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# Celanese Corp. (CE)

Q3 2018 Earnings Call

## CORPORATE PARTICIPANTS

**Surabhi Varshney**

*Vice President-Investor Relations, Celanese Corp.*

**Mark C. Rohr**

*Chairman & Chief Executive Officer, Celanese Corp.*

**Scott McDougald Sutton**

*Chief Operating Officer, Celanese Corp.*

**Scott Richardson**

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

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## OTHER PARTICIPANTS

**P.J. Juvekar**

*Analyst, Citigroup Global Markets, Inc.*

**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

**Robert Koort**

*Analyst, Goldman Sachs & Co. LLC*

**John P. McNulty**

*Analyst, BMO Capital Markets (United States)*

**Kevin W. McCarthy**

*Analyst, Vertical Research Partners LLC*

**John Roberts**

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**David I. Begleiter**

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**Michael J. Sison**

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**Ghansham Panjabi**

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

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**Laurence Alexander**

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning, and welcome to the Celanese Third Quarter 2018 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] Also, this event is being recorded.

I would now like to turn the conference over to Surabhi Varshney, Vice President of Investor Relations. Please go ahead.

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### Surabhi Varshney

*Vice President-Investor Relations, Celanese Corp.*

Thank you, Anita. Welcome to the Celanese Corporation third quarter 2018 earnings conference call. My name is Surabhi Varshney, Vice President of Investor Relations. With me today are Mark Rohr, Chairman and Chief Executive Officer; Scott Richardson, Chief Financial Officer; and Scott Sutton, Chief Operating Officer.

Today's presentation includes statements about expectations for the future results and plans that are forward-looking statements. Actual results might differ materially from such statements. 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 today. You can find information related to these non-GAAP measures and reconciliations to their comparable GAAP measures on our website in the Investor Relations section. Form 8-K reports containing all these materials are available on the SEC's EDGAR system.

Celanese Corporation distributed its third quarter 2018 earnings release via Business Wire and posted slides and remarks about the quarter in the Investor Relations section of our website after market close. Since we published our comments yesterday, we will now open the line for your questions.

## QUESTION AND ANSWER SECTION

**Operator:** We will begin our question-and-answer session. [Operator Instructions] The first question today comes from P.J. Juvekar with Citi. Please go ahead.

P.J. Juvekar

*Analyst, Citigroup Global Markets, Inc.*

Q

Yes, hi.

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Good morning, P.J.

P.J. Juvekar

*Analyst, Citigroup Global Markets, Inc.*

Q

Good morning.

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Good morning.

P.J. Juvekar

*Analyst, Citigroup Global Markets, Inc.*

Q

Every week I get some kind of price increase announcement from Celanese in acetyls. So, my question is, how are your paint coatings and polyester fiber customers taking this price increases? And, I guess, you've been leading the market in acetyls. If there is new capacity that comes in, would that sort of upset the apple cart in terms of the discipline?

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Hi, P.J. This is Mark. Thanks. Let me back up a little bit then. Over the years people have kind of made fun of our price increases. We do that for a reason, a very specific reason. When you deal with customers, my personal experience is customers don't mind pricing. They just don't want to be disadvantaged or surprised. We go to great lengths to very openly share what's going on in the market and how we're responding to that and with great lengths working with individual customers to help them moderate and manage and deal with those price increases.

So, broadly speaking, that's why you see us do what we do. And because of that, we have found that our customers always respond well to what we do. And, sometimes it's tough, but they always respond well. We've not seen any unusual pushback or anything else from pricing. And if you look at the levels of inflation we're seeing today, P.J., you've been around a few years, you've seen lots of cycles of inflation, it's not that severe. I mean, different areas we're sitting in, but it's not unusual nor is it anything that few years ago we didn't see on a routine kind of basis with multi-hundred million dollar year-over-year kind of raw material inflation number. So, I know there's a lot of worry about that out there, but I can't quite quantify in my mind why people are so concerned about

it. You got to work hard to stay ahead. We do. We work hard with our customers, but we haven't seen any particular issue with it. And I will look back to say, as you look to polyester, no big issue there.

P.J. Juvekar

*Analyst, Citigroup Global Markets, Inc.*

Q

Yeah, don't get me wrong. I mean, we appreciate your price increases and admire that you are able to raise pricing and recover raws.

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Yeah. No, I didn't take it that way. I just want to make sure people understand that. We do that, but – we're a bit more public than others, but we do that on purpose and we do it for a reason and it's really just to focus in and help our customers.

P.J. Juvekar

*Analyst, Citigroup Global Markets, Inc.*

Q

Right, right. And then just, Mark, quick question on your guidance for 2019. You mentioned that gains in EM, Engineered Materials, would be offset by winter seasonality. I was wondering if you can just explain what you mean by winter seasonality. Thank you.

