.* A

No, John. No – it's not. A lot of these indirectly will have zero contribution for – just for that one activity, but it has – it avoids something on one end. So, no, we don't break those down by dollar per nodal activity contribution.

---

John Roberts
*Analyst, UBS Securities LLC* Q

Okay. Thank you.

**Mark C. Rohr**
*Chairman & Chief Executive Officer, Celanese Corp.*

A

Sure. Thank you, John.

**Operator**: Our next question comes from Laurence Alexander with Jefferies. Please go ahead.

**Laurence Alexander**
*Analyst, Jefferies LLC*

Q

Good morning. Two questions.

**Mark C. Rohr**
*Chairman & Chief Executive Officer, Celanese Corp.*

A

Good morning, Laurence.

**Laurence Alexander**
*Analyst, Jefferies LLC*

Q

One on Engineered Materials, can you discuss whether the average project sizes are getting bigger or smaller or if there's any particular trend in how customers are responding to your initiatives? Are they giving you different types of problems? But also just back to the question about the bridge for 2019. You often have – or in the years past you've had multiple levers that you could pull to sort of try and keep roughly on, call it, a 10% kind of CAGR. In the back half of the year, you'll be at about a $10 run rate. Is that the way to think about the business? And then, you maybe get fly-ups or do you see enough sort of internal levers to pull that asset yields profits can be flat year-over-year in 2019?

**Mark C. Rohr**
*Chairman & Chief Executive Officer, Celanese Corp.*

A

Yeah. I think what I'd like to say on that is that – I don't want to not answer your question, but I'm kind of going to do that, Laurence. We're already looking hard at next year. So that's, from a seasonality point of view it's little bit out of schedule. And when we get into next quarter and next quarter's call, we're going to devote a lot of that call to next year.

Having said all of that, when we look at the increase in year-over-year, there' modest increase in Todd's business. I think what you're going to see this year is you have – you're going to have a strong front-end and a little bit weaker backend of it, which is really driven most prominently by, I think, seasonality rolling in, like it historically normally does, plus the big VAM turnaround, outage and things like that, that's going to impact us in the fourth quarter.

And I think you'll see a similar kind of start. So, next year, it's going to be maybe a little bit more back-end loaded than front-end loaded, if I could say that. But when I look at it, again, I'd just simply say that I don't think – I don't think – if you build it from the base up, I don't think coal is going to change in China. I don't think environmental regulation is going to change in that part of the world. I don't think methanol is going to materially change, really arbitrage it's available between coal, methanol and ethylene there.

So, I think that fundamental raw material and demand base of that business is going to stay the same. From a consumer demand, Todd's laid that out I think with a lot of specificity in May. We've never seen that move around a whole lot. So, whether that's 2% or 3%, it kind of doesn't necessarily matter a lot in the scheme of things. And so, our business is going to run between 85% and 90% capacity utilization moving over time towards 90%.

So, I think we're in a period of time where we're going to have – I think it's a long period of time, a very good business at the kind of profitability levels we used to see back in the mid-2000 – so, in the early 2000, is what I think we're in for. And so, there should not be any reason for us not be able to continue to grow earnings with the early – over this period of time. But, again, if it's $30 going to $33, it doesn't necessarily mean the same as we have with $9, $10, $11, I think it could be a little bit flatter next year than at $9, $10 or $11 projected for us in our strategy 3.0 rollout.

---

Todd Elliott
*Senior Vice President-Acetyls, Celanese Corp.*

A

Yeah. And just to take your first question, Laurence, about project size, I think we've been pretty clear. Our sweet spot is in the few hundred-thousand-dollar range, in terms of projects, and we're not seeing that materially changing. The power of our model is being really disciplined in the types of projects that we work on. And if things get too small, the potential value of us putting efforts there becomes the de minimis.

On the flip side of that, larger projects tend to be a bigger lift to be successful. And so, we're very focused on improving our win rate. And so, keeping our project size kind of in the area where we've proven successful is critically important for us.

---

Laurence Alexander
*Analyst, Jefferies LLC*

Q

Thanks.

---

**Operator**: Our next question comes from Vincent Andrews with Morgan Stanley. Please go ahead.

---

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

Q

Thank you very much. Two questions. First, just quickly, do you have an organic volume number for Engineering Materials this quarter?

---

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*

A

No. We don't. Broadly speaking, we think that half of our volume growth is organic and half of it is through M&A in that process, and we don't parse it out. There's no part of that equation, if we're going to – Vincent, if we're going to parse it out, have to give you, which is how much material we lose in terms of leakage, volumetric leakage that occurs in this business, which is not linear. But if you think of a rule of thumb of 50/50, it's as good as we can get with it.

---

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

Q

Okay. Very good. And then, just in the Acetyl Chain, I'm just trying to understand sort of the bridge sequentially because I see sales were down, but obviously the profit was up, so that implies some type of cost benefit. So, was it just a question of lower ethylene contract prices being a little bit stickier or what sort of was the dynamic that allowed that to play out?

---

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*

A

I think we're shaking our heads a little bit. You're talking about the first quarter to second quarter or second quarter to end of the year? What...

