

24-Feb-2023

Celanese Corp. (CE)

Q4 2022 Earnings Call

CORPORATE PARTICIPANTS

Brandon Ayache

Vice President, Investor Relations, Celanese Corp.

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.

OTHER PARTICIPANTS

John McNulty

Analyst, BMO Capital Markets Corp.

Ghansham Panjabi

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

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Joshua Spector

Analyst, UBS Securities LLC

Michael Leithead

Analyst, Barclays Capital, Inc.

Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

Michael Sison

Analyst, Wells Fargo Securities LLC

Hassan I. Ahmed

Analyst, Alembic Global Advisors LLC

PJ Juvekar

Analyst, Citigroup Global Markets, Inc.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Frank J. Mitsch

Analyst, Fermium Research LLC

Matthew DeYoe

Analyst, BofA Securities, Inc.

David Begleiter

Analyst, Deutsche Bank Securities, Inc.

Jaideep Pandya

Analyst, On Field Investment Research LLP

MANAGEMENT DISCUSSION SECTION

Operator: Hello and welcome to Celanese's Q4 2022 Earnings Call and Webcast. [Operator Instructions] As a reminder, this conference is being recorded.

It's now my pleasure to turn the call over to your host, VP of Investor Relations, Brandon Ayache. Please go ahead, Brandon.

Brandon Ayache

Vice President, Investor Relations, Celanese Corp.

Thank you, Kevin. Welcome to the Celanese Corporation's fourth quarter 2022 earnings conference call. My name is Brandon Ayache, Vice President of Investor Relations. And with me today on the call are Lori Ryerkerk, Chair of the Board and Chief Executive Officer; and Scott Richardson, Chief Financial Officer.

Celanese distributed its fourth quarter earnings release via Business Wire and posted prepared comments on our Investor Relations website yesterday afternoon. As a reminder, today, we'll discuss non-GAAP financial measures. 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 both the press release as well as prepared comments. Form 8-K reports containing all of these materials have also been submitted to the SEC. Since we published our prepared comments yesterday, we'll go directly to your questions.

Kevin, let's go ahead and please open it up for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question today is coming from John McNulty from BMO Capital Markets. And we do ask you ask one question, one follow-up, then return to the queue. John, please go ahead.

John McNulty

Analyst, BMO Capital Markets Corp.

Q

Yeah. Good morning, Lori. Thanks for taking my question. So, look, obviously a lot of moving pieces out there, but the tough first quarter outlook for \$1.50 to \$1.75 of EPS makes the full year call for \$12 to \$13 look like a pretty chunky jump. I guess can you help us to bridge that jump in earnings and help us to understand what some of the big buckets are that you expect to turn up or take a noticeable step up?

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

Thanks, John. Yeah. Look, we realized that it looks like a big jump up, but let's kind of go through the math.

We really need to deliver about \$3.50 for the last three quarters of the year in order to hit that \$12 to \$13 guidance. So if you look at that, while that seems like a big jump. It's not unknown territory to us. In fact, that's where we've been every quarter in the last two years, up until this quarter. But if I look at just the jump up from Q1 to Q2, let's start with acetyls. So in acetyls, I would expect \$50 million to \$100 million increase in Q2 off of Q1.

We'll start with natural gas. So natural gas pricing has come down significantly at the end of the fourth quarter and in the first quarter, especially in the US, that's a big help for us in acetyl, our largest plants in Clear Lake. We have a lot of other facilities in the US that benefit from that lower natural gas pricing. And with coal staying higher in China and with crude being reasonably high and steady, that really benefits margins for our US base production, which is a large portion of our acetyls. So if you look just at this natural gas pricing, if it were to hold through the second quarter, that alone is probably more than \$20 million of uplift in the second quarter.

And then, if we look at things like the Frankfurt VAM restart that is being restarted a little bit early based on the good increase we've seen here going into March. For constructions, paints, and coating in Europe, a little bit quicker recovery than we expected. So that Western seasonality coming off, that's probably another \$10 million. And then you just have the normal, good economics we typically experience in the second quarter. So we see destocking really being over. We're past Chinese New Year's. We see improvement in construction activities worldwide. And so, we expect to see that same kind of volume rebound, as well as productivity. I mean, we – last year, in 2022, saw productivity at the high range of our historic \$100 million to \$150 million. We expect we'll be in a similar level this year and adding on additional productivity from M&M, for the [ph] EM side (00:04:53).

So that all goes in there. So we feel very comfortable right now with where energy pricing is, that we're actually probably towards the higher end of that range for the acetyl bump-up in the second quarter.

