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Celanese Corp. (CE)

Q2 2021 Earnings Call

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OTHER PARTICIPANTS

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

John Roberts
Analyst, UBS Securities LLC

Robert Koort
Analyst, Goldman Sachs & Co. LLC

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Celanese Corporation Second Quarter 2021 Earnings Conference Call. 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 Brandon Ayache, Vice President and Head of Investor Relations. Thank you. You may begin.

Brandon Ayache

Head-Investor Relations, Celanese Corp.

Thank you, Darryl. Welcome, everyone, to the Celanese Corporation second quarter 2021 earnings conference call. My name is Brandon Ayache, Vice President of 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 second 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 go ahead and open the line for your questions.

Darryl, go ahead and please open the line.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now be conducting the question-and-answer session. [Operator Instructions] We ask that you please limit yourself to one question and one follow-up question. One moment please while we poll for your questions. Our first question has come from the line of Duffy Fischer with Barclays. Please proceed with your questions.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Yes. Good morning and congrats on a nice quarter and big rates. I guess two questions for me. The first one, Lori, I think either on the Q4 call this year or the Q1 call you talked about one meaningful slug of new acetic acid capacity hitting the market this year at a competitor. And that was going to be around midyear as I recall. So one, I just want to see, have they been marketing that product? Is it producing? And what impact do you see that have on the market or do you anticipate that having on the market?

Lori J. Ryerkerk
Chairman, President & Chief Executive Officer, Celanese Corp.

A

Yeah. Thanks, Duffy. Yeah. So we do still expect that to hit. It's not started up yet. It hasn't hit the market yet. It's about 500,000 tons in China from Huayi. So we do expect it to hit.

I would say it may contribute to moderation as we go forward in the third quarter and into fourth quarter. But if you think about it, 500,000 tons is just really a little bit over a year's growth. So probably won't have a significant impact in the market we're in today.

Scott A. Richardson
Executive Vice President & Chief Financial Officer, Celanese Corp.

A

Yeah. And Duffy, I think it's important to remember this is not a new player for the Chinese market. They have two plants already in the market. So it's somebody who's in the market who is adding more capacity.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Fair enough. And then just as a follow up, I mean if you look obviously your guidance for the year has gone up a lot from earlier this year. When you think about your decision-making, your ratios, net debt to EBITDA, dividend payout based on earnings. How do you think about that change from where you started to where you are today? What's the right level to think about as something you would kind of call structural to make capital decisions off of? What's the right level of profitability to think about?

Lori J. Ryerkerk
Chairman, President & Chief Executive Officer, Celanese Corp.

A

Yeah. I think as we go forward, if we start thinking about 2022, we're really thinking about foundational level of earnings for acetyl kind of in the $900 million to $1 billion range, growing into that range over the next two years. We're really thinking about Engineered Materials closer to $700 million. And then, if you add Santoprene on top of that, you get to just the kind of that $750 million to $800 million range. And then, you think about acetic acid, right around $60 million a quarter. And so, I think that would be kind of the right level, I would consider those pretty foundational levels of earnings at this point in time.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Great. Thanks, guys.

Operator: Thank you. Our next questions come from the line of Ghansham Panjabi with Baird. Please proceed with your questions.

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

Q

Thank you. Good morning, everybody. Yeah, Lori, in your prepared comments, you made some comments on China acetic acid pricing and how it progressed throughout the second quarter and into the third quarter. Is that decline a function of purely a supply normalization or is demand in the region starting to moderate? I guess, I'm just trying to get a macro pulse on China in context of the narrative that's in the market but a slowing in the region.

Lori J. Ryerkerk
Chairman, President & Chief Executive Officer, Celanese Corp.

A

Yeah. I think it's a little bit of both, so I think we are seeing some supply stability or – of course, it varies day by day. But we are seeing some supply stability as we've come out of Uri and Western Hemisphere supplies have been more stabilized. Now, we have been in a period of higher turnaround in the Western Hemisphere this last quarter, so we expect some of those plants to come back online. As some of you called out, there are some turnarounds happening in the third in China, but I would say kind of within the normal level.

So I think I'd say supply has certainly stabilized at first quarter. But I would also say, demand, while it continues to be robust, we are seeing some pockets of lower demand potentially going forward with COVID and the delta variant, and especially in Southeast Asia. So, I think it's a little bit of both.

I think what's interesting though is if you look at the moderation that we've called out in China pricing, it's really a very slow moderation compared to what we saw say in 2018. And we think that is because it is demand-driven as much as supply-driven. Whereas 18 months you got the supply back, it dropped very quickly. And if you look at recent prices I mean prices in China have been really stable over the last, call it, week. And we think that's more indicative of a slow moderation we expect to see through the remainder of the year.

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

Q

Okay. That's helpful. And then in terms of the inventory rebuild, I mean what phase of the rebuild are we in at current? And then also your comments on 4Q earnings seasonality being minimal, can you just expand on that as well?

Lori J. Ryerkerk
Chairman, President & Chief Executive Officer, Celanese Corp.

A

Yeah. So inventory rebuild, I should say, we're in the pre-rebuild phase still. I mean everybody's talking about wanting to rebuild, but we are not seeing volumes being rebuilt in the Acetyl supply chain or really in the EM supply chain as well. So I would say there is a desire to rebuild, but both businesses are still supply-constrained, not demand-constrained. And so, I'd say, we still have a long way to go on the rebuild. I would say, in fact, our anticipation is it will last well into 2022.

