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# Celanese Corp. (CE)

Q4 2020 Earnings Call

## CORPORATE PARTICIPANTS

**Brandon Ayache**

*Senior Director, Investor Relations, Celanese Corp.*

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

**Scott A. Richardson**

*Executive Vice President & Chief Financial Officer, Celanese Corp.*

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## OTHER PARTICIPANTS

**John Roberts**

*Analyst, UBS Securities LLC*

**Robert Koort**

*Analyst, Goldman Sachs & Co. LLC*

**Vincent Stephen Andrews**

*Analyst, Morgan Stanley & Co. LLC*

**Duffy Fischer**

*Analyst, Barclays Capital, Inc.*

**Michael Sison**

*Analyst, Wells Fargo Securities LLC*

**Hassan I. Ahmed**

*Analyst, Alembic Global Advisors LLC*

**Ghansham Panjabi**

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

**P.J. Juvekar**

*Analyst, Citigroup Global Markets, Inc.*

**David I. Begleiter**

*Analyst, Deutsche Bank Securities, Inc.*

**Matthew DeYoe**

*Analyst, BofA Securities, Inc.*

**Kevin W. McCarthy**

*Analyst, Vertical Research Partners LLC*

**Aleksey Yefremov**

*Analyst, KeyBanc Capital Markets Inc.*

**John P. McNulty**

*Analyst, BMO Capital Markets Corp.*

**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

**Frank J. Mitsch**

*Analyst, Fermium Research LLC*

**Arun Viswanathan**

*Analyst, RBC Capital Markets LLC*

**Matthew Blair**

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

## MANAGEMENT DISCUSSION SECTION

**Operator:** Greetings and welcome to Celanese's Q4 Call and Webcast. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Brandon Ayache, Senior Director, Investor Relations. Thank you. You may begin.

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### Brandon Ayache

*Senior Director, Investor Relations, Celanese Corp.*

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

Celanese Corporation distributed its fourth quarter earnings release via Business Wire and posted prepared comments about the quarter on our Investor Relations website yesterday afternoon. As a reminder, we will discuss non-GAAP financial measures today. You can find definitions of these measures, as well as reconciliations to the comparable GAAP measures on our website.

Today's presentation will also include forward-looking statements. Please review the cautionary language regarding forward-looking statements, which can be found at the end of the press release as well as prepared comments. Form 8-K reports containing all of these materials have also been submitted to the SEC. Because we have published our prepared comments yesterday, we'll now open it up for your questions.

Doug, please go ahead and open the line for questions

## QUESTION AND ANSWER SECTION

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

**John Roberts**

*Analyst, UBS Securities LLC*

Q

Great. Thank you and nice quarter and a nice outlook there. Could you give us an update on the M&A environment for Advanced Materials deals?

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Sure. I think as we said John in the written comments, we are anxious to pursue M&A. We have a good pipeline of both bolt-ons and transformational deals that we've been looking at. I would say earlier in the year, I think people were just trying to sort out how to deal with COVID, how to deal with the current environment, how to manage their cash flows. And so, we really didn't see a lot of interest from other parties in terms of discussing M&A. I would say, as we moved here through the fourth quarter and people start to see markets returning more to normal and feel more confident about their outlook for 2021. And therefore, a reasonable valuation basis, we are starting to see people having more interest in discussions around M&A. So I'd say, the market is opening up. Obviously, it takes us a little while to get through these discussions, but definitely, looking better as we go into 2021.

**John Roberts**

*Analyst, UBS Securities LLC*

Q

And then, in cig/tow prices increase? We've got kind of an unusually strong environment. I mean, US cigarette smoking, I think didn't decline for the first year in a long time. And I'm guessing it's up in China. And you had a potential transaction that you worked on a while ago in cig/tow. I didn't know were there any opportunities here to revisit that?

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Yeah, look, I think on tow, we did see some drop in prices from 2019 to 2020 those were based on the negotiations that happened in 2019 going into 2020. As we've been negotiating in 2020 for 2021, I'd say the prices are stable and in some cases, a little bit up. So I do think there's – as you said, we saw less decline in smoking last year than expected, in some areas even an increase in smoking. I guess people had more time at home. So we really do see the prices stabilizing now for tow and maybe even on a little bit of upward movement. So that's good. So if you look at our outlook for tow, we're basically saying we think for the next many years it's going to be pretty much flat at this kind of 250 to 260 range.

In terms of transaction, look, we didn't get to do the transaction last time because of competition concerns in the EU. There's nothing that's changed in the landscape that makes that different. So I think it's unlikely that we would be able to do a similar type transaction even today.

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

**Robert Koort**

*Analyst, Goldman Sachs & Co. LLC*

Q

Thank you very much. Lori, I was intrigued by your comments about changing the production base in acetic, relatively initial plans and if you reference maybe some advantageous raw material contracts. Can you talk a little bit more about what that allows you to do and why it's now feasible to keep that production at stated rates instead of paring it back a bit?

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Yeah. Sure. We had originally announced the Clear Lake expansion from 1.3 million tons to 2 million tons. When we did that, we assumed we would either shut down or cut back capacity in Asia. So it was kind of a net capacity neutral. And the project was based on – was justified based on productivity. When we made the decision to delay the project for 18 months given the low oil environment, the uncertainties around COVID, etcetera, we took that as an opportunity to really go back and re-examine the basis for the project. And in doing so, we found another \$50 million of savings and capital we could make in the project. We also had a chance to go work with some of our suppliers in Asia and we're able to negotiate during that low raw material environments and very favorable contracts going forward both for Singapore and for Nanjing, which makes both of those locations more attractive from a competitiveness standpoint.