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Thank you, P.J. Those of you that have followed things like the coating businesses in China for a while understand that you go through these seasonality kind of periods. And classically, in our business segments, you would have weaker winter seasons or fall seasons, fourth quarters, and weaker first quarters, and that varies between – would vary between coatings businesses in Europe, Chinese New Year, seasonality in auto builds, lot of things that kind of roll into that generically.

It's not a big deal. It is just a natural kind of event that would occur similar to weak sales in Europe in August, which is something that happen.

So, what we saw last year, though, which is a bit unique is we didn't see that. We kind of powered through first and fourth, and there were lot of subtle reasons why that is. We believe that we're returning to that kind of normal movement. So, again, it's not a big deal, other than the fact that we didn't have it this year as we started the year. So, that's all we're saying there. That means that fundamentally we would see our – over the next several years, we'd see us have stronger mid-cycle to the earnings year than end of cycle – beginning and end of the year. That's all it means, P.J.

P.J. Juvekar

*Analyst, Citigroup Global Markets, Inc.*

Q

Okay, great. Thank you.

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Yeah.

**Operator:** The next question comes from Jeff Zekauskas with JPMorgan. Please go ahead.

Jeffrey J. Zekauskas  
*Analyst, JPMorgan Securities LLC*

Q

Thanks very much.

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

A

Good morning, Jeff.

Jeffrey J. Zekauskas  
*Analyst, JPMorgan Securities LLC*

Q

Hi. Good morning. I noticed in your AI business that your volumes were lower sequentially, and my memory was you had all kinds of outages in the second quarter. So, why were volumes sequentially weaker?

Scott McDougald Sutton  
*Chief Operating Officer, Celanese Corp.*

A

Yeah. So, hi, Jeff. This is Scott Sutton. Look, we don't worry too much about sequential volumes win. As you know, we run a model there when we go out and activate our network. So, sometimes we're in stronger in a certain derivative and sometimes we're out of that. You really have to think about the whole year for the health of the business and for the whole year even volumes in that business will increase.

Jeffrey J. Zekauskas  
*Analyst, JPMorgan Securities LLC*

Q

No – well, it's a very tight market, and you had very strong year-over-year pricing and you had very good sequential pricing. So, were you trying to maximize the profitability of the model in the third quarter?

Scott McDougald Sutton  
*Chief Operating Officer, Celanese Corp.*

A

Yeah.

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

A

We always try to do that, Jeff. Every minute of the day we try to do that. And we're in the market quite a few hundred thousand tons per year in terms of buy/resell in that process. It wasn't necessarily unusual this quarter, that activity, but maybe a little more unusual. But, yeah, we always try to make good decisions to maximize the profit for our shareholders.

Scott McDougald Sutton  
*Chief Operating Officer, Celanese Corp.*

A

Yeah. And, Jeff, I mean, I would really encourage you to think about the whole Acetyl Chain from a volume standpoint, not just what's shown as the AI segment, and think about that on an annual basis as well.

Jeffrey J. Zekauskas  
*Analyst, JPMorgan Securities LLC*

Q

Okay, great. Thank you so much.

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Thank you.

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

Robert Koort

*Analyst, Goldman Sachs & Co. LLC*

Q

Good morning.

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Good morning.

Robert Koort

*Analyst, Goldman Sachs & Co. LLC*

Q

I don't know if for you or Surabhi or Scott, but I thought the comprehensive review you guys put out was excellent and helps answer a ton of questions ahead of time and I really appreciate limiting your formal conference call remarks to none so we can ask questions. I wish all companies would approach it the same way. Let me ask my two questions if I could. First on, I guess, for Scott Sutton on the EM model, do you guys feel it's more of a products expertise or process expertise? And, I guess, the question is really aimed at can you bring in other – can you start going maybe down the pyramid to more commoditized or maybe less specialized plastics, but employ the same process for the same success or do you think it's limited by the types of products that you sell through EM?

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Yeah.

Scott McDougald Sutton

*Chief Operating Officer, Celanese Corp.*

A

Bob, really the real intellectual property in that business is the model. Now, how that manifests itself is being able to go out and match up our broadest solution set to the largest number of customer needs. I mean, clearly, we do well, where there's a little bit more sophistication needed, right, by customers, but that also applies to what I'll call mid- and lower-range products as well. It's not exclusive only to those super-sophisticated products.

Robert Koort

*Analyst, Goldman Sachs & Co. LLC*

Q

Got you. Okay. And then, I thought you had a very interesting point about your auto demand relative to auto builds. Can you give us any sense from the outside how we can try to predict and calibrate your growth in that market when it seems to be so detached from OEM build rates?

Scott McDougald Sutton

*Chief Operating Officer, Celanese Corp.*

A

Yeah. I mean, Bob, even across all markets, we're not necessarily dependent on absolute growth of the driver volumes in those businesses. You've got to be able to think about sophisticated solutions. And sometimes when volumes are declining, like they did in auto in the third quarter, there's actually a bigger drive for unique solutions, for cost savings or whatever it is from the customer. So I can't give you a way to connect to that. What I will just say is that we grew every single market segment, and that's the plan going forward as well.