And then, sorry, your last question?

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

Q

Yeah.

Lori J. Ryerkerk
Chairman, President & Chief Executive Officer, Celanese Corp.

A

Yeah. The second part of your question?

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

Q

The 4Q earnings seasonality, sorry.

Lori J. Ryerkerk
Chairman, President & Chief Executive Officer, Celanese Corp.

A

Yeah. Thank you. Yeah. And that's exactly the reason we're saying we expect less seasonality in 4Q, because we do expect, as prices continue to moderate slowly, we will see people starting to rebuild as supply is available.

So if you think, for example, about paints and coatings, right? That's a market where you typically see a good bit of seasonality in fourth quarter. But we know our paints and coatings customers have no inventory. So we anticipate they will use the fourth quarter to rebuild their supplies in order to be ready for another spring painting season. So we really are expecting much less seasonality in Acetyl.

And then, in EM, we usually see some drop-off in the Western Hemisphere in the fourth quarter and for all the reasons because we've been supply-constrained most of the year. We expect automotive as well as other end users to be stronger than typical in the fourth quarter.

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

Q

Awesome. Thanks so much.

Lori J. Ryerkerk
Chairman, President & Chief Executive Officer, Celanese Corp.

A

Thank you.

Operator: Thank you. Our next question comes from the line of John Roberts with UBS. Please proceed with your questions.

John Roberts
Analyst, UBS Securities LLC

Q

Thank you. Could you talk a little more about the fiberglass shortage? Ever since PPG sold its business to Nippon, we really don't hear much about fiberglass for plastic reinforcement.

Lori J. Ryerkerk
Chairman, President & Chief Executive Officer, Celanese Corp.
A

Yeah. We have seen a real shortage here in fiberglass. I'm not sure I can really articulate all the reasons between how it started. But what we do know is really all of the players right now in fiberglass are short. And while we do see players stabilizing, we still expect it to be well into the fourth quarter or even into next year before we see a complete stabilization of the fiberglass market.

John Roberts
Analyst, UBS Securities LLC
Q

Okay. And then, I don't know if you're going to answer this second one, but when CeramTec and Celanese were both part of Hoechst, do you have any old timers that know whether the two businesses work closely together? I know Celanese plastics today is a lot different than it was back then.

Lori J. Ryerkerk
Chairman, President & Chief Executive Officer, Celanese Corp.
A

I don't know the answer to that, but Scott may have more history than I do.

Scott A. Richardson
Executive Vice President & Chief Financial Officer, Celanese Corp.
A

Yeah. John, it was really operated very separately. As you well know, Hoechst was a very large company and had a lot of different components to it and it was operated very separately.

John Roberts
Analyst, UBS Securities LLC
Q

Okay. Thank you.

Lori J. Ryerkerk
Chairman, President & Chief Executive Officer, Celanese Corp.
A

John, I'll just say something more on that. And as you know, we don't comment on any kind of specific opportunities, rumors or speculation. But I would just remind the group kind of not specific to CeramTec, we are always looking at a very broad range of opportunities. And over any given quarter, we explore and evaluate many, many opportunities, most of which never come to completion.

So our focus remains on opportunities that fit well within our business models and really meet our disciplined return criteria and our requirements around synergy. So I'm not saying we would never do something like a CeramTec. The material doesn't need to be a thermoplastic, but it does need to fit the model and it does need to meet our M&A criteria.

John Roberts
Analyst, UBS Securities LLC
Q

Okay. Thanks and congrats on the quarter.

Lori J. Ryerkerk
Chairman, President & Chief Executive Officer, Celanese Corp.
A

Thanks.

Operator: Thank you. Our next questions comes from the line of Bob Koort with Goldman Sachs. Please proceed with your questions.

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

Thank you very much. I was wondering if we could talk in the EM business. The COVID impacts were sort of affecting the auto cycle and production rates and the healthcare markets. Can you give us a little update on what happened through the quarter and how you see the path for those particular end markets into the second half?

Lori J. Ryerkerk
Chairman, President & Chief Executive Officer, Celanese Corp.

A

Sure. So for EM, I would characterize the end markets as all of the markets has recovered to pre-COVID levels at this point in time with the exception of medical implants and, as you said, auto, which is really more due to shortages of chip, microchip and also some shortages of resins in Q2. In fact, we're seeing growth above 2019 levels in industrial and channel and electronics and some of the other sectors.

So if we look at implants, which is kind of your question, implants have improved across second quarter. We expect them to continue to recover through the end of the year and really be back at normalized rates in 2022.

I will say other areas of medical, though, we have seen really good growth in this year, including like long dose drug delivery, diabetes applications, et cetera. So medical overall, I would say, has recovered. It's just specifically the implant business which is our GUR business which will be into 2022 before we see full normalization.

Auto, which is the other big end market, as we called out in our comments, was down 8% in the quarter, but that's versus North America dropping builds of 12% and then Germany dropping builds of 15%, which is our two largest end markets.

And so, we think we've been helped there. Autos have prioritized premium vehicles. We've talked about that in the past. And we have the majority of our content in premium vehicles.

But we're also seeing a real help from our programs that we put in place specifically around electric vehicles. So if you think about it, in the EU, 17% of all electric vehicle sales are now – sorry, of all vehicle sales are now electric vehicles. And so that project pipeline where we've grown that – those volumes have really helped us. We've also, as we called out, been expanding our content in electric vehicles. So we talked about the 20 kilogram content that we have in Europe for one of our EVs, which is four times our average ICE.