And we also found other sources of productivity specifically around catalyst usage in Clear Lake and some other areas that when we really looked at it in total, we said, you know what, given also the strong recovery we're seeing in acetic acid, our view to the future that acetic acid will continue to grow GDP plus maybe a little bit more, we said it really makes more sense for us to go ahead and do the expansion at Clear Lake which, by the way, we're actually going to be able to expand Clear Lake to be about 2.6 million tons capable.

So we will do that larger expansion at Clear Lake, keep all the facilities available to us and running in Asia which – again, we won't run them full necessarily. We'll run them to meet what we need in the market and meet the demand. That gives us the option in the future, if we do see more robust growth, to run them at higher rates and we still get the same level of productivity and credit on a smaller capital base in Clear Lake.

So, actually, I think the delay turned out to be a good thing. We actually had a chance to go back and reexamine some elements of the project and have what I think is a stronger, more robust economically project now as well as additional capacity we can use for the future.

**Robert Koort**

*Analyst, Goldman Sachs & Co. LLC*

Q

Got it. Thank you. And on the KEPCO JV turning into a manufacturing JV, is that an earnings enhancement for you, or is it just greater flexibility that can then lead to some earnings enhancement? How should we think about that from the bottom line number standpoint?

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Yeah. I'll also let Scott comment. But I mean, really it's based on what we've said in the past, which is we want the flexibility to move the molecules ourselves into high-end markets using our business model. So in the past,

KEPCO marketed all of the molecules. Now, we will have our 50% of the molecules that we can market and we can move into what we think will be hopefully, more attractive end markets. So that flexibility, we believe will give us higher returns. And then, there – I think there's also some accounting changes that happened with that. That Scott may want to comment on.

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**Scott A. Richardson**

*Executive Vice President & Chief Financial Officer, Celanese Corp.*

A

Yeah. And I think the other thing to add Bob is, we will get synergies here. I mean, by now having polymer capacity in Asia and having 50% of that output, we're going to be able to realign our supply chain. So think about us getting synergies from this deal and kind of being like a bolt-on M&A deal. So adding call it \$20-ish million of earnings over a three-year period of time and it didn't cost anything to get it. So we're excited about that. You will see the equity earnings line, which comes in on an after tax basis. That will – the portion that kind of flips to the marketing return that we get will move above the line. And we will then add revenue obviously, for what we're selling there onto the P&L. Equity earnings will come down over time. And as we stated with the announcement, we expect that to close sometime later this year.

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

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**Vincent Stephen Andrews**

*Analyst, Morgan Stanley & Co. LLC*

Q

Thank you and good morning everyone. If I could just ask on the shape of the year, it sounds like you're expecting acetic to normalize in 2Q and 3Q and then presumably have more of a normalized seasonal 4Q. And I just – one on that piece, what – why is it going to come back into 2Q? I get that it's already sort of settling down a little bit. But is there a case for it to stay sort of above that \$170 million to \$200 million range that you're expecting for the second and third quarter?

And then on Engineered Materials, if you could just help us understand how you think the shape of that's going to play out. I know one of the big drivers is going to be how fast the health care part comes back. But how are you thinking about it? And then again on the fourth quarter, how do we lap an unusual 4Q 2020 and hopefully a more normalized 2021 environment?

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**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Yeah. Thanks, Vincent. So starting with acetyl, yeah, we do expect a really robust first quarter as we guided to. And we do expect some normalization as we move into second quarter and what could really change that. I mean, if you look at what's driving kind of the 4Q and, let's call it, early December and the 1Q pricing, we've had more robust demand all in China, I would say for acetic acid and for VAM. So it really had been more demand led. There have been a number of shorter outages in China for acetic acid and VAM. If you actually look at the data, it's not been significantly different than most fourth quarters.

So I would say the tightness we've seen in December and going into January, February has really been demand driven. Now, some of those outages that we've had although there was a few more in January which had given us some volatility in acetic acid, those plants are coming back online. And that's why we say kind of once plants are back, as people now have adjusted to this new level of demand, I mean, quite frankly, we saw what we thought was a little bit of panic buying over these three months where people – because demand was coming up and because there were a few outages responded by doing a little bit of restocking, because it made them nervous. I

think that's going to calm down as we go forward and people see security of supply and a more stable demand outlook.

Now, clearly, look, if there's another outage, especially if there were an outage in the western hemisphere, could we see these conditions, these kind of \$500 to \$700 per ton conditions continue on into the second quarter, I mean, we could. It's just we don't have any visibility of that right now. And so we would say we expect it to kind of normalize to normal ranges.

I would expect we should have – we expect \$170 million to \$200 million every quarter through the rest of the year. That's what we consider pretty normalized level of earnings for acetyls and fully expect to be in that range.

For Engineered Materials, we guided to \$120 million on some modest price and volume recovery. Obviously, we're seeing headwinds from raws but we've been making price movements that we think will largely offset that movement we've seen in raws. I would expect a little bit of improvement on that in second and third quarter, typical of what we see those being stronger demand months. We should also expect a little bit more recovery in our affiliate earnings, so expect to see that roll through in second and third quarter. And then fourth quarter typically looks more like first quarter, so I would think of it that way for the year.