And then if we look at Engineered Materials, including M&M, again, Q2, it's typically a stronger quarter for Engineered Materials as well for a lot of the same reasons. We do see the – well, first, let me start with this. I mean, we have seen just like natural gas, in acetyls we have seen a significant drop in raw material costs in the first quarter, which is extending through into the second quarter. This lower raw material cost has led us to build lower – or not build, but now replace higher cost inventory with lower cost inventory. So that alone as we go into

the second quarter is going to be about a \$40 million lift for the EM, M&M portfolio combined as we go into – as we have the second quarter.

And then again, we have the typical – the destocking is pretty much finished here at the end of the first quarter. We actually see really good improvement here in March, in our order books. We see, we are past Chinese New Year, so we start seeing the lift from that. I mean, to give you an idea, we are seeing, February, we started the month slow, but we are still seeing orders coming in today for February deliveries.

So, this is a big deal. Usually at this time in the month, we are – our orders have stopped and we don't see new orders come in until the next month. But we're still seeing orders for EM, for M&M for February. And our March book, quite frankly, has filled up for both the legacy EM and the legacy M&M businesses, consistent with the order book that we received in March of 2022.

So I think these are all really strong proof points to say, we are seeing the demand recovery coming now as we're moving through the end of February and into March. And we expect that bill to continue to grow through the second quarter. We are seeing a modest improvement in automotive production. Builds are pretty much flat, but people are not destocking anymore. So we're seeing order patterns restore closer to normal levels for automotive. And this is very typical with what we also saw coming out of the end of 2021 and into 2022. So, I think we feel really good about an uplift in EM, in the magnitude of \$50 million to \$100 million as well.

And then on top of that, we also will have additional synergies from the M&M acquisition, and we're expecting another uplift of \$10 million to \$20 million in synergies in the second quarter or first quarter as well. And like I said, in acetyls again, productivity continues. So I think, we feel quite comfortable in the guidance that we provided for Q2 based on everything that we see happening now in terms of raw material, energy pricing and recovery of markets as indicated by our order books for March.

John McNulty

Analyst, BMO Capital Markets Corp.

Q

Got it. I know that's hugely helpful color. And then I guess just as the follow-up, just maybe a quick one on the debt re-domiciling, it sounds like you're kind of part of the way there now. I guess, can we think about all this being done by the first half of the year? Is that the right way to think about, or are you guys waiting for something in particular to maybe change in the markets? Like, I guess, how should we think about that, because it does seem like the rates are lower as you're starting to refinance some of this debt out?

Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.

A

Yeah. Thanks, John. I think, we're going to be opportunistic here. I think we're looking and making sure we have the right opportunities. I mean, currencies were moving in the right direction. We didn't want to make those changes when the dollar was certainly at its strongest, because then as things move, certainly, from an absolute debt perspective, it would go against us. So we're going to continue to look for the right opportunities there. And we're certainly targeting to get it done here in the first half. But just depending on some of those movements and where the dollar is at, it may linger into the second – the early part of the second half.

Operator: Thank you. Next question is coming from Ghansham Panjabi from Baird. Your line is now live.

Ghansham Panjabi

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

Q

Thank you. Good morning, everybody. Yeah, Lori, in your prepared comments, you talked about some of the competitiveness on the EM side. I think it was specific to imports from or exports from Asia into Europe et cetera. How do you see the dynamic playing out as the rest of the year unfolds? Is it as simple as China reopens and there's more localized demand and so that takes care of that or what are you thinking about at this point on that?

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. Thanks, Ghansham. Yeah, look, you're exactly right. I think there's two factors and we're really starting to see, early in first quarter, we still had some material moving over from Asia. We expect that will be mostly done in the second quarter and for the two factors, one that you called out, as we see demand picking up in Asia, there's less incentives to put things on a boat and move it to Europe. But secondly, with these low energy prices that we're seeing and the ability to replace our higher cost inventory with lower cost inventory, that's resulting in better pricing for our European customers. And so, the arbitrage we expect will be closing here at the end of the first quarter and into the second quarter.

And so, that I think really helps restore the supply/demand dynamics that, and of course we are seeing much higher demand now starting to – really seeing demand pick up in Europe here in March, in particular, and we expect that to continue into the second quarter. So with higher demand, lower pricing for the customers because of energy and raw material costing and then higher demand in China making it less attractive to ship across, we think those three factors actually combined should resolve the situation in the second quarter.