Just to give you another idea, just GUR alone is 6 to 8 kilograms per electric vehicle. So, really big space that we have. We have really good polymers to go into those spaces.

So, as we go to the second half, we do expect growth again in Q3 as we see chip recovery and we've had resin recovery. We probably won't be back to Q1 levels in Q3 but anticipate we'll be back to Q1 levels for auto by Q4. And we continue to see that 2% growth across other end users as we move through the end of the year.

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

And on a follow-up, Lori, I think in the past you talked about some parts of EM had become a little bit more commoditized. Was there any over-earning, over-margin products during the second quarter or is there still margin upside in some of those more mainstream products there? Thank you.

Lori J. Ryerkerk
Chairman, President & Chief Executive Officer, Celanese Corp.

A

I think there are some – still more upside on margin of our products. I mean we had a few – if you look at our margin percent this quarter, we had a few impacts there that brought our margin down slightly from last quarter. Some of it was increased spend in the plants as we needed to add more people to deal with the increased demand.

We also had higher energy costs especially in Europe. And then logistics and transportation, as I'm sure you're hearing from other, was certainly a big headwind this past quarter, and will continue to be a headwind probably through the end of the year and even into early next year. So, I think as we see labor markets stabilize, as we see logistics and transportation stabilize, I think we would expect to get back to previous levels of margin going forward.

I would also just say, Bob, the real difference here from what we've seen in the past is our constraint in Q2 and continuing in Q3is not demand-driven. It's really supply constraint. It's our ability to make resins, get the additives especially glass fiber as we called out, which has continued to deteriorate as we move to the second quarter and into third quarter. It's really supply constraint. So, there is also more volume upside as we go forward and are able to resolve those supply constraints.

Scott A. Richardson
Executive Vice President & Chief Financial Officer, Celanese Corp.

A

Yeah, Bob, and I just want to clarify. I think what we've said in the past, these are really, what you alluded to, are standard applications, they have more competition in them. But these are still engineered solutions. And we obviously work on kind of the more value and use premium side for our new project pipeline. But that standard part of the portfolio is always going to be a real critical element and really building blocks to get in the door in a lot of places.

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

Got you. Thank you very much.

Operator: Thank you. Our next questions come from the line of Jeff Zekauskas with JPMorgan. Please proceed with your questions.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Thanks very much. Given that there's been so much supply volatility and demand, have your cost cutting programs executed along the lines that you've expected or have many of the cost savings been deferred to next year? I understand prices are up a lot and you're making a lot of money. But in terms of the way that you've been trying to make your operations more efficient, are things delayed?

Lori J. Ryerkerk
Chairman, President & Chief Executive Officer, Celanese Corp.

A

Yeah. It's a great question. So, we had outlined before we expected to get – we were targeting $100 million to $150 million gross productivity. We are on track to deliver $150 million of gross productivity this year. So, those are cost savings.

I would say other years, we might have outperformed that – I mean, certainly, we did last year. This year, I'd say we're going to hit that $150 million, but what we're also seeing is a lot of opportunity in revenue optimization – so, plans optimization, small debottleneck projects. So, we are focusing more on how do we get more molecules out because we are supply-constrained. But we will still deliver at that kind of historical level of cost productivity as well.

Scott A. Richardson
Executive Vice President & Chief Financial Officer, Celanese Corp.

A

Yeah. Jeff, we typically break productivity into four buckets. Rev gen, I would say, manufacturing cost reduction, procurement cost reduction and then, I would say, more kind of S&A type reduction. I mean the S&A bucket is very small this year. The procurement bucket is very small this year. Where we've shifted it in 2021 is more on manufacturing costs in rev gen as Lori talked about.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

And then from my follow up, when you talked about your acquisition criteria, are your acquisition – and you talked about your acquisition criteria of being return-based. Does that mean that the direction of your acquisitions really may go in the direction of diversification over time? That is should we view Celanese as really not being bound by wanting to have more polymers but really trying to find other businesses if they're available where the industry structures are good and you think you – that the returns are high?

Lori J. Ryerkerk
Chairman, President & Chief Executive Officer, Celanese Corp.

A

Yeah. Look, I don't think we're going to go out and acquire something completely out of our lane. One of our criteria is we want to be able to deliver synergies. And we want to – and to do that, it means we have to either be familiar with the end market, be able to use our model.

So, I want to say is it doesn't have to be a thermoplastic. There are other areas we could think of. But I would still want them to have similar – in markets that we're familiar with and where we think our current sales force and commercial teams and manufacturing team could add value to or we could apply them to our – for Engineered Materials model or acetyl model. So they may be new materials to us but they will have some connection to our existing business.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Great. Thank you so much.

Lori J. Ryerkerk
Chairman, President & Chief Executive Officer, Celanese Corp.

A

Thanks, Jeff.

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

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Thank you and good morning. Scott, just want to ask you on the free cash flow. Appreciate the comments about the working capital build in the quarter. But as we look out of this year and into next year, you gave sort of preliminary EPS view on 2022. How should we be thinking about working capital and free cash flow generation as conditions normalize?

And I guess I just mean it in terms of where is it going to be, number one. And then number two, given everything that's going on with raw materials and availability and so forth,

, is there any consideration being given to hold more raw materials so that you can be sort of better positioned or opportunistic when we continue to see supply disruptions?