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**Vincent Stephen Andrews**

*Analyst, Morgan Stanley & Co. LLC*

Q

Okay. And maybe just a follow-up on the M&A, in the prepared remarks, I know you talked about sort of having to look around at half time in the middle of the year and seeing where the M&A environment is. Is that a function of just sort of wanting to make a decision on how to use your cash flow for the year and not necessarily build any if you're not going to use it or do you think there's really something about the middle of the year in terms of specific transactions or anything in particular?

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**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Yeah. I would say that, the mid-year is really just about making sure we don't sit on cash for too long if we don't have any M&A clearly in sight. Look, we can always go borrow later to do the M&A. We're at a very low leverage. So that's not a problem. And it also represents what we can – we can effectively buy back shares about 400 to 500 in the first half. We probably can't really do a lot more than that. So it's also a time where you go, okay, now we need to re-evaluate if we need to go above that level that we had stated in the guidance.

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

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**Duffy Fischer**

*Analyst, Barclays Capital, Inc.*

Q

Yes. Good morning. First one is maybe two part around JV. So on KEPCO, is the idea there that that will basically sell to the partners at cost or will KEPCO actually try to make a profit? And then, could you also size the liquid crystal plant roughly kind of what the capital spend would be there. And then how accretive should that be to earnings when it starts to run?

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**Scott A. Richardson**

*Executive Vice President & Chief Financial Officer, Celanese Corp.*

A

Yeah. Let me take the KEPCO question, Duffy. So we will have some small trading profit there for KEPCO. It will be a cost plus basis going forward. And once that's finalized at closing, we'll make sure everyone's aware of what that is.

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Great. And on LCP, we're looking at doing this expansion – this build in China in phases. So if you look at the size of it, the first phase will be pretty much the same as our current capacity. So double our current capacity on LCP. The cost of that is going to be less than \$100 million. Startup won't be until early 2024. So I'm not sure financially what that looks like by then, but I would say we would expect it to be accretive fairly quickly as we already have demand in sight for that time at startup.

**Duffy Fischer**

*Analyst, Barclays Capital, Inc.*

Q

Great. And then could you give us a little preview on what you want to highlight at your Investor Day coming up?

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Sure. I think for Investor Day, we're really looking at we want to reconfirm our plans to achieve double-digit EPS year-on-year growth over the next three years. It's going to be based on a number of things. First, continuing to outline a more robust program of organic growth and you've seen some of that already with our announcements around the GUR expansion in the US, LCP build, putting our acetic acid project back on the table and actually at a slightly bigger expansion than we had previously.

We're going to talk a lot about innovation in end markets and especially the programs that we've started in electric vehicles and 5G and medical pharma. We're already seeing good results from those, really good growth and expect that to continue. So we'll be talking more about those and giving some examples. And then we'll be talking quite a lot about ESG, not just our commitments to ESG but also a lot around sustainable products and the advancements we're making in sustainable products in the areas like BlueRidge, like Ecomid, like Bio-POM. So those will be the main focus on Investor Day as well as we will talk more about cash deployment and our outlook for cash deployment.

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

**Michael Sison**

*Analyst, Wells Fargo Securities LLC*

Q

Hey, good morning and nice finish to the year there. Can you maybe talk a little bit about some of the project momentum. You used to talk about projects a lot over the last couple years for EM. Any particular areas you're seeing a lot of sort of requests or growth there? And how does that sort of look when you look at the outlook for EM in 2021?

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Yeah. Thanks for the question, Mike. Yeah. Let's talk about projects a little bit and I think this year is a good example of why we're starting to transition a little bit away from a number of projects to more towards value of



projects. So if you look at 2020, we actually, with all the challenges of COVID and everything else ended up ending the year with about 90% of the number of project wins as we had in 2019.

But if you look at the value of the wins we had in 2020, they were actually right at the same level as the value of the wins we had in 2019. And that's really what we're focusing on on projects which is not just are we generating a high number, but are we generating projects that have value and have extended value. So we've really been focusing on projects win in some of those program areas I mentioned earlier. So things like future mobility, around electric vehicles and autonomous and connectivity, so 5G and those sorts of things and mobile. If you look at it for example the growth in the number of projects we've had in terms of value is more than 65% for autonomous vehicles and electric vehicles. And for connectivity, it's over 60%. So we're really shifting our focus to those, I would say newer focuses, things that we think are going to have long life. And we're having a very high success rate in those areas.

So if we look towards next year, clearly, we would expect that value to continue to grow. It needs to grow to continue to meet our expectations for EBIT growth year-on-year. So we continue to – but again we're focusing on value of project wins not just number of project wins.

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**Michael Sison**

*Analyst, Wells Fargo Securities LLC*

Q

Got it. And then in terms of acquisitions, are there any – are you – sort of maybe give us a framework, are you looking for new polymers to add to the portfolio, new technologies, maybe focusing on end markets? And then is there a difference in what you're looking for versus a bolt-on and a transformational deal?

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**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Yeah. I wouldn't say our philosophy has changed around M&A. Our philosophy is the same. We are looking at projects that meet our return threshold and also meet our strategic criteria, so those things that you just laid out. So we're looking at geography. We're looking at – yes, we'd love to always add new polymers. We're looking at additional capability. So sometimes like some of the ones we did with Next and Omni at a recycle capability. We're always looking to add new capability there.

So I would say that's not changed. I would say given the time we had this year in 2020, we've used that to cast maybe a little broader net than we've had before and looked at some other – not just polymers but other chemistries that use a similar business model to what we use in EM. And that we think we could add value to. So I'd say we're looking broadly to make sure we're not missing any opportunities to really grow value for the shareholder.