Robert Koort

*Analyst, Goldman Sachs & Co. LLC*

Q

Great. Thanks very much.

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Thanks, Bob.

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

John P. McNulty

*Analyst, BMO Capital Markets (United States)*

Q

Yeah, good morning. Thanks for taking my question. Look, there has been a lot of movement in the acetic acid prices. And admittedly, we get that you guys don't necessarily trade on spot. But I guess, how are you thinking about how pricing moves as we get into the fourth quarter and into 2019? And as far as 2019 goes, when you think about year-over-year, can it be up, flat? I guess, how are you thinking about it?

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Not a lot, but it's what I would say, John. We work in that market to try to – with all the molecules to try to maximize the net value back to our corporation. Classically, you would see a drift down in pricing a bit in the fourth and a bit in the first. And we certainly started seeing a little bit of that. But there's been announcements by local Chinese companies actually driving pricing back higher in China, which is a bit unusual.

I guess, I'd say we just don't think about it too much. We think more about normal seasonality, and normal seasonality, would say that we'll be a little bit off in the fourth and a little bit off in the first, stronger in the middle quarter. So that's how we're kind of looking at this normalized view year-over-year, rather than an absolute dollar per ton price. I don't know, Scott, do you have any further thoughts on that?

Scott McDougald Sutton

*Chief Operating Officer, Celanese Corp.*

A

Yeah, Mark, I would just add that the way pricing comes about is by the number of activations we're able to do to our network. And you've seen us increase that and that'll increase next year. And underlying all that is fundamentals are still okay, effective utilization is still okay. So you put those two things together, I think it's an okay situation.



John P. McNulty

*Analyst, BMO Capital Markets (United States)*

Q

Got it. Thanks very much. And then just a quick follow-up. You'd indicated in, I guess, your outlook for 2019 that there were going to be potentially some – I guess, the cost of some several large planned outages. I guess, how should we be thinking about, I guess, the delta or the bogey between 2019 and 2018 in terms of [ph] dollars (00:13:31)?

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

About \$50 million, about \$50 million. So, we have a huge internal turnaround. We're expanding and rebuilding, from an efficiency point of view, one of our POM assets in Ibn Sina. That's a very, very large turnaround, and those are quite expensive.

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:** The next question comes from Kevin McCarthy with Vertical Research Partners. Please go ahead.

Kevin W. McCarthy

*Analyst, Vertical Research Partners LLC*

Q

Yes, good morning. With regard to Engineered Materials, you've put forth a goal of having 5,000 projects in 2020. Can you speak to two aspects? First, how do you expect the average project size to trend between now and then? And then second, what sort of level of acquisition activity do you need or not need to achieve that level?

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Yeah, Scott, go ahead.

Scott McDougald Sutton

*Chief Operating Officer, Celanese Corp.*

A

So, Kevin, this is Scott Sutton. In terms of size of average project, I mean, that's going to trend where it's been trending the last couple of years. We are going to increase the number of projects that we close or get a purchase order for, taking it up to 5,000 by 2020. We do have some assumption of one or two bolt-ons a year between now and then that helps add to that pipeline. Most of it comes through organic growth, though.

Kevin W. McCarthy

*Analyst, Vertical Research Partners LLC*

Q

Okay. And second question, if I may, on capital deployment. You raised your 2020 earnings goal to \$12, up from I think \$11 at the time of your Investor Day in May. Can you update us on what amount of capital deployment is embedded there? And my recollection is that it was excluding repurchases, but inclusive of some bolt-on

acquisitions. And, I guess, related to that, your press release indicates an ability to accelerate repurchases. Obviously, the market's been, shall we say, a little choppy. And what are your latest thoughts on that subject?

Scott Richardson

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

A

Yeah. Kevin, this is Scott Richardson. So, what we said at Investor Day was that we expected CapEx to be in the \$350 million range for the next three years. We're going to probably come in around \$330 million this year just with the timing of how it flows through. But we made the announcement on the POM expansion. We have several other very attractive productivity and growth-driven projects that we're looking at. So we're actually expecting that as we get to the end of that three-year window that CapEx will actually tick up higher than that \$350 million level. We'll probably be kind of in that range, maybe plus/minus a little bit next year, but we should be up to higher levels beginning in 2020 and beyond. And that should just translate to continued earnings growth again through productivity and top line growth going forward.

And then on repurchases, yeah, our cash flow's been very strong this year. We stated this quarter that we expect to approach \$1.2 billion of free cash flow. And so we do have the opportunity, just given where the market has been, to accelerate some of those repurchases that we had originally stated. We had said we were going to do \$1 billion over the three-year period from 2018 to 2020.

Kevin W. McCarthy

*Analyst, Vertical Research Partners LLC*

Q

Thank you very much.