Scott A. Richardson
Executive Vice President & Chief Financial Officer, Celanese Corp.

A

Yeah. Let me take the last part of that first, Vincent. I think – I would say we don't take a one-size-fits-all. I mean I think it really depends upon the business and the material and where we're at and how we see things going forward and particularly how our business is performing. And certainly, reliability of supply in certain materials is very important for us right now. And so we may choose to hold a little bit more raw material if possible if we can get it in certain areas of tightness.

We are not going to be bound by a working capital number because our working capital efficiency has historically been very, very strong. And we can bring that down fairly quickly if necessary in the future. I think in terms of how we see that working its way, our greater than $1.2 billion for the year, as soon as we get some of that working capital back towards the end of the year, but certainly not all of it and certainly not back to how we started the year.

And so, a lot will depend upon what happens with raw materials and as well as our pricing. I mean one of the important characteristics here is accounts receivable. And with what we've seen in pricing in Asia in asset deals which tends to have quite a bit longer payment terms, we're carrying a little more accounts receivable today than what we have historically. So, as that normalizes, we'll get some of that back. And so, there will be a catch-up likely into next year.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Okay. And just as a follow-up, there were also comments in the belief about sort of the Chinese price will be coming down but there'll still be strengthened in Europe and India because I think there was a reference to, there's typically a lag. Just wanting to better understand sort of what causes that dynamic where it doesn't get our doubt pretty quickly that you could have serious price discrepancies between those three areas.

Lori J. Ryerkerk
Chairman, President & Chief Executive Officer, Celanese Corp.

A

Yeah. Look, if you think about it, I mean, there's not much acetic acid production in India. So basically that material comes out of China or Singapore or somewhere else in the world. So you have a shipping delay, but price is done at [ph] load (00:23:05). Same for Europe, most of the material going into Europe comes either from the US or from Asia. And so you have that shipping delay as well. It's really just as simple as that.

Scott A. Richardson
Executive Vice President & Chief Financial Officer, Celanese Corp.

A

Okay. Thanks very much.

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

John P. McNulty
Analyst, BMO Capital Markets Corp.

Q

Yeah. Thanks for taking my question. Lori, in the prepared remarks you'd indicated the 2023 goals were likely going to come in at around – or in 2022. Can you just clarify whether that is inclusive or exclusive of Santoprene and if it's really just a reflection of kind of the current market and that – and you're confident in the demand fundamentals or if it does include the M&A?

Lori J. Ryerkerk
Chairman, President & Chief Executive Officer, Celanese Corp.

A

Yeah. Look, we'll get better guidance in October as we have more time to work through this. I would say, the $13 to $14 earnings per share that we had for 2023 were now pulling into 2020. I would look at, is that range with or without Santoprene, now, I mean Santoprene is definitely value accretive to us. But we did model in all of our cash being used for stock purchases.

So there – while there's some uplift, I would say I've looked at Santoprene is taking this closer to the high end of that range whereas without Santoprene, we would have been at the lower end of that range.

John P. McNulty
Analyst, BMO Capital Markets Corp.

Q

Got it. Fair enough. And then I guess just as a follow-up, the guide is actually a pretty tight range for the rest of the year. And I guess just given the volatility that you're seeing in all the markets, I guess I'm curious how you get comfortable with such a tight range on such a big base. Have you locked in, in terms of some of the commodity prices? Have some customers reached out to try to maybe lock in things for the year? Or, I guess, how do you get as much comfort as you have in such a volatile market?

Lori J. Ryerkerk
Chairman, President & Chief Executive Officer, Celanese Corp.

A

Yeah. Look, if you look at Q3 guidance, I would say from knowing what our books are, we're halfway through the quarter already from our standpoint. So we can get pretty comfortable with Q3. And then, I think, for the full year, it's a little bit different that, again, we're really supply-constrained. It's not a demand constraint. So even with some volatility in the market, we still can only sell the amount of material we have, and we know how much material we have.

So, I mean, yes, there could be big swings in acetyls and that could change it. But we just gave – it was a narrow range admittedly, but we just kind of said here is what our projection is given that we are fairly close to the end of the year.

Scott A. Richardson
Executive Vice President & Chief Financial Officer, Celanese Corp.
A

Yeah. And, John, I think we tried to outline in the prepared remarks some of the assumptions we've made to get to that range. So as those change a little bit, then we'll update that in October.

John P. McNulty
Analyst, BMO Capital Markets Corp.
Q

Got it. Fair enough. Thanks for the color.

Operator: Thank you. Our next questions come from the line of Hassan Ahmed with Alembic Global. Please proceed with your question.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC
Q

Morning, Lori. Lori, a question around regional demand trends. Obviously, it seems the pace of vaccination is very different by region, particularly in Asia, still some lockdowns continuing over there. And then, on top of that, you sort of overlay some of these supply chain constraints that you guys were talking about, others have talked about as well.

So, A, what are you guys seeing in terms of demand growth disparities between regions? And then, on a go-forward basis, what does this tell you about demand growth? I mean, are we going to be in a period of above-normal demand growth as more and more parts of the world sort of start normalizing and sort of lockdowns start waning?