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

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**Hassan I. Ahmed**

*Analyst, Alembic Global Advisors LLC*

Q

Good morning, Lori. Question around EM segment margins. Obviously they compressed sequentially to sub-20% levels and obviously under normalized macro conditions, historically they were north of 30%. Now I'm obviously cognizant of the fact that there was some sort of turnaround expenses baked into that margin number. But I just wanted to sort of get your view on when you expect to see a reversal or a return to those 30%-plus EBITDA margin levels.

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Yeah. Well, Hassan, thanks for the question. You're exactly right. I mean, this year, our margins were compressed in EM for two reasons, I would say. One is the pretty significant amount of turnaround expense we had this year with both the Bishop and the IPH pump turnaround. So those were two very large turnarounds which we also had quite a bit of inventory draw to cover those. So those together had a pretty significant impact.

The other thing this year was with lower volumes and we ran plants in the second and third quarter certainly at – some shut down for a period of time, some run at lower rates, this is a high fixed cost business. And so that fixed costs get spread across the rest of the volumes and that certainly had an impact on our margins.

I would say as we go into 2021, I would certainly expect to be back at that – excuse me because I was thinking EBIT, but at that kind of 20% to 25% range of EBIT margins as we go into 2021 and we see back to normal rates of volume and kind of a normal level of turnaround activity.

**Scott A. Richardson**

*Executive Vice President & Chief Financial Officer, Celanese Corp.*

A

Yeah. And Hassan, just one thing to add to that, with the sale of share of Polyplastics, that will come out of that. So that is one of the things that did inflate that number up and that has been kind of running on average around \$40 million or so a year. So that will be out permanently going forward. And that's why on an EBIT basis kind of being in that 20%, 25% is where we think we'll be in 2021.

**Hassan I. Ahmed**

*Analyst, Alembic Global Advisors LLC*

Q

Very helpful. And as a follow up on the acetyl chain side, obviously, very strong margins in Q4. And Lori you've touched on some of the drivers obviously, pricing [ph] sense (00:24:17) was there. And you talked about some outages and sort of demand rebounding again and the like. I just wanted to sort of dig deeper into the sustainability of those sort of margin levels. It seems that there a bunch of moving parts. Obviously, coal prices have gone up quite a bit in China. Obviously, methanol has gone up. I would expect that would moderate or maybe even come down on a go-forward basis. Then obviously, there's this the whole sort of notion of higher shipping costs and maybe those sort of coming into higher pricing levels and the like. So could you just help me sort of think through the sustainability of the sort of Q4 margin levels within acetyl chain?

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Sure. Look, we think sustainable margins in acetyls of \$170 million to \$200 million. We consider those kind of a foundational level of earnings and therefore sustainable over a pretty wide variety of conditions. And I think it's really based on the flexibility we have in the chain and the optionality we have in the chain. I mean, earlier in the year, although we weren't at those levels, we saw still good returns from acetyl because we were able even with acetic acid demand being down, VAM being stronger, emulsions being stronger, being able to flex our chain to produce more of those molecules. Now with acetic acid stronger, we can flex back and put more back into acetic acid.

So that flexibility that we have and the geographic flexibility, I mean, as you say Nanjing with coal prices up. But natural gas prices aren't really up in the Gulf Coast and we still have all that Clear Lake capacity. So that – we just shift more to Clear Lake and take advantage of low US Gulf Coast natural gas prices. Oil has been fairly low. So that's made our Singapore capacity pretty attractive. So having that geographical as well as the flexibility within

the chain, we think, gives us a lot of optionality across a wide range of economic conditions. And that's why we feel that \$170 million to \$200 million is very sustainable.

Now, the higher level that we're seeing kind of that \$225 million-plus level that we're predicting for Q1, that's a little higher – a harder level to sustain that's really based on some very high acetic acid pricing specifically in China. But certainly that \$170 million to \$200 million we think is sustainable.

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**Scott A. Richardson**

*Executive Vice President & Chief Financial Officer, Celanese Corp.*

A

Yeah. On a percentage basis, the sustainability there Hassan, I think, we've shown over the last several years that this business is going to do greater than 20% EBIT type margins and that puts EBITDA in kind of the mid-20% range, 25%-ish. And we expect that to continue as we go forward and be pretty strong in those areas in 2021 and beyond.

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

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**Ghansham Panjabi**

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

Q

Thank you. Good morning, everybody. So, Lori, obviously there was a lot of complexity throughout 2020 from a macro standpoint, just given the disruptions, etcetera. As you look back at 4Q and what you're seeing at current, is it just sort of transitory disruptions and commodity tightness that is driving the improvement in AC and EM segments, or do you see more confidence from customers as it relates to some level of global reflation sustainability? And if you could just sort of touch on that dynamic across the various geographic regions that would be helpful. Thanks.

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**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Yeah. I would say we definitely see confidence from customers and people being more certain going forward. I would look at the current resurgence of COVID is clearly has been as bad the last few months as it was in the early days of COVID. But yeah, we have not seen our customers shutting down. We haven't been seeing them cutting back. We continue to see robust consumer behavior around the globe.

And so I think that's giving everyone confidence. We just aren't seeing the impact now from COVID. I mean, if you look, we're really getting back to 2019 levels of demand. And we're not hearing anything different from customers. So I think truly demand is driving the increase that we're seeing in the acetyl chain. I think demand is driving the increases we're seeing in EM.