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Kevin, this is Mark. Just real quick on two of those topics. It's a bit of an add-on to what Scott has said. I don't know that we really explained well enough the opportunities that we have to incrementally expand our assets. And in most cases, Kevin, we can get a phenomenal return with no incremental volume, which we have enough productivity opportunities in front of us. And I know that's a little bit hard to conceptualize, but when you have a global network of assets and you're playing in a number of different fields as it relates to raw material values or costs, energy cost, logistics cost today, which are up over \$60 million over two-year period, corporately, for a company like ours, there is tremendous value that can be created that way.

And so we have a series of those that we're evaluating and teeing up. You've seen some of those announcements are giving returns from the 25% to 45% kind of range, largely independent of material volume there. So, you should expect more capital going into that. And so, we haven't put out a number yet. We'll, I think, talk maybe more January, Scott, on kind of what we see out there, but certainly in the near-term that \$350 million kind of number is fine. But as we get out to the 2020 timeframe, maybe higher than that

Getting back to cash, we reported this ability to press of being roughly around \$1.2 billion this year. So, you would expect that to grow as we go out to the next couple of years. We've tagged it at \$3.6 billion. We're going to work hard to see it's higher than that. We think even at constant earnings, we have the ability to kick out more cash. So, we're going to look for – find ways to invest that cash in the phenomenal opportunities for us. We're sitting on a bolt-on acquisition, but we'll finance that pretty easily with the cash coming off the business, and then beyond that we'll look to make sure that our dividend policy reflects our much higher level of cash flow, and then share repurchase and accelerating those, as Scott has said.

Kevin W. McCarthy

*Analyst, Vertical Research Partners LLC*

I appreciate the additional color.

Q

**Operator:** The next question comes...

Surabhi Varshney

*Vice President-Investor Relations, Celanese Corp.*

Anita, could you do that again, please?

A

**Operator:** The next question comes from John Roberts. Please go ahead.

John Roberts

*Analyst, UBS Securities LLC*

Great. Thank you. Could you update us on any progress in replacing your filter tow deal that you have with Blackstone with alternative transaction of some sort?

Q

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

We're still working that, John. It's – not a lot of options out there. We haven't found one yet. I remain convinced, as does Scott and Scott, that there are opportunities for us to do things out there maybe more structurally based on our manufacturing, but we're working hard to try to find opportunities.

A

John Roberts

*Analyst, UBS Securities LLC*

Is there any risk for a second inventory correction in filter tow, given the sort of general weakness in China, or do you think inventories are low enough there that we don't have that risk right now?

Q

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

We're pretty comfortable, in inventory levels we're fine. We don't see that – it being a risk. We've been a team that's been active on trying to drop pricing in the world. We have some traction with that, which is good. And, of course, we need that to offset some of the volume declines that are naturally occurring in the business; not dramatic, but that normal 2% per year.

A

John Roberts

*Analyst, UBS Securities LLC*

Thank you.

Q

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

Thank you.

A

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

David I. Begleiter

*Analyst, Deutsche Bank Securities, Inc.*

Thank you. Thank you. Good morning.

Q

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

Good morning, David.

A

David I. Begleiter

*Analyst, Deutsche Bank Securities, Inc.*

Mark, just on China, are you seeing some signs of slowing or softening in the economy? And just on these winter shutdowns, I think your prepared comment suggests that they might be even more severe than this year, but perhaps they could be less severe than last year due to the need to stimulate the economy. Can you just comment on that?

Q

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

Well, I think, all three of us here would have slightly different version of that, so maybe I'll give my spin, and then Sutton and Richardson can follow. But if you read publications, China's coming out reporting a little bit lower numbers. For those of us that have had to make a living out of China for a long time, we never necessarily believe the prior numbers anyway. So, I don't know quite what to read of whether it's 6.5% growth or 7.5% growth myself. From my point of view, we don't see any dramatic slowing in China. I'm looking at the guys. Is that fair to you?

A

Scott McDougald Sutton

*Chief Operating Officer, Celanese Corp.*

Yeah. This is Scott Sutton. Our project pipeline is increasing nicely in China...

A

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

Yeah.

A

Scott McDougald Sutton

*Chief Operating Officer, Celanese Corp.*

...in fact, and that's where a good bit of the growth has come from even in the last quarter in China. And acetyls, we've been able to make a lot more moves or activations as well, so it's really quite active.

A

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

Yeah. So, if there is a slowdown occurring, I think it's occurring in a thoughtful way, in a way that actually enhances commerce; doesn't detract from commerce or plays to our business model strengths, another way of saying it, out there clearly. Absolute dollar sales have gone down, but the need to dramatically improve the quality of all those is just kind of off the chart. So, we just don't quite feel it is what I would say.

A

David I. Begleiter

*Analyst, Deutsche Bank Securities, Inc.*

Q

Got it. And, Mark, just on your M&A pipeline, I know you acquired Next Polymers, announced that. How's the rest of the M&A pipeline looking for this year and even next year?