Lori J. Ryerkerk
Chairman, President & Chief Executive Officer, Celanese Corp.
A

Yeah. I would say at this point in time, I mean, certainly, as we started coming out of COVID, we saw it kind of move around the globe where Asia was strong earlier and then the Americas and Europe was slowest to recover. I would say, at this point, demand is pretty normalized around the globe in terms of being pretty consistent across regions.

Interestingly enough, I mean, while we are worried about the delta variant, we haven't seen it have much impact yet, although that is a concern – as I said, we see some signs that there may be some impacts in Southeast Asia. But I would say, in general, the globe is pretty consistent right now in terms of recovery.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC
Q

Understood. And now, moving on to the tow business, obviously, very strong volume growth sequentially in Q2. And, I guess, in sort of the written remarks, you guys talked about some of the Q1 demand sort of carrying forward into Q2. How are you guys thinking about demand growth, volume growth in that business in the back half of the year?

Lori J. Ryerkerk
Chairman, President & Chief Executive Officer, Celanese Corp.

A

Yeah. I mean, really, the volume growth in Q2 was in fact what you just called out, which is, we worked with customers in Q1 because of the freeze and our shortage of acetic acid. So we worked with customers in Q1 to push demand into Q2. And so, if you look back at Q1, we had reduced volumes in Q1. Those volumes showed up in Q2.

I think we actually see volumes being stable through the rest of the year, kind of, at the average. I'd expect the second half volumes to look kind of like the first half volume. Earnings will be less because acetic acid pricing remains high relative to historical. We have higher energy costs especially in Europe and just the timing of our dividend from our Chinese JV, which typically are heavily weighted to the first half.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Very helpful. Thank you so much.

Operator: Thank you. Our next questions come from the line of David Begleiter with Deutsche Bank. Please proceed with your questions.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you. Lori, just on the M&A pipeline, excluding CeramTec, how is that pipeline today?

Lori J. Ryerkerk
Chairman, President & Chief Executive Officer, Celanese Corp.

A

So I'd say our M&A pipeline remains very robust. We continue to look at deals of all size. I mean you saw that with Santoprene, which is a big bolt-on, Grupa Azoty, which was a small bolt-on, and then even some divestitures we did.

So I think we remain very active looking at our portfolio, where we want to add, where we to take away. I would say we're very actively looking at deals of all size. We certainly have the financial capacity as well as the management capacity to continue to look at additional M&A through the rest of this year and into next year.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Q

And, Lori, just in the prepared comments, you've laid out a number of projects, many which come online the next couple years. How is the next tranche of projects in your mind at 2024 through 2025, 2026 projects late looking and is it different than the current one we're in right now?

Lori J. Ryerkerk
Chairman, President & Chief Executive Officer, Celanese Corp.

A

Yeah. So really the only thing we have kind of on the books at this point in time for that period is the GUR expansion in EU, which we expect to come online in 2024. I would say given that we're just in 2021, we're just now starting to look at what will our demands and needs be in that period of time.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you.

Operator: Thank you. Our next questions come from the line of Michael Sison with Wells Fargo. Please proceed with your questions.

Q

Good morning. This is [ph] Richard (00:30:57) actually on for Mike. So my first question is on Engineered Materials. It looks like you were able to get 7% increase in price in the second quarter. You also talked about sourcing challenges and raw material cost inflation. How much of the price increase was to offset the cost – higher costs and – or how much was that just part of adding value to your customers?

Lori J. Ryerkerk
Chairman, President & Chief Executive Officer, Celanese Corp.

A

Yeah. I would say – look, our team works really aggressively through starting in fourth quarter of last year, actually, to really push price knowing that we saw this increase in raw material pricing coming. So I would say that was the primary reason for the price increase.

But we did raise price more than we saw our materials increasing. And I think that's a question of mix. I mean what – we are in a very tight supply constrained situation. So we have been prioritizing our higher margin products and our higher market – higher margin region to really maximize the return that we get for the molecules that we have available to sell to the market.

Q

Okay. And as a follow-up, on the Acetyl Chain you gave some color in terms of pricing coming down in the second half. What's your view on spreads? Obviously, you're low cost, but I guess rate and competitors could get squeezed if prices continue to fall. So, how do you think about that heading into the end of this year?

Lori J. Ryerkerk
Chairman, President & Chief Executive Officer, Celanese Corp.

A

Yeah. I mean, certainly, if you look at China, for example, our technology is certainly advantaged versus the carboxyl technology or some of the others. As prices fall, they will get squeezed in terms of margin. Clearly, our capacity on the Gulf Coast, which uses natural gas, is the most cost effective in the world. And so, we will still maintain that advantage on margins versus competitors as prices continue to moderate.

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

Prashant Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

Yes. Hi. Good morning.

Lori J. Ryerkerk
Chairman, President & Chief Executive Officer, Celanese Corp.

A

Good morning.

Prashant Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

Can you talk about your elastomers acquisition from Exxon? What are the industries you are targeting and why do you think in your mind Exxon is getting out? And is there any supply coming online? Were there supply demand? Is there any new supply coming online in China or elsewhere?

Lori J. Ryerkerk
Chairman, President & Chief Executive Officer, Celanese Corp.

A

Yeah. Look, we're really excited about this acquisition. I mean you'll have to ask Exxon why they're getting out. I will give you my opinion which is look, they've only had this business since 1980. It was the JV. They acquired it fully in I think about 2000 – maybe 2010, sometime in that first decade.