Now, we have had some bumpiness and volatility in December and into the first few months of this year in acetyl. I think that's been based on people because they are confident about the future, being worried about these what turned out to be fairly minor supply disruptions and causing some volatility in the market. But I think overall and the reason we are optimistic about 2021 and growth into 2021 is, overall, we really see confidence by our customers in continued growth in the markets and that steady increase in demand.

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**Ghansham Panjabi**

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

Q

Okay. And then, in terms of the EM segments and your comment on higher raw material cost. You had a margin lag the last time we had a mini inflation cycle if you will on the raw material side. How are you approaching pricing for this segment this time around? I realize there's a mix impact from healthcare etcetera, but just your view in terms of how you're navigating the current raw material cost paradigm. Thanks again.

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**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Great. Thanks, Ghansham. Yeah. We made a price increase in the fourth quarter. I would say, we didn't see – you wouldn't have seen a lot of impact to the bottom line from that, but that was really to get in front of some of these raw material increases we were seeing certainly in the last – in December and then expecting them to continue into the first quarter. We've made another price increase here in the first quarter. We think that should be enough to kind of keep us in front of the raw material environment that's developing and basically, keep us flat, if you will fourth quarter to first quarter. So we think we're out in front of it. I mean, our teams do a great job keeping our eyes on raw materials and trying to figure out what's happening and making sure that we can put sufficient price increases out there to cover the cost of raw materials.

But there is always a bit of a lag especially in EM between when we see those raw material increases and when we see them on our books and when we can pass through prices. I think in this case, we have pretty low inventory. So we're seeing that a bit sooner. But still confident that the price increases that we've made will be enough to largely offset the raw material increases in the first quarter.

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**Scott A. Richardson**

*Executive Vice President & Chief Financial Officer, Celanese Corp.*

A

Yeah. And we should see the benefit of Ibn Sina and the equity earnings there improving as that is a natural hedge for the Engineered Materials business as a partial offset to some of the raw material inflation that we're seeing there.

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

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**P.J. Juvekar**

*Analyst, Citigroup Global Markets, Inc.*

Q

Yes. Hi. Good morning. Lori, you decided to keep the Asia capacity in acetyls. Can you tell us how the acetyls profitability is today in natural gas versus oil versus coal? Maybe just give us a snapshot, so we can understand the rationale behind the decision because one would think that the coal-based production would be disadvantage today.

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**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Yeah. If you look at this, I mean, clearly the US Gulf Coast has an advantage and we don't really see any scenarios where natural gas prices go up to the point where there wouldn't be that advantage. That's clearly an advantage. If you look at Clear Lake, the combination of our size, our ability to generate our own methanol from our own CO, all that and our technology, the Celanese technology, Clear Lake is probably definitely the lowest end to the cost curve if you look at acetic acid producers around the world.

But because of our technology and because of some of the contracts that we've been able to negotiate, if you look at Singapore, certainly kind of at this \$40 to \$50 oil, it is also very cost competitive. And even Nanjing even at higher coal prices, I would say all of our facilities are in the top 25% to 30% in terms – top meaning the best, 25%

or 30% of all of the acetic acid facilities in the world. So, yes, although Singapore and Nanjing are higher cost producers, they are still highly competitive with other players around the world.

**Scott A. Richardson**

*Executive Vice President & Chief Financial Officer, Celanese Corp.*

A

Yeah. And, P.J., as we said in the prepared remarks, one of the important parts of this strategy is flexibility. And the raw material agreements that we now have in place plus the CO unit acquisition we did a few years ago now being under our control giving us that ability to flex up and down gives us a lot more optionality than we've ever had in the past. And so we are really excited about the ability to flex as needed based upon different raw material environments which as we know will move all over the place over time.

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

I would also mention, P.J., that shipping and distribution is not an insignificant cost and is going up these days. And so maintaining that capacity in Asia to serve the Asian market is also attractive versus shipping everything necessarily from the US.

**P.J. Juvekar**

*Analyst, Citigroup Global Markets, Inc.*

Q

Great. Thank you. And a question for Scott, first of all, congratulations on buying back stock, not many companies were able to do that in 2020. So your timing was good. As you replace Polyplastics capacity in Asia which is the growth market, you build LCP and maybe a few other plants. What kind of total CapEx do you need over the next few years? And your M&A comment, is that M&A mostly targeted towards Asia to replace Polyplastics? Thank you.

**Scott A. Richardson**

*Executive Vice President & Chief Financial Officer, Celanese Corp.*

A

Well, let me start and then I'll have Lori talk about views on capital going forward. I mean, look, we've been very consistent in wanting kind of a balanced capital deployment strategy and also being able to take advantage of the options that come in front of us. And so we want to be able to do M&A. We feel really good about not just the cash we have on hand, but the additional firepower that we have on the balance sheet being very clean. And as earnings continue to improve, that will only give us more horsepower to do M&A going forward. And so, we felt like, it was the right time to bring forward our plan on the 2021 repurchases and do in the first half. And we'll continue to monitor the M&A pipeline and we'll pivot as needed throughout the year.

The \$500 million or so that we expect in capital this year is kind of the first tranche of this wave of organic growth that we've been kind of weaving in and sprinkling in with announcements here in the last six months or so. And as Lori talked about before, that's going to be an important part of our Investor Day story that we have in March.

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Yeah. And I would say in terms of capital deployment. Yes, I expect we'll be at this kind of \$500 million level of CapEx for the next few years. Really focused on organic growth. And while a lot of it will be in Asia. So LCP as an example, we've talked about trying to build out our compounding as well as our technology capability in Asia.