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Scott, do you want to...?

Scott McDougald Sutton

*Chief Operating Officer, Celanese Corp.*

A

Yeah. David, I would say that we still have a healthy pipeline, particularly in Engineered Materials, and there's good opportunity to do some meaningful bolt-ons next year.

David I. Begleiter

*Analyst, Deutsche Bank Securities, Inc.*

Q

Thank you very much.

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Thank you.

**Operator:** The next 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.

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Thanks, Mike.

Michael J. Sison

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Mark, in terms of auto, just curious how much left is there to do in a car? Is there a lot of opportunities to continue to convert parts in plastics and what are you converting now and what's the opportunity do you think over the next couple of years?

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Yeah, it's infinite. What's a car of the future going to look like, it's probably going to be extruded fiberglass. So, no, we see – you can only imagine the thousands of connections, the thousands of discrete parts that go into autos, each one plays an intrinsic role in the quality of that vehicle or the aesthetics of that vehicle, the efficacy of that vehicle, the fuel efficiency of it, and what the other dealers are always doing is trading off those value equations. The price of steel is not constant. The price of aluminum is not constant. So you're always getting into a refinement and every movement of that. Electrification is really exciting for us, not only in the lithium energy pack alone, but the housing for that, the connectors that are going in that, the design of the new consoles for those

vehicles, the reduced weight which dramatically expands the application of reinforced thermoplastics in structural parts. So, I'm sure there is a limit to it, boss, but I kind of don't know what it is.

Michael J. Sison

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Okay, great. And then, when I think about the 2020 outlook for the segments, the Acetyl Chain seems to be pretty much there. Can you maybe walk us through some of the upside potential over the next couple of years there, and maybe downside as well?

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Well, the upside potential for that business really is volume. You've got an industry that's running in the mid-80% capacity utilization that has a history of losing, on the average, three production assets annually per year. If you look at kind of the run rate of upsets in this business, it averages pretty close to three world-scale assets per year are out. So think about 1.5 million tons out of a 16 million, 17 million, 18 million ton market. Last year we were probably 2.2 million, 2.3 million, something like that, so it's a little bit unusually high from that point of view, but that 100-year storm last year happens every three, four, five years.

So we think we're in a period where the business is going to be tight. We also think that the loose monetary policy of China, which really led to the one negative cycle we had in this business, is gone and I think gone for good with the Blue Sky Campaign, but also the need to get a return on your investment and, frankly, the inability for China to compete outside of China. So, we see ourselves moving from one dip that lasted a long time to one upcycle that's going to last a very long time. And for us, it's going to be solid pricing, incremental volume growth. That's how I'll define it.

Michael J. Sison

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Great. Thank you.

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Sure.

**Operator:** The next question comes from Ghansham Panjabi with Baird. Please go ahead.

Ghansham Panjabi

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

Q

Hey, guys. Good morning.

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Hey, Ghansham.

Ghansham Panjabi

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

Q

Hey, Mark, just to expand on that last point. So you noted acetyl capacity utilization in the mid-80s on a global basis in 2018. Do you expect that to get higher in 2019 or stay around the same? It just seems like things were a little bit tighter in 2018, given some industry disruptions and force majeure. Just trying to get a better sense of how you're thinking about 2019, specifically.

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Well, when we do these kind of things, we don't really fantasize about things on the fringe that could happen. So, we kind of look at it as being pretty similar to this. Demand will creep you up a little bit, but we're doing like a slight incremental expansion. Others may be doing a little – pushed down more volumes. So we think it's going to stay for the most part in the mid-80s, maybe creep up 1 turn or something.

Ghansham Panjabi

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

Q

Okay. And then on the EM segment, operating margins inflected higher year-over-year for 3Q after several quarters of declines due to both higher raw material costs and also some of the initial dilution from acquisitions. Looking back at 2016, margins were sort of in the mid-30s range for that segment. When do you think you can get back to those types of levels or is the mix of the business just different versus back then?

Scott McDougald Sutton

*Chief Operating Officer, Celanese Corp.*

A

Yeah. This is Scott Sutton. Look, I think we're operating right now, and particularly this most recent quarter is a good healthy place for that business to be, because we can grow it at that level, we can add on bolt-on acquisitions, and lift their margins up and really add a lot of value to the company. To me, it's healthy where it is.

Ghansham Panjabi

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

Q

Got it. Thank you.

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Thanks a lot.

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

Arun Viswanathan

*Analyst, RBC Capital Markets LLC*

Q

Good morning.

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Good morning.

Arun Viswanathan

*Analyst, RBC Capital Markets LLC*

Q

I guess, just wanted to understand maybe the raw material picture. There was some increase in some of the feedstocks over the last little while. Would that have any impact on you guys going forward, given your ethylene purchases?