Look, this is not one of their core businesses. Exxon is an oil and gas commodity chemical player. This is a highly specialized business. And I'm sure while they enjoyed the margins and returns from it, it's not – it doesn't really fit their model of what they're trying to do and having come out of an Exxon specialty business, they struggle to run them in a way that can be highly competitive with others.

So, my guess is they realized it was more valuable to us than it was to them. If you look at end markets, it is largely into auto. Think things that need to be recyclable or long life or soft touch or light weighting. But there are also applications for it into medical applications, into construction, I think seals around windows and skyscrapers.

And so as we look at it, we think it's a really good fit for us to cross-sell with our automotive side. We think there are some really exciting new applications in medical going forward that given our knowledge now in medical and pharma industry we can exploit. And so we think there's a lot of opportunity there to really apply these materials to businesses we already know, already understand, and already know how to access the market.

Again our willingness to do deal with complexity is just different than Exxon. We deal with small orders every day. That's not something Exxon wants to do. So I think we see a lot of value uplift opportunity here in what we consider very profitable end market as we go forward.

In terms of new capacity, we are not aware of any capacity new capacity coming on in this area. It is a pair of highly specialized material and we don't see any now, we don't anticipate any for the future. This, in fact, Exxon had grown the capacity of this business in just the last couple of years, I think in the Newport facility.

Scott A. Richardson
Executive Vice President & Chief Financial Officer, Celanese Corp.

A

Yeah. P.J., just on that last point. I think it's important to remember, I mean, this really is an engineered solution and supply the manualization a lot less important here in these businesses much like our other Engineered Materials businesses because of the value in use element. An the uniqueness and differentiation of what this material and this brand brings to customers. And now was really one of the real attractive elements to this to be really complementary to our Engineered Materials business.

Prashant Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

Great. And Lori, overall question on the tightness in logistics and labor markets that you've talked about. You think, they'll last into 2022. Is that a US phenomenon? Is it happening in Europe as well? And why do you think this is taking long time to get ironed out? Is it the logistics part of the issue or is it the labor market? Can you just talk a little bit more about that? Thank you.

Lori J. Ryerkerk
Chairman, President & Chief Executive Officer, Celanese Corp.

A

Yeah. I think they're really two separate things. I mean, I would say, the logistics and transportation issues are global. I mean, certainly global; we see a lot of problems of people trying to get things out of China, as you know. But I would say really whatever way you're going is pretty hard right now. Whether it's by ship or on the ground or rail, there is just a lot of volumes being moved around the world.

Not sure I could explain all the reasons why, but certainly, people are moving more things around, I mean, just even the amount of things you buy on Amazon these days. We just see a real constraint there. And that's really what I was referring to. I think it's well into next year and possibly even after Chinese New Year before we really start to see stabilization in those markets.

The labor phenomena I discussed, it's really been more of an issue in the US than in other parts of the world. We haven't had as many issues in Asia, for example, nor we have the issues in China.

But in the US, I think we see people we're hiring to expand and run our plants are also being hired by Amazon to run their warehouses, for example. And so, it's just a very competitive labor market. And we've had to make adjustments as we've wanted to add shifts and do things that would let us expand rather quickly to our leg rate.

But I think in time, this will stabilize. As we see more people going back to work in the US, I think this will also stabilize. But I do think, probably, this will take into next year as well.

Prashant Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

Thank you.

Operator: Thank you. Our next questions come from the line of Kevin McCarthy with Vertical Research Partners. Please proceed with your questions.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Yes. Good morning. Lori, I thought your guidance in Engineered Materials was quite constructive, but I wanted to peel the onion a little bit more with regard to the glass fiber shortage. Can you talk about the upside opportunities and the downside risks related to that supply shortage? For example, on the volume side, how much might you be constrained? What are you baking into guidance there?

And then on the price side, I guess, my question would be is there opportunity to capitalize by raising price in the Engineered Products that might require a glass fiber? I assume that's certain polyesters and maybe Celstran and some nylon grades. Maybe you could just elaborate on what's going on there.

Lori J. Ryerkerk
Chairman, President & Chief Executive Officer, Celanese Corp.

A

Yeah. I mean maybe to be a little bit more clear on the characterization, I mean if we look at second quarter, we would estimate we probably lost as much as $5 million revenue due to the problems around glass fiber as well as a little bit the logistics transportation issues. If we looked at third quarter, that number is probably going to double. But we do expect it to resolve and we get some of those volumes back starting in the fourth quarter and going into 2022.

Look, we are seeing glass fiber makers coming back. We are seeing the volumes go up. Glass fiber that goes into polymer is a very small percentage of the glass fiber market, but it's probably one of the more profitable segments for them. So we do expect to start seeing more glass fiber coming back towards us as we move into the fourth quarter.

Look, I think long term, as this goes on, it has been an opportunity for us to convert people to other polymers or polymers that also have glass fibers that we prioritize because they're higher margin polymers so that people can get their products. So I think there is some upside here, and we've been able to convert some of it to higher margin products. But I think, long term, it is about a third of our portfolio that uses glass fiber. So it is a pretty important raw material for us going forward.

And we've taken steps commercially to secure supply of glass fiber in future years. So hopefully we don't run into this problem again.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

That's really helpful. And then, secondly, if I may. Do you have plant maintenance turnarounds in the third quarter or the fourth quarter that we should be keeping in mind for modeling purposes?

Lori J. Ryerkerk
Chairman, President & Chief Executive Officer, Celanese Corp.