Ghansham Panjabi

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

Q

Okay. Right. And then in terms of the sort of the macroeconomic construct, so China you touched on in terms of momentum, just given the sequence of events there, Europe, you just touched on that as well. What about North America as an offset as it relates to a slowdown sequentially? How do you see that evolving in 2023?

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah, so I would say North America has been a bit sluggish in the first quarter so far. We have seen more recovery in Europe as we go into March than we have so far in North America. But we don't have any reason to think North America also isn't going to get there in the second quarter. I mean, auto builds are strong. We see signs that the destocking is over. Again, natural gas pricing in the US and raw material pricing [ph] should make us to (00:12:18) expect North America to come back strongly as well.

Operator: Thank you. Next question is coming from Jeff Zekauskas from JPMorgan. Your line is now live.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Q

Thanks very much. Can you tell us what the EBITDA of the M&M business was in 2022? And in the old days, I think you guys thought it was \$900 million in EBITDA. And plainly, it's operating at a much, much lower level. Can you diagnose what happened? That is are these structural problems or raw material problems? And how much of the nylon is sold at monthly contract prices and right now of the M&M business.

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. So, Jeff, in 2022, we had expected of – back at the time of the purchase, we expected 2022 to come in at about \$500 million of EBITDA. Obviously with the year-end challenges in M&M, that number was a little bit lower than that. Now, I think, we had thought originally that in 2022, they'd be at \$800 million, but that's been a more typical number for M&M. We believe we could grow that to \$900 million. Now we're saying \$700 million for next year.

If you look at what happened in 2022, I think there was a number of factors. First is with the take or pay contract that they had for raw materials. Although they saw weakening demand, they continued to produce and that led to a lot of inventory. And that's going to tie into what I'm going to say about fourth quarter.

Raw materials were fairly high for the year, compressing margin for nylon for the M&M assets as well. But we saw a lot of demand destruction. And we saw it especially in Asia. We saw it a lot on standard grades. And I think as we talked about last quarter, what we saw was a desire to maintain margin in M&M. But as a result, they lost a significant volume on standard grades by trying to hold prices when other prices were coming down, so volume loss. At the same time, they weren't raising prices on premium grades, which they could have been doing with raw material pricing going up. And these are things that we've had to work on.

So we've really been working on pricing over the last three months, trying to drive more volume in standard grade, trying to raise pricing in other grades. We've really been working the product pipeline. We've been working cross-selling. We've really – the team has been doing a great job working all of these things to really drive back to where we believe we should be at that \$800 million EBITDA run rate by the end of 2023. Obviously, these things take a few quarters to get going, but we do think we'll be back at that maybe kind of historical level DuPont had of \$800 million by the – again, by the end of 2023.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

So with – sorry.

Q

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

In terms of contract – I'm not really sure, Jeff, to tell you the truth, in terms of what percentage of the M&M contracts are monthly versus three months or six months or something longer.

A

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Right. So in terms of getting the \$700 million in EBITDA this year, you'd have to average, I don't know, \$200 million or so for the next – for the second, third and fourth quarters. How does the profitability lift from \$80 million to \$90 million to that \$200 million level? How do you accomplish that? Especially because, when you read about Nylon 66, the general commentary from consultants is that there's overcapacity and margin pressure. Is the background getting tougher, but it's your own innovation or ways to change the business that's improving it? What are these dynamics that are listing it in an adverse environment if the environment is adverse?

Q

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

Yeah. So, look, a big piece of it is synergy capture. If you look at our outlook now, which is at the upper end of the \$100 million to \$135 million range for synergies, we've achieved about \$10 million of that – we think we'll get about \$10 million of that in the first quarter. That leaves \$120 million for three more quarters. So that's about a

A

\$40 million per quarter average uplift. Now, obviously, it's a little bit more skewed towards the back end. But let's just think about average for the next three quarters. So it's about \$40 million right there from synergy uplift. That gets you to the kind of \$120 million to \$130 million range.

And then we are getting volume recovery. As I said, our March order book is now for M&M, basically where it was in March of 2022 for M&M. And that was still – the first part of the year was better for M&M. So we have gotten some volume recovery in – from Zytel in particular, and in Asia. Again, auto builds are very consistent and they're not still back to 2019 levels. But they're consistent, and so we think with volume recovery, we have been pushing through pricing on differentiated products, right.

So if you look at all of those things, if you look at productivity as well, not count as a synergy, but regular productivity at our M&M plants, we expect to probably get another, I don't know, \$40 million, \$50 million from that this year. So if you look at all those things and start adding up those volumes in the recovery, M&M was affected in fourth quarter and early part of first quarter with the very same factors we were, right. With the same destocking, with the same seasonality and slow down and we are seeing them recover from that as well again in March and as we move forward into the second quarter.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Q

Thanks so much.