---

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

Q

Sorry. First quarter to second quarter, your sales are down in 2Q versus 1Q, but your profits are up. So, I'm just trying to understand what happened on the cost line?

---

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*

A

Yeah. I would focus on the price side as really being the major contributor to our earnings performance in the second quarter. That's really the story, is the combination of utilization rates, pricing, margin increase – raws are relatively flat, frankly, and have been most of the year.

---

Todd Elliott
*Senior Vice President-Acetyls, Celanese Corp.*

A

We had some turnaround activity in there...

---

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*

A

Q2.

---

Todd Elliott
*Senior Vice President-Acetyls, Celanese Corp.*

A

...in Q2 that wasn't in Q1. It may be part of that's dropping out.

---

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

Q

Okay. All right. So, nothing, nothing in particular.

---

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*

A

No, no, no.

---

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

Q

Thanks very much.

---

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*

A

Yeah. Thank you.

**Operator**: Our next question comes from Arun Viswanathan with RBC Capital Markets. Please go ahead.

Arun Viswanathan
*Analyst, RBC Capital Markets LLC*

Q

Great. Thanks a lot. Just wanted to clarify on acetyls here. You've entered kind of your level of earnings power in the business and it sounds like you do see kind of a positive supply demand balance for the next several years. So, I guess are you actually expecting earnings to kind of continue at this level and trajectory? And what would be kind of one or two swing factors or two or three swing factors that would prevent that from happening? Thanks.

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*

A

Well, these are big volume businesses, product move around the world. So, it can't move day to day in our process. What we said in May is that we think this is a 20% margin business, and through the thick and thin of things, and that's still what we kind of believe. We believe we're – in the three-year period; we're going to be averaging at 20%, maybe [indiscernible] (45:21) above that through that period of time. But certainly, you can go through a short-term swing if raw material prices really spike up or [indiscernible] (45:31) sales really fell off, you can find yourself move around a little bit. But we think, yes, we think we've reset that margin from a mid-teens level to a 20% level, and we don't see a reason why that 20% level – and that's our margin, not industry margin, we don't see why that level shouldn't be – shouldn't exist throughout this three-year period. And we believe we can set the stage for that to continue beyond that period through a series of small investments and cooperative support agreements we can put in place. So, we're pretty – pretty comfortable that this business is going to stay pretty tight for a fairly long period of time.

Arun Viswanathan
*Analyst, RBC Capital Markets LLC*

Q

Great. Excuse me. And on – the earnings trajectory over the next several years, so if you expect this to kind of remain in the similar level, would you be in a position to use capital deployment, whether it's in the form of buybacks or M&A to kind of keep you on that trajectory of 10% or 12% earnings growth? And on that note, you highlighted some potential debt capacity at your Investor Day, have you further thought about that and deploying that kind of stuff?

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*

A

Yeah. Yeah. So, I'll make a few comments and I'll ask Scott Richardson as well to step in here. But yeah, when you look at it, we don't have any pulse rate in terms of anxiety about whether – we can predict earnings to the nth degree, like I think all you guys would like us to. We're just focused on generating earnings, and will happily trade off or do – that we need to do in the process of period-to-period to make that sort of happen on a growth basis.

What I would look at this as, as a view that we think this business has reset a bit sooner than we anticipated, probably advancing it by nine months or so, what we kind of anticipated in our three-year plan. So, we think that if you look at out there in 2020, we'll be closer to 12% than 11% in that number. So, we think this process is going to for the most part stay through that period of time, but it could ebb and flow a little bit as we go through that period.

So, I don't know if I'm really answering your question. But I think for us we feel like whether it's $30 cumulative over that three-year period, or $33 cumulative, is kind of be flippant about, it's kind of indifferent to us. We think we're going to be in a period of very, very good, strong, solid earnings, and we'll do our best to project for you just how that's going to flow as we get further along.

Todd Elliott
*Senior Vice President-Acetyls, Celanese Corp.*

A

Yeah. And I would just add, it's critically important for us to be disciplined stewards of how we utilize that cash flow. And we have a prioritization of uses of cash that we really stick to and organic growth in our business as being first, and looking at attractive investments second, and then being very consistent – being a consistent increaser of the dividend and then buying back shares. And depending on the timing of some of that cash flow, and where the M&A pipeline is, there may be times at which we fluctuate on the levels that we deploy in each of those areas. But that's really kind of how we look at it strategically.

Arun Viswanathan
*Analyst, RBC Capital Markets LLC*

Q

Great. And last one is just you discussed the possibility of a methanol investment. Maybe you can just discuss that further and also your possibility of potentially separating the businesses. Is there still a large dis-synergy component that you'd be concerned about or are you working to minimize that? Thanks.

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*

A

Yeah. I think the real key for us in all of our investments – for all of our businesses is can we make sure that we're not withholding cash for any business in that process. And I'm happy to say we've never done that, certainly since I've been here at Celanese.

As we look forward, there could be more organic growth opportunities surfacing in the chain business that could well serve it to be a separate entity versus a combined entity. That's not an imminent issue for us or topic. But we see this business is having lots of opportunity to in theory seek investments, either directly or with partnerships to grow its scope around the world and better position itself to keep its earnings growth under way, without regard for a subtle change in asset price in China.