A

No. I mean, we always have small turnarounds and maintenance items. But the total for this year is only $30 million for the entirety of the year and it's split pretty evenly between the first half and the second half. So it's not anything of note as that you're going to notice in terms of our volumes or our costs.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Perfect. Thank you very much.

Lori J. Ryerkerk
Chairman, President & Chief Executive Officer, Celanese Corp.

A

Thank you.

Operator: Thank you. Our next questions come from the line of Alex Yefremov with KeyBanc. Please proceed with your questions.

Aleksey Yefremov
Analyst, KeyBanc

Q

Thank you. Good morning, everyone. You mentioned in your prepared remarks 8% sequential impact on automotive volumes. Did that number include the shortages of nylon, glass fiber, PBT, et cetera, or were those raw material shortages some additional impact on top of that? And if so, how large was that?

Lori J. Ryerkerk
Chairman, President & Chief Executive Officer, Celanese Corp.

A

Yeah. No, that was inclusive of everything. Like, that was both demand from auto as well as constraints we had due to resin and additive supplies.

Aleksey Yefremov
Analyst, KeyBanc

Q

So if we're trying to normalize sort of your volumes for current state of demand, it's that 8% and maybe automotive is a third of your business. So something like 2.5% should be added to top line when everything is running well. Is that the right way to think about things?

Lori J. Ryerkerk
Chairman, President & Chief Executive Officer, Celanese Corp.

A

Yeah. More – yeah, roughly. That's about right. I mean if you think about it, for this kind of demand, you just need to see a few percent increase in everything else in order to stay stable. So that's about right.

Aleksey Yefremov
Analyst, KeyBanc

Q

Thank you, Lori. And a quick question, EM margins. Should we look at second quarter margins as sort of the benchmark for the rest of the year or will these margins be rising?

Lori J. Ryerkerk
Chairman, President & Chief Executive Officer, Celanese Corp.

A

Yeah. I think, based on what I just said earlier about the impact we saw from supply shortages, logistics and things, I would expect Q3 to look pretty much like Q2 probably from a margin standpoint because we do see, especially the glass fiber issue continuing well through Q3. I would expect Q4 margins to look more like Q1 again.

Aleksey Yefremov
Analyst, KeyBanc

Q

Thank you.

Operator: Thank you. Our next questions come from the line of Matthew DeYoe with Bank of America. Please proceed with your questions.

Matthew DeYoe
Analyst, Bank of America Merrill Lynch

Q

Thank you. In the past, I feel like you've been calling for a more normal EBIT in Acetyl Chain next year, which maybe implies something like the $700 million to $800 million number. But I think, if I heard correctly in an answer to – I think it was Duffy's question earlier, you seem to support something closer to $900 million to $1 billion. Do I have that wrong or is the more optimistic view just a function of the better demand backdrop that you've been kind of talking about?

Lori J. Ryerkerk
Chairman, President & Chief Executive Officer, Celanese Corp.

A

No. Look, I think as we've worked through this year and we've seen the impact of various debottlenecks and productivity products and continuing to optimize our model for acetyls, the addition of Elotex and other things, we really feel like we've lifted the foundational level of earnings from kind of that $700 million to $800 million to now $800 million to $900 million. And with expecting some goodness to continue in acetyl margins into 2022, that put us at that kind of $900 million range for acetyl.

Matthew DeYoe
Analyst, Bank of America Merrill Lynch

Q

Understood. And similarly, I guess, if I remember correctly, I think the comment used to be that breaking up the company would result in something like $50 million of dissynergies, but that you've constantly been trying to work that number down. Is it still around that number? Do I have that number wrong? Or is it higher now or lower or is there enough to...

Lori J. Ryerkerk
Chairman, President & Chief Executive Officer, Celanese Corp.

A

I think $50 million is still a good number to use. I mean I don't – I honestly don't see it really going a lot lower. I think we used to think it was even higher. I think $50 million is probably the right range to use for the level of dissynergies we would expect if we split the company.

Matthew DeYoe
Analyst, Bank of America Merrill Lynch

Q

Thank you, Lori.

Operator: Thank you. Our next questions come from the line of Frank Mitsch with Fermium Research. Please proceed with your question.

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

Good morning and congrats on the quarter. Lori, in the release, it mentions that you were able to bring back the Clear Lake facility during the quarter. I'm wondering how much you may have lost by not having it through the entire quarter.

Lori J. Ryerkerk
Chairman, President & Chief Executive Officer, Celanese Corp.

A

Yeah. I don't have an exact number. I think if you look at the residual impacts of Winter Storm Uri, in quarter two, we think it was probably about a $30 million impact, and that's from higher raws, energy, inventories. I mean primarily all that was in AC.

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

Got you. And can you comment just in general on the overall industry operating rates in the Acetyls Chain that you're seeing right now?

Lori J. Ryerkerk
Chairman, President & Chief Executive Officer, Celanese Corp.

A

Yeah. I mean, so if we look at Q2, I would say, we think globally, utilization was up just over 90%; China just under 90%. But we also know that there was much higher intermittently and probably close to 100% at many times during the quarter. VAM globally also at 100% basically for the quarter.

With this capacity coming on in China in August as anticipated, we actually think utilization will remain at similar levels, again, because there is pent-up demand in the chain; there is a need to rebuild inventories. But I would say, right now, we still think we're somewhere around that 90% range globally and probably should continue to be so during the third quarter.