Operator: Thank you. Next question is coming from Josh Spector from UBS. Your line is now live.

Joshua Spector

Analyst, UBS Securities LLC

Q

Yeah, hi. Thanks for taking my question. I guess, first, I wanted to ask on the [indiscernible] (00:18:51) JV. Can you talk about how much cash you would be getting from that combination? I'm a bit confused by the comments in the release about 0.7 times leverage reduction, 12 months post-close if that's related with that or not. Seems like a big number if it is so. Can you clarify?

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah, absolutely. So we expect to net \$400 million to \$450 million that we can apply towards debt reduction from the Food Ingredients still. We think – I have to say, we're really excited about this deal. We're really excited about the JV structure that we've agreed to with Mitsui. If I back up a bit, we also at the same time, announced the extension of our joint venture for the Fairway Methanol joint venture. This has been a great joint venture for us.

Mitsui has proven to be a really great partner and I think it's been really financially beneficial for both companies as well, as well as strategically beneficial. And we see Food Ingredients being an addition to that strong relationship that we felt with them through the years. This is really what we were looking for. We've looked at this product for some time and thought it's not necessarily a core piece of our portfolio, but it is a core piece of our operations in Frankfurt.

And so by doing a joint venture, we think, one, we'll really benefit from the expertise that Mitsui has in food and nutrition and their ability to market and help us on that end. We think they will also benefit from us continuing to be able to integrate into our Acetyl Chain. We provide acetic acid and crotonaldehyde now into the Fairway joint venture and we will continue to benefit from the strong partnership that we have as well as the manufacturing

synergies because we will continue to operate the joint venture and it is very embedded into our Frankfurt operations.

And it allows both of us to participate in growth in what we think will continue to be a high-growth market for Food Ingredients, sorbets and sweeteners, especially as one of the few if maybe only Western company providing sweeteners anyway of this type. We see a lot of positive movement in terms of volumes and demand and pricing going forward.

So, again, we're really excited about it. And just to reiterate, to answer your question, we do expect to be able to pay off another \$400 million to \$450 million of debt as a result of this joint venture.

Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.

A

Yeah. And then, Josh, with regards to the covenants, the way our covenants are structured is gain on sale of assets is included in EBITDA. And so because this has a very low book basis and while it's an efficient transaction, that \$400 million and \$450 million will be largely gain. So you get the gain that goes into the EBITDA piece using then the cash proceeds to pay down debt at the same time. And there's a partial offset obviously in EBITDA from the 70% that would go to Mitsui. But that math then works out to be, because it's in EBITDA, about a 0.7% reduction for the debt covenant purposes.

Joshua Spector

Analyst, UBS Securities LLC

Q

Okay. Thanks. I appreciate that. Maybe just one clarification there is that, that gain, are you going to exclude that from your adjusted EBITDA? And that's in the, I guess, the debt accounted for EBITDA. And in your comments about free cash flow, you reiterated the \$1 billion-plus, can you just give us an idea of what the core free cash flow you're expecting at this point? Some of the movements between working capital, restructuring, et cetera?

Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.

A

Yes. So for adjusted EPS, we will go ahead and exclude that gain as we did have past transactions. And then on free cash flow, we had previously said \$1.5 billion of free cash flow, which included about a \$200 million improvement overall in working capital. If we see that same \$200 million improvement in working capital and we saw inventories move up a little bit just with the lower demand in the fourth quarter, then we would see free cash flow likely a little lower than that \$1.5 billion just because of the lower earnings that we have. So we're still working through kind of exactly how the working capital will play out this year. But if we see something in that range, we would expect to be a little bit lighter than the \$1.5 billion.

Operator: Thank you. Next question is coming from Michael Leithead from Barclays. Your line is now live.

Michael Leithead

Analyst, Barclays Capital, Inc.

Q

Great. Thanks. Good morning, guys. First question on pension, your \$12 to \$13 a share EPS guide, I believe, includes \$100 million hit year-over-year on pension. When you talked last quarter about \$13 to \$14 a share, how much pension were you – impacts were you expecting at that time?

Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.

A

Yeah. Thanks, Mike. So I'm actually going to kind of put some of the other buckets in here that changed from our previous \$13 to \$14 guidance. D&A actually came in about \$75 million better than we expected, but it was eaten up by a pretty good chunk by that pension. So it kind of approached that amount. It's a little lower than that \$75 million, but it was approaching that. And so I think when you kind of – largely neutral those two things together, but it was in that range.