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

Ethylene specifically?

A

Scott McDougald Sutton

*Chief Operating Officer, Celanese Corp.*

Specifically on ethylene.

A

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

Yeah.

A

Scott McDougald Sutton

*Chief Operating Officer, Celanese Corp.*

I mean, okay, I'll answer it more broadly.

A

Arun Viswanathan

*Analyst, RBC Capital Markets LLC*

Yeah, historically, but maybe you can [indiscernible] (00:28:31) too.

Q

Scott McDougald Sutton

*Chief Operating Officer, Celanese Corp.*

Okay, I'll answer it more broadly. The reality is, if you look at third quarter every single business, right, energy and raws went up, every single business really, we're able to cover that off with price. So, look, we could feel some more impacts from that, but I think we're set up to completely cover that off.

A

Arun Viswanathan

*Analyst, RBC Capital Markets LLC*

And then, kind of just understanding the three-year outlook on an earnings basis, what kind of cash deployment do you have in there and how does that split bit between buybacks and acquisitions?

Q

Scott Richardson

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

Yeah. Like we said, we have \$1 billion earmarked for buybacks at this point in time and we will bring some of that forward and frontload it. We will continue to deploy cash back into the business as our first choice through organic investment. And we had earmarked \$1 billion and we said that may tick a little higher than that towards the backend of these three years. And then on acquisitions, we've said about \$1 billion for acquisitions over the same period. So, no, we haven't done – on a ratable basis this year we haven't done that level, but, as Scott said, we have some attractive things that we see potentially coming next year.

A



Arun Viswanathan

*Analyst, RBC Capital Markets LLC*

Q

Right. But is there capacity to increase those, given the over \$3 billion that you could generate over three years?

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Sure.

Scott Richardson

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

A

Yeah, absolutely, and we're going to continue to be opportunistic with what's in front of us.

Arun Viswanathan

*Analyst, RBC Capital Markets LLC*

Q

Okay. All right. Thanks.

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Thanks a lot.

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

Laurence Alexander

*Analyst, Jefferies LLC*

Q

Hi, there. Two quick ones. On EM, you normally don't discuss trends on a regional basis, and so I'm just curious as you think about the way the project pipeline is evolving, if the large customers start rejiggering their global supply chains over the next two, three years, would you see any hiccup in the pattern or how would you flex to adjust for that?

And secondly, Mark, your comment about productivity and taking advantage of more opportunities across the system, some companies characterize this in terms of spreads and some characterize it in terms of taking advantage of volatility, and a few years ago you used to talk about having \$100 million or so several chunks of headwinds that would happen under the surface and you would try and offset them. Is the issue sort of spreads or volatility, or is it just that there is fewer adverse areas of lumpiness that we've seen in the last few years?

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

So, Scott, why don't you take the first one, which was sort of -

Scott McDougald Sutton

*Chief Operating Officer, Celanese Corp.*

A

Yeah.

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

...a view of changes in the world in EM, supply chains moving around and what impact that would have on the others.

Scott McDougald Sutton

*Chief Operating Officer, Celanese Corp.*

A

Yeah, sure. Laurence, look, in our EM business, we are growing in every region and, yes, you see very short periods where it's slower in one than the other, but we are positioned globally to put out solutions and move our supply chain around as we need to. So we don't see any kind of rejiggering of customers, supply chains, and so forth impacting that business at all.

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Okay. So you asked a lot of questions, Laurence, in the last piece. So I'll try to start with productivity and carry that forward. So, some folks on the call may not remember that the 2012, really the 2013, 2014 kind of timeframe there was tremendous headwinds that faced our company, orders of magnitude of \$500 million between methanol and the loss of Southern contract. We had a huge step change almost overnight and FX, it was really big impact – impactful for us. We had gone out in a very blissful way and laid claim to profitability from ethanol, which surely wasn't going to happen in there.

Through that period we overcame those with a very strong productivity effort in moving our business models and had double-digit earnings as well through that period. Since that time we have doubled the profitability of this company, three years we have doubled the profitability of the company, and we've done that in a real fundamental way employing these business models directly to leverage our ability to manage complexity that's just out there, and that's complexity that can be through volatility, it can be through trade flow movements, it can be – and an EM business is related to the opportunities we bring these customers to create unique solutions, and therefore differentiate themselves in the marketplace.

Those models have been more and more refined. We're going through another element of full refinement today based on our learning for the last 12, 18 months, and we think those models have yet to fully realize our potential.

So we stay right there. As it relates now to pure productivity through that period of time if you look at it, over the last couple of years we've actually dropped our net productivity contributions. And that's not because there's not opportunities there, but we have really more to do, I'd say, with the work on the model and that sort of thing. Now we're in a period where we can take a different look at productivity, which is to say we have volume growth opportunities out there, which gives us then comfort to look at embedded inefficiencies that exist in different regions of the world and different assets and take a position relative to that.