This is really about having the ability to respond quickly to our customers in Asia. We're also making investments in other parts of the world. I mean, we've had the Forli Center of Excellence to better serve our European

customers. We've talked about the Bishop GUR expansion and we continue to do footprint optimization in the US to better and also technology buildout in the US to better serve our US and North American customers. So I would say that growth is going to be all over the world, maybe a bit more Asia focused but really spread where we need it to best serve our customers.

And I would say in terms of what we're replacing, I would like to mention while Polyplastics, we – it was always marketed by Polyplastics. So those molecules weren't really in our portfolio. If we – if you would say. We're really excited about KEP and the fact that we now will be able to put those molecules into our portfolio as part of our Asia footprint and now it gives us POM capacity globally which we really didn't have before.

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

**David I. Begleiter**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Thank you. Lori, is that 2.6 million tons of capacity in Clear Lake that you say is capable, is that fully online in 2023?

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Yes. We'll have that capability fully in 2023. Now, we need methanol and things to go with that and we're working on that. But that capacity would be able to come up to that rate at the startup. So essentially we'll double the size of Clear Lake capacity.

**David I. Begleiter**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Are you expecting your announcements last night on capacity to forestall some other capacity in the marketplace that you – that might be coming on stream?

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

I can't say what others will do with the news that they have, but we certainly think this is the lowest capacity add available to the market, much, much lower than any greenfield would be and probably even lower than most other expansion can be. So we'll let others make their decision from there.

**David I. Begleiter**

*Analyst, Deutsche Bank Securities, Inc.*

Q

If I can ask one more, just in EM, should we think more about as you move to a more value-based approach less volume and higher margins going forward in this segment? Is that fair?

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Look, we always focus on margin. I would say we're also, though, focusing on volume in terms of we think that we can add more volume to our system and get high margins on them as well. So I don't think it's a trade-off, but we certainly are at the point where we think we need to add additional volume in order to continue to deliver into high value markets.



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

**Matthew DeYoe**

*Analyst, BofA Securities, Inc.*

Q

Thanks. Perhaps a little bit on that line of questioning. So you expanded your GUR plant pretty recently and since then EV sales have picked up fairly significantly. Where are you on filling out that new capacity?

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Well, so the Bishop GUR plant won't start up until really early 2022. Obviously we would like to get it up as soon as possible because that market is growing very robustly. To put it in perspective, that business grew 25% in 2020 versus 2019. So we are anxious to get that plant up and expect to certainly fill it out within the first year or so of start-up.

**Matthew DeYoe**

*Analyst, BofA Securities, Inc.*

Q

Okay. I got ahead of you there. And then – so you'd mentioned demand is starting to pull back in the acetic acid market as prices increased. Is that substitution or is it simply just price sensitivity and people subsiding on that panic buying you were talking about?

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

I don't – we – so, Matthew, I'm not sure where you got that. We're not really seeing demand pullback yet in acetic acid. We actually think we're kind of back at normalized levels of demand. There's a little bit of supply insecurity as there were some minor outages in Asia and a little bit of panic buying and people restocking worrying that those – I think because they thought maybe those outages would be longer. But I would say the level of demand we're at now is holding fairly steady from fourth quarter last year into first quarter this year. And I think it's really a normalized level of demand that we should expect to see going forward.

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

**Kevin W. McCarthy**

*Analyst, Vertical Research Partners LLC*

Q

Yes. Good morning. On slide 11 of your supplemental materials, you're kind enough to give us volume numbers for each of your segments. And as I look at those numbers, it looks like you grew acetyl chain volumes 19% in the fourth quarter on a year-over-year basis. And so I was wondering – I know you had the Clear Lake outage. Is that a representative number? And if it is, could you just talk about your operating rates these days in acetyls relative to the broader industry?

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Yeah. So if you look at Q4 2019 to Q4 2020, we did grow volume as you mentioned about 19%. There's a number of factors there. First is we did add Elotex in April of 2020. So there's some volume that comes with Elotex that

gets added to those numbers. We did see, of course, demand recovery in fourth quarter of 2020 and some tightness in the market which helped drive volumes up.

I would also remind you we had a fairly significant outage at our Clear Lake plant in fourth quarter of last year. And although we had secured some volumes last year to cover that, fourth quarter last year was actually a little bit softer quarter than we typically have seen in acetyls. So I would say, one, it was a strong fourth quarter for acetyls in terms of demand. Certainly the best we've seen this year not surprising with COVID but even good versus last year.

As we see the market normalizing, we saw a little less seasonality. We saw some seasonality in emulsions, but we're able to shift that volume into strong demand for acid and VAM, especially in China. And that's really where we saw the difference in strength this year. Much stronger demand in China this year, western hemisphere about the same.

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**Kevin W. McCarthy**

*Analyst, Vertical Research Partners LLC*

Q

Maybe you anticipated my follow up question. I think earlier in 2020, you talked about shifting volumes downstream into emulsions and perhaps other derivatives. Has that reversed or how would you characterize the outlook there for the acetyls mix here in early 2021?

---

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Yeah. I would say, VAM demand, VAM pricing is also very strong right now. Emulsions is a little softer right now which is, but that's really a seasonal impact as it's colder, less demand for paints and coating. So probably a little bit more in the first quarter into acetic acid, especially the higher acetic acid pricing we're seeing in China. But I would tell you across the entirety of the chain right now, we're seeing a lot of strength in acetyls.