Michael Leithead

Analyst, Barclays Capital, Inc.

Q

Got it. Okay, that's helpful. And then maybe just more of a segmentation or clarification question, but it seems like M&M EBITDA, if I'm reading correctly, sort of allocated between earnings and EM and from centralized or other costs and other. So if you do deliver, say, \$725 million of EBITDA from the M&M business this year, is it correct to interpret that we'll actually see it reported as something like \$825 million or so higher in EM EBITDA, but also, I don't know, \$100 million or so higher other cost to offset that? Is that the correct interpretation?

Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.

A

Yeah. I think that's right, Mike. It's certainly in that range. I mean, at the end of the day, we need to get – no matter what bucket it's falling in, we need to go deliver the EBITDA over time that we said this business would deliver. So it is about getting the base business back up into those ranges that we had originally said at the time of the deal in that \$800 million EBITDA, including the other costs in there, and then driving synergies on top of that. So this year, with where demand is at, given some of the higher cost inventory that had to be worked off at the beginning of the year, it's going to be a little bit lower. But then building that back and then putting synergies on top of that is exactly what Tom Kelly and the team are focused on.

Michael Leithead

Analyst, Barclays Capital, Inc.

Q

Great. Thank you.

Operator: Thank you. Next question is coming from Vincent Andrews from Morgan Stanley. Your line is now live.

Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

Q

Hi and good morning, everyone. Just a quick clarification around that subject matter of the prior question. For M&M in the fourth quarter, you had guided to \$50 million to \$60 million of EBITDA. And then there are kind of two numbers discussed in the prepared remarks, one is \$56 million, one is \$39 million. Which is the actual apples-to-apples comparison, the \$39 million or the \$56 million?

Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.

A

It's the \$39 million.

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

The \$39 million.

A

Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.

Yeah.

A

Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

Okay. Okay. And then if I could ask, this is the first quarter I can remember and I don't know how long where your volume in automotive was below build. And that takes us through a variety of good, bad, or indifferent auto environments. So I just – if you have any further color on sort of why that happened because I kind of remember other times where things were tough, but your team found a way to your innovation or your activations or what have you. So what happened this time that was different?

Q

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

So actually, Vincent, fourth quarter of 2021 was exactly like this. We had the same issue. We were lower than build because of destocking. And I think there's a number of things that happened. I mean, people hit the end of the year. They want to make work – make working capital numbers. So they destock at the end of the year for a year in inventory control.

A

Prices have been coming down because raws are down and natural gas was falling. So that made people more confident in pricing going forward. So they believed prices going forward are less than they are now. And so they choose to draw down their inventory in anticipation of lower prices. I think supply chain issues have been largely resolved around the world. And so people are more confident about being able to buy materials. So while we saw a lot of build stock in 2022 because people were worried about getting resin. I think, we see going forward, people feel that supply chain issues are largely resolved. So the dynamic is actually very similar at the end of 2022 as it was at the end of 2021. I would say a little bit what's different is usually the fourth quarter, as the magnitude was a little bit was more in 2022, I would say, primarily because of Asia.

And usually in Asia we have a pretty good fourth quarter in advance of Chinese New Year. But this year, because of the resurgence of COVID in Asia, things were quite slow in Asia in fourth quarter as well. And so I'd say the dynamic was a little bit more pronounced this year. Obviously, Europe was even a little bit slower, but just on the malaise we've seen in Europe all year. But the dynamic was very similar. And I think, the reasons for destocking were very similar to what we saw at the end of 2021.

And again, January started slow. We've seen improvement here as we've gotten through the second half of February and order books are looking consistent with March 2022 order books for March 2023. So we feel like we've gotten past these dynamics and now are on a more normal trajectory or we will meet or exceed, which is typically what we've done. You're right. We're very good at that. Our teams are very creative about pushing more volumes into the market and high margins. We feel like we're back on that trajectory as of March.

Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

Okay. Thank you for all the detail. I appreciate it.

Q

Operator: Thank you. Next question is coming from Michael Sison from Wells Fargo. Your line is now live.

Michael Sison

Analyst, Wells Fargo Securities LLC

Q

Hey. Good morning. If I did the math for 2023 for adjusted EBIT for EM, looks like you need to be between \$1.2 billion and \$1.3 billion and Acetyl Chain \$1.3 billion to \$1.4 billion. But I guess my question is, if you think about where they could be longer term, maybe 2025, 2026, where do you think EM should be able to get to? And then if the \$1.3 billion and \$1.4 billion is the new foundation, what would the mid-cycle Acetyl Chain potential be