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

Terrific. Thank you.

Operator: Thank you. Our next questions come from the line of Matthew Blair with Tudor, Pickering, Holt. Please proceed with your questions.

Matthew Blair
Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

Q

Hey. Thanks for taking my question here. Congrats on the results. The previous comments listed out nine discrete organic growth projects. What is the big-picture EBITDA number for all these projects in total?

Scott A. Richardson
Executive Vice President & Chief Financial Officer, Celanese Corp.

A

Yeah. Matthew, I don't think we've called that out specifically for each project. We inherently included that in our Investor Day guide for 2023, and then we indicated there was additional uplift into 2024 and 2025. We will – as we update that outlook going forward, we'll provide a little more clarity on kind of how that materializes in those out years. But we haven't specifically given a number for all the projects.

Matthew Blair
Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

Q

Got it. That's it for me. Thanks.

Operator: Thank you. Our next questions come from the line of Laurence Alexander with Jefferies. Please proceed with your questions.

Laurence Alexander
Analyst, Jefferies LLC

Q

Good morning. Just two quick ones. Given the supply chain lags and the stronger demand and low inventory levels, how resilient do you think the value your – the acetyl value chain will be if there is a direct hit in the Gulf Coast from a hurricane this season compared to like the normal hurricane impacts?

And secondly, can you give a sense for how the competitive intensity and process R&D in acetyls is evolving? Are the Chinese sort of doing the work? Are you seeing the competitive gap closing or do you see it widening now that BP shifted the business over to INEOS?

Lori J. Ryerkerk
Chairman, President & Chief Executive Officer, Celanese Corp.

A

Yeah. On your first one on hurricanes, I mean, who can say, right? I mean where it hits, what it takes down in addition to city gas plants, does it take down consumers, it's hard to say. I would say in a tight market, any disruption gets amplified with even higher prices and more panic buying and other things. So, in a very tight market a hurricane right now, even the threat, it wouldn't – probably would cause some upward movement in the market. But it's really hard to predict what the overall impact would be.

I think there's a competitive gap. I think, look, we continue to invest in R&D. I know our competitors do as well. I would say we think we continue to have advantage technologies in acetic acid, in VAM, in emulsion. We don't really see that gap closing. We think it – everybody continues to move up. But we don't really see that gap closing at this point in time.

Laurence Alexander
Analyst, Jefferies LLC

Q

Thank you.

Brandon Ayache
Head-Investor Relations, Celanese Corp.

A

Darryl, let's make the next question our last one, please.

Operator: Thank you. Our final question has come from the line of Arun Viswanathan with RBC Capital Markets. Please proceed with your questions.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Great. Thanks for taking my question here. Just want to follow up a little bit more on that long term outlook on the AC chain then. So do you think we've kind of entered a structurally higher area of earnings power? I know that you guys have changed your plans as far as your footprint optimization, but is there a scenario where you'd see continued global capacity additions? And would you participate in that? It does appear that there are pockets of production shortages globally and as you mentioned India and elsewhere. So, I guess, maybe if you could provide a little bit longer term view on your capacity and maybe the industry's capacity as well. Thanks.

Lori J. Ryerkerk
Chairman, President & Chief Executive Officer, Celanese Corp.

A

Yeah. So, it's kind of a broad question, but let me try to break it down. So, I discussed some of the things we did that we think improved our foundational earnings in terms of productivity and capacity debottlenecks, et cetera, and strengthening of our chain and strengthening of our model. I think it's also fair to say that we believe the acetyl industry dynamics has improved over the long term.

So, if you think about it just growing at kind of GDP between 2018 and 2021, we saw nearly 1 million tons in demand growth for the industry. And during that time, we didn't add any new capacity. So, it is a more tightly constrained market than it was, say, back in 2018, the last time we had a price run up.

We have a little bit of capacity coming on stream here in China that we talked about. And of course, we have a lot of capacity, our own capacity coming on – 1.3 million tons coming on in 2023. So, those are the big capacity adds that are out there. But even if you add those together, it's kind of three or four years of growth in a very tight market. And again, we don't intend to run our capacity unless it makes sense to do so.

So, I think the market dynamics have definitely improved over the last two years and continue to improve with just normal GDP growth. That could motivate people to get into the market. But I would say it's a very expensive market to get into. I mean you know our 1.3 million tons of capacity that we're adding at Clear Lake. We're spending $315 million to do so.

But if we look at greenfields still like they're doing in China, our own estimate of building that plant in China because they don't have the infrastructure and everything else is well in excess of $2 billion. That's a big hump for people to get over. You have to have availability of thin gas. You have to have access to hydrogen. You have to have a good energy source. I mean, it's a big hurdle for people to get over. It's a little better in the Gulf Coast of the US. But again, we already have a lot of players in the Gulf Coast.

So, we don't see any new capacity coming on immediately. Even if someone were to start today, they're still four or five years out from adding new capacity. So we see for the foreseeable future, that's remaining a pretty robust tight market.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Excellent.

Operator: Thank you. There are no further questions at this time. I would like to turn the call back over to Brandon Ayache for any closing remarks.

Brandon Ayache
Head-Investor Relations, Celanese Corp.

Thank you. We want to thank everybody for listening in today. As always, we're available after the call for any further questions you might have. Darryl, let's go ahead and please close up the call.

Operator: Thank you for your participation today. This does conclude today's teleconference. You may disconnect your lines at this time. Have a great day.