So we think we have a new round of productivity in front of us that will be a CapEx related productivity that can generate some very, very high returns. And I mentioned two of them that we've just talked about here over the last several days. So we think that we'll be able to move into that arena quite successfully and we see that is enhancing the earnings capability of corporation, which gives us comfort this level we're at today, in a broad sense, is like a resetting of a foundational level. And that means we're up every day a little more than the next day, but what it does mean we've got a different foundation base to work from. And we don't see any reason why that should really change dramatically.

Yeah, trade flows move around, but they have been moving around. Companies move around, but that's going on. China is strong. China is weak. All that stuff has happened throughout that time period that we've been under the last several years and we've been able to manage through that. So, we don't have too much anxiety about it.

And, to be honest, we don't tend to micromanage it terribly. We don't spend a lot of time worrying about it. We look at the big fundamentals. So, you need to think of Celanese – and you know as well – it's a company that has really good business models, generates a lot of profitability through thick and thin, a lot cash through thick and thin, and most importantly, we don't do stupid things. We manage that cash very well and we get it back to you guys as best as we can.

Laurence Alexander

*Analyst, Jefferies LLC*

Okay, perfect. Thank you.

Q

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

Thanks.

A

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

Duffy Fischer

*Analyst, Barclays Capital, Inc.*

Yeah, good morning, fellows.

Q

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

Good morning, Duffy.

A

Duffy Fischer

*Analyst, Barclays Capital, Inc.*

A quick question. A couple of years ago, your Singapore plant was fairly uncompetitive in a low oil environment, and then you had redone your carbon monoxide contract with Linde making it competitive. Do we need to worry with rising oil prices that that plant can become uncompetitive again?

Q

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

It's very dependent on oil and as it relates to the bunker fuel and as you know, that's gone through its own set of volatilities around concerns or – not concerns, but uncertainty about how to manage the move to a low sulfur bunker. So, yeah, as that unit gets pressed, it's going to be a little bit less competitive. Still it's a good unit for us in operation once that you could enter a period if we get back above 100, where that unit is less competitive. Having said that, we have opportunities to do other things that can surface without. So we're not particularly worried about it.

A

Scott Richardson

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

Yeah, and we did do some things a few years ago, as you alluded to, Duffy, that does give us a little bit more flexibility in those high oil environment. So we are exposed, but not as much as we were in the past.

A

Duffy Fischer

*Analyst, Barclays Capital, Inc.*

Q

Okay. And then the announcement you made on Germany, can we read into that that...

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

So, Duffy, you're breaking up a bit. Can you repeat that? The announcement, we lost you after you said announcement.

Duffy Fischer

*Analyst, Barclays Capital, Inc.*

Q

All right. I was just going to say with the announcement you made on Germany, can we read into that that the Ibn Sina plant that is now on stream is filling out pretty nicely? And then if that's fair, roughly how much is Ibn Sina contributing year-over-year? Because we're still annualizing, I think, the bump up in your ownership stake there.

Scott McDougald Sutton

*Chief Operating Officer, Celanese Corp.*

A

Yeah, Duffy, this is Scott Sutton. So, the announcement we made in Germany about expanding that plant is strictly because we're in a real healthy business situation there, demand/supply is tight in POM and it's time to add a little bit. And, yes, I think you can read into that that the Ibn Sina POM plant is running very satisfactory. You do see our equity earnings in that business up, almost all of that increase is due to better performance out of Ibn Sina.

Duffy Fischer

*Analyst, Barclays Capital, Inc.*

Q

Great. Thank you, guys.

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Thank you.

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

Vincent Stephen Andrews

*Analyst, Morgan Stanley & Co. LLC*

Q

Thank you. If I read your prepared comments correctly, I saw you called out 4% organic volume growth in EM, in the sense that you get back to 6% to 9%, and then, I guess, the 4% was maybe due to some of the pricing you took. I'm just curious, are the customers buying less from you or are they buying more from others or so there's a push out of demand around pricing or did you actually seed some share for the meantime?

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Yeah.

Scott McDougald Sutton

*Chief Operating Officer, Celanese Corp.*

A

Well, really, the main driver of that – and, again, you can't look too much at quarter-to-quarter, but main driver behind that was we have lifted price quite a bit to overcome the raw material inflation. So, we ended up being successful at getting all that price and still growing volume as well. So, I don't read any kind of fundamental shift in demand in that.

Vincent Stephen Andrews

*Analyst, Morgan Stanley & Co. LLC*

Q

Okay. And just as a follow-up, on the goal of the 5,000 project wins, how would you characterize – do you have the intellectual capital needed to get to 5,000 projects at a time? And do you have the sort of physical R&D footprint necessary or would there be more investments in people and facilities necessary to scale up that way?

Scott McDougald Sutton

*Chief Operating Officer, Celanese Corp.*

A

Well, we continue to invest in people. We have a very good team growing each day in terms of capability. We continue to invest in R&D. A lot of it is incremental capability as we improve the model as well.