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

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**Aleksey Yefremov**

*Analyst, KeyBanc Capital Markets Inc.*

Q

Thank you. Good morning, everyone. Lori, you've elected to expand Clear Lake and keep Singapore acetic acid capacity. So your total capacity would be larger than the initial plan of shutting down Singapore. Why wouldn't the benefit of this expansion be larger than the initial \$100 million benefit?

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**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Yeah. So we actually never said we were going to shut down Singapore. We always said that we would look at reducing capacity in Asia which could have been Singapore or Nanjing or a combination of the two. Clearly, with the supply contracts now, we have an intention to run all three of them flexibly and as needed to meet demand.

So look, on Clear Lake, yes, the capacity that we've announced is larger. What we have justified the projects on in the credits that we've shared are simply the productivity. So we've assumed even if the market needs no additional [ph] work (00:45:36) capacity, what are the benefits, so we get \$100 million benefit on that \$350 million investment.



Clearly, if there is more demand in the market and it makes sense to run Clear Lake higher or other facilities around the world at higher rate, then there is a lot of additional upside for this project. But that was not our justification for the project. So that's just all upside for the future if we see above GDP type of growth and are able to produce into it.

**Aleksey Yefremov**

*Analyst, KeyBanc Capital Markets Inc.*

Q

Thank you for this. And have you made a decision whether to integrate into methanol directly by building or acquiring capacity or whether to purchase within the merchant market in the US for this expansion?

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Yeah. So, I mean, we are still looking at methanol and what we want to do around something like methanol. As you know, we already have a JV there with our partner Mitsui. So we are really looking at do we want to expand. We have the capability for a very low-cost expansion to get about another 25% capacity there. We're also looking at are there opportunities to do things with recycled streams and others.

So the good news is, in the US, there's a very strong commodity methanol market. So we always have the opportunity to buy methanol as well. And quite frankly, we like having the exposure to the market. We like having our own. If you look at it right now, we produce about 35% to 40% of the methanol that we need in our own system. And going forward, after the expansion, certainly after the initial phases, we still have about that amount. But quite frankly, we're still in the process of deciding what we want to do in Clear Lake in terms of methanol expansion or whether we just want to continue on the market.

**Operator:** Our next question comes from the line of John McNulty with BMO Capital Markets. Please proceed with your question.

**John P. McNulty**

*Analyst, BMO Capital Markets Corp.*

Q

Yeah. Thanks for taking my question. Maybe this one for Scott. So when I look at the earnings that you're calling for, for this year, it's roughly in line with what we saw in 2019. Back then, you generated about \$1.1 billion of free cash flow. So it seems like the better than \$700 million number that you're putting out for this year, maybe on the light side, are there any major puts and takes that we should be thinking about when kind of comparing the two? I know the CapEx is going to be up a bit but doesn't seem like it makes up anywhere near the difference. So, I guess, how should we be thinking about that?

**Scott A. Richardson**

*Executive Vice President & Chief Financial Officer, Celanese Corp.*

A

Yeah. So John, I kind of break it into three categories. The first is the CapEx, as you mentioned, call that \$100 million, \$150 million or so increase. The next is the \$100-or-so-million that we had with the EU settlement which has already been paid here in the month of January. And the last area is kind of what I would call a working capital rebuild a bit here. Obviously, working capital came way off during 2020. We also saw raw materials fall a lot, so that was magnified. Now we see, as business really returns and things move up, there is a natural rebuild of working capital that will come with that. In addition, we're expecting higher raw material environment. So that will then kind of add another layer onto that working capital. So those are really the three components. I would not look at things being anything fundamentally different in our operations. It's just more kind of timing of some of these things coming in.

**John P. McNulty**

*Analyst, BMO Capital Markets Corp.*

Q

Got it. Thanks very much for the color.

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

**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Q

Thanks very much. How do you think your Engineered Materials volumes in 2021 will compare to 2019?

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Yeah. I think if we look at the volumes, so if you look at our base business volumes, our volumes in 2021 I think will be very comparable to 2019. And maybe even – certainly our sales on our base business we think will be above 2019. But the volumes will be comparable to maybe slightly better. So I think our base business is kind of back to that 2019 level. And again, that assumes some level of recovery, but not all in medical. So medical is not a huge volume, but is a huge earning. So there is some additional upside if we would see earlier return of elective procedures that we currently have in the forecast.

**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Q

What do you think the EBIT penalty was from medical in 2020?

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

In 2020, it was tens of millions. So it was significant when you look at it on the EM base earnings.

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

**Frank J. Mitsch**

*Analyst, Fermium Research LLC*

Q

Good morning. Nice end to the year and nice dividend hike. I wanted to ask that volume question on Acetyls a little bit differently. It was up sequentially 6% in acetic/VAM and EVA. And you also mentioned that you proactively source material prior to your turnaround. So I was just curious, the proactive sourcing, was that kind of a – was that a very neat match in terms of what you lost from your turnaround, or how should we think about what you might have been able to do if you didn't have that turnaround? And it was just curious to see higher volumes in 4Q relative to 3Q. So I was just trying to understand that a little bit better, how that worked out.

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Yeah. Well, I think the higher volumes in fourth quarter versus third quarter a lot is just based upon demand recovery and producing into that demand. You're right, we lost some volume in Clear Lake. But we did buy volumes in order to provide our customers around the globe to replace that. We also always do watch the market.

And if we see what we think is a tightening market and a higher demand market, we will source additional materials in order to anticipate customer needs and make sure we have sufficient volumes together. So all of those three things, I think, came together in the fourth quarter and what we ended up seeing was both very high-volume demand quarter as well as a very good pricing quarter.