So, I think you should expect us in the months and quarters ahead to talk more about organic growth and organic growth opportunities in that process. I think likewise, we're seeing, continuing to see – it's been a few months since we closed the deal, where it's continuing to see plenty of opportunities in EM. And those organic investments are also very important for us and very important for our investors to keep that business growing at the pace it's been on.

So, what I'd just tell you here is it's our intention to fund both of those things, and make sure we fund them. We think we can do that. Today, we've been able to do that very well, it's been a combined entity, at some point if we couldn't do that as combined entity, we would be separate entities to make sure we maximize shareholder value. Yeah.

Arun Viswanathan
*Analyst, RBC Capital Markets LLC*

Q

Okay. Thanks.

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*

A

So a direct comment on methanol. Methanol continues to have an attractive play for us. I think the concept of methanol though, I would posture it more as we get to looking at additions to acetic acid when they're appropriate down the road, methanol could be a piece of that either independently with us doing it, with somebody else doing it, or as a partnership.

Arun Viswanathan
*Analyst, RBC Capital Markets LLC*

Q

Thanks.

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*

A

Sure.

Surabhi Varshney
*Vice President-Investor Relations, Celanese Corp.*

A

Brandon, we'll take one last question and then wrap up the call.

**Operator**: Thank you. Our last question comes from Kevin McCarthy with Vertical Research Partners. Please go ahead.

Kevin W. McCarthy
*Analyst, Vertical Research Partners LLC*

Q

Good morning. Thank you for...

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*

A

Hi, Kevin.

Kevin W. McCarthy
*Analyst, Vertical Research Partners LLC*

Q

...squeezing me in. Mark, dating back to your Investor Day, I think you said at that time, in early May, that you were exploring multiple options for a new world scale acetic plant. I realize it's only been two-and-a-half months, but can you provide an update there, is that still an active ambition on your part?

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*

A

Yeah. It is. I think what will be of interest to us is doing it in a way that I'm not dependent on new volume growth to satisfy. We always like to do these things in a way that the productivity contribution made by this investment is sufficient to carry the investment. So, Todd is working hard to find ways and options to create scenarios, where we can expand in a way that, from a market point-of-view it's incremental, from an internal point of view that's a very high return. It's not totally dependent on what the gross market is doing. So, yes, it's still of keen interest to us, Kevin, and we're working hard, since we get to a point we have more details to share, we'll do that.

Kevin W. McCarthy
*Analyst, Vertical Research Partners LLC*

Q

And, finally, at the risk of beating a dead horse I want to come back to acetyls and kind of a cyclical move – or anyway, the move we've seen there, how would you characterize that business relative to your view of normalized earnings power? Normally when earnings double, let's say, EBITDA in your case has doubled broadly over the last two to three years, and you've got a nine handle in the first half on the operating rate, things start to feel pretty full. On the other hand, you described prices adequate and you've pointed to some interesting and unusual environmental restrictions in China that really could have some legs. And so, I guess I'm trying to parse out, is the current level more of a new normal in your view or above normal? How would you characterize that?

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*

A

Well, I certainly think that the period that we went through, the 2012 to 2016 period, is abnormal. It was abnormal as it reflected this subscene investment in China, in particular, and all these assets and just the crumbling of capacity utilization. And whenever you do that to any business, it gets pretty – it just gets goofy, and so we have lot of volatility in earnings and those things.

I would say through that period of time though, Kevin, we were able to predict, I think pretty accurately where we are. So, we see these changes as not being unusual. I know that may seem flippant to you guys, but we predicted this would happen. We've talked a lot about it in every – back in 2015, we talked about it. What we missed, I think, was probably six or seven months. And that's what we've missed in – about eight months, but it wasn't – we didn't miss it.

So, I think we're in a period where this business is healthy. That's how I'll describe it. I don't think it's overpriced or it's over-amped. It's healthy, and I say it because I think if you look at the largest market in the world in China, it's still a marginal business for them. I mean it's not – I mean, it's certainly profitable at today's rates. But it's not crazy profitable. It's probably not even in the Chinese market today given the cost associated with it and the environmental concerns even attractive economically for them to reinvest.

So, we think that's a healthy place and a natural place for it to be. And so, yeah, I do expect this to change as we communicated in May. And I do think this was a 20% – for us, a 20% margin kind of business. And I think in the Asian's markets, it's low teens to mid-teens. I think that's what you've got 500 basis points or 600 basis points, 700 basis points gap between their world and our world. So, I think, yes, I think we're going to be here plus or minus a little bit for some period of time.

Kevin W. McCarthy
*Analyst, Vertical Research Partners LLC*

Q

That's very helpful. Thank you.

Mark C. Rohr
*Chairman & Chief Executive Officer, Celanese Corp.*

A

Sure.

**Operator**: This concludes...

## Surabhi Varshney

*Vice President-Investor Relations, Celanese Corp.*

We'll now conclude the call. Thank you all for your questions and for listening in this morning. We are available after the call to address any further questions you may have. Please close the call.

**Operator**: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.