Vincent Stephen Andrews

*Analyst, Morgan Stanley & Co. LLC*

Q

And then on the physical side of things, can you [indiscernible] (00:40:12)...

Scott McDougald Sutton

*Chief Operating Officer, Celanese Corp.*

A

Yeah, on the physical side of things, you've seen us make quite a number of announcements. We are in the process of expanding compounding capability in at least four or five sites. We're expanding two of our polymers that we've made announcements on as well, both POM and our GUR ultra-high molecular weight polyethylene. There'll be some more of those.

Vincent Stephen Andrews

*Analyst, Morgan Stanley & Co. LLC*

Q

Okay, understood. Thanks very much.

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Thank you.

**Operator:** The next question comes from Jim Sheehan with SunTrust. Please go ahead.

James Sheehan

*Analyst, SunTrust Robinson Humphrey, Inc.*

Q

Thanks. In the Engineered Materials organic growth, you just spoke to the deceleration that occurred because of the higher pass-through of raw materials. It sounds like you did quite well in automotive. So, which end market actually experienced that demand disruption? Was it medical? Was it industrial or something else? And what gives you the confidence in getting a reacceleration in that organic growth to the high-single digits?

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Yeah. Sure. I'll start and have Scott to run you the details. I think, Jim, I would – I think it's best to look at this not as markets. We talked at our April session with you guys about the embedded growth process that we deal with. So, we look beyond markets in a specific application. So for us, it's a very generic world out there, but generic being that everything we do is specific to some unique trait and ability we can have and it's independent of the market. So, we don't look at these like markets and we don't analyze our movements, nor do we put our teams in place, we don't do anything relative to markets. We really work at it as application, differentiation. And if we do anything, we lump together simple applications to create programs that go into certain arenas. So, I'd like to answer your question, but we really don't look at it even that way.

James Sheehan

*Analyst, SunTrust Robinson Humphrey, Inc.*

Q

Thank you.

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Sure.

**Operator:** The next question comes from Alex Yefremov with Nomura Instinet. Please go ahead.

Aleksey Yefremov

*Analyst, Nomura Instinet*

Q

Good morning. Thank you. Understanding that your POM portfolio is mostly differentiated, if you look at the industry as a whole, is POM operating at a high rate at this point?

Scott McDougald Sutton

*Chief Operating Officer, Celanese Corp.*

A

Yeah. I mean the answer is yes, and we have a lot of differentiated products. We also have some more standard products as well, but the whole industry is operating at a pretty high rate.

Aleksey Yefremov

*Analyst, Nomura Instinet*

Q

Understood. Thank you. And on your guidance for 2019, is there any buyback or M&A assumption within that?

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Yeah, not really. If you look at where we are from earnings point of view, the buyback we're talking about is a pretty de minimis effect, and so it imply that we have the ability to forecast things in the 10%, 20% kind of range and we don't have that ability. So, no, not in there.

Aleksey Yefremov

*Analyst, Nomura Instinet*

Q

Understood. Thank you.

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

Yeah.

A

Surabhi Varshney

*Vice President-Investor Relations, Celanese Corp.*

Anita, let's take one more question and it will be the last for the call.

A

**Operator:** The last question comes from Matthew Blair from Tudor, Pickering, Holt. Please go ahead.

Matthew Blair

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

Hey, good morning. Thanks for taking my question. The release mentioned that project wins in EM were up 58% year-over-year. Could you provide a breakout or maybe any sort of general commentary on how much of this growth is coming from existing customers and how much is coming from new customers? And where do you see the most opportunity going forward?

Q

Scott McDougald Sutton

*Chief Operating Officer, Celanese Corp.*

Yeah, that's right. Q3 of this year versus Q3 of last year, it is up those kind of percentages. We did close 925 projects and that comes from a real mix. I'm not going to give you the exact numbers, but I think it's safe to say that both existing customers our comprehensive solutions portfolio is being applied to a bigger set of their needs. And at the same time, we're also out there trying to translate those wins or those technologies to a new set of customers, so it really is both.

A

Matthew Blair

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

Great. And then in the Acetyl Chain, we saw reports of a fair amount of planned and unplanned maintenance in Singapore and in Engineering in Q3, but then obviously the results were really strong. So curious if you felt like you left any opportunity on the table in Q3 and if so, how much.

Q

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

No, no we didn't – we really don't leave lot of opportunity on the table, boss. We're vacuuming every corner of the world to do what we can to make money.

A

Matthew Blair

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

Sounds good. Thanks.

Q

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

Sure.

A

## Surabhi Varshney

*Vice President-Investor Relations, Celanese Corp.*

We will now conclude the call. Thank you for your questions and for listening in this morning. We are available after the call to address any further questions you may have. Anita, please close the call.

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**Operator:** This conference has now concluded. Thank you for attending today's presentation.

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