**Frank J. Mitsch**

*Analyst, Fermium Research LLC*

Q

Yeah. It was – it certainly was a very good pricing quarter and obviously your results reflected that. Typically, a lot of purchasing agents will try and get ahead of price increases, et cetera. And so, do you have any good feel as to what amount of that demand was restock, or how do you think about that, just in general, inventory levels at your customers as they stand in 4Q and today?

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Yeah. Look, we think there was a little bit of restock happening in Asia. Not really the Western Hemisphere. Really we saw it in China, to be specific. So we think there was a little bit of restock. But again, the ability to restock is not very big in the acetyl chain. These are, for the most part, liquid products that may go into tanks and people have limited amount of tanks. So you're talking about the difference between people holding 30 days of inventory versus 20 days. So it was a small amount that went into restock. I don't think it will be meaningful as we go forward in terms of affecting overall demand for our products.

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

**Arun Viswanathan**

*Analyst, RBC Capital Markets LLC*

Q

Great. Thanks for taking my question. Congratulations on the progress in 2020. I guess – apologies if I missed this earlier, but you're guiding to around \$2.50 to \$2.75 or so for Q1. And I think you had some comments as it relates to EM that Q2 and Q3 would be better and Q4 looks like Q1. So your EPS guidance for the full-year is \$9.50 to \$10. So are you calling for a Q2, Q3 level of EPS that's below Q1? Maybe you can just help us square that out.

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Yeah. Look, I think the real – the swing factor here is really acetyls. Acetyls for Q1, we're saying it's going to be at or above \$225 million. If we look going forward, as I said, I think acetyl will be more in that \$170 million to \$200 million range, which is the more normalized range. Again, EM will probably be slightly up in second and third quarter, but we do expect a drop in acetyl. So that's how we get to the \$9.50 to \$10.

**Arun Viswanathan**

*Analyst, RBC Capital Markets LLC*

Q

Okay, great. And then, just as a follow-up on the capital allocation side. You obviously have relatively low leverage. You've got a lot of opportunities in front of you, both organic and inorganic. And you already laid out your priorities on buybacks. So I'm just curious, are there any other potential asset sales that you're evaluating or divestments that would maybe give you a little bit more firepower on the buyback side? Maybe you can discuss that. Thanks.

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Well, I would just say we constantly re-evaluate our portfolio there. I would also tell you, though, there's nothing meaningfully out there. And from gaining more firepower, I mean, we have quite a lot at the moment. We don't think that's going to be a factor in what we pursue in terms of M&A.

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

**Matthew Blair**

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

Q

Hey. Good morning. Thanks for fitting me in here. Lori, are you able to share Acetyl Chain utilization rates by region?

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

I'm sorry. I wasn't quite clear. Utilization rates for acetic acid or Acetyl?

**Matthew Blair**

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

Q

Yeah, yeah, for your Acetyls business by region.

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

I'm not sure I have exactly by region. I can talk a little bit about China and maybe globally. So if we look at the fourth quarter, for example, both China and global acetic acid utilization was up about 5% from the previous quarter. And again, that was based on higher demand, not because of higher outages. And if you look at what that translates to, that really was kind of low-80s in China. And remember, there's a lot of capacity in China that doesn't get actually run to acetic acid that sits on the books. And then, the global, we saw actually the globe utilization crossing over kind of even into that low-90% range a couple of different times during the quarter. As we go into the first quarter, we're seeing kind of the same level of utilizations both in China and in the globe.

**Scott A. Richardson**

*Executive Vice President & Chief Financial Officer, Celanese Corp.*

A

Yeah. Matthew, the global number is really important number. I mean these are global markets, product can move all over. And so, that is really what drives things really in the short- and long-term is what's happening with global utilization.

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

But I think it's probably fair to say that anything that's based on US Gulf Coast natural gas is running at 100% if they're mechanically capable of doing so.

**Matthew Blair**

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

Q

Very helpful. I'll leave it there. Thank you.

**Brandon Ayache**

*Senior Director, Investor Relations, Celanese Corp.*

A

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

**Operator:** Our last question comes from the line of Edlain Rodriguez with Jefferies. Please proceed with your question.

Q

Thank you. Good morning, guys. Just one quick one on the EPS guidance. When you're looking at the numbers, like, what do you see upside or downside to those numbers? Like, is it a pricing thing or is it volume? And how much of that depends on faster or slower rollout of the vaccine?

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Look, I think for Q1 and for the full-year, obviously, the upside comes if we continue to see strong demand in acetic acid even above, say, where we are today; or if we were to see significant supply outages in acetic acid, that would certainly be an upside to both the quarter and to the year. I think the obvious biggest challenge on the downside is what you laid out in terms of COVID, is do the markets lose confidence, do we see automakers, for example, shut down again for two months. That would be the biggest downside. The vaccine rolling out helps I think in that area of confidence and also making sure we have enough employees who are well to run plants around the globe.

But, as I said earlier, it is a downside. We're not baking that in because, quite frankly, we're not seeing that behavior from our customers. What we're seeing is, people have demand, people want to run, people are back at normal buying pattern. So, unless we see a significant change from where we've been today on COVID, we think that that's a manageable downside risk.

Q

Okay. Thank you very much.

**Operator:** I'd like to hand it back to Brandon Ayache for closing remarks.

**Brandon Ayache**

*Senior Director, Investor Relations, Celanese Corp.*

Thank you, and I want to thank everybody for listening in today. As usual, we're around after the call if you have any further questions. Doug, please go ahead and close out the call.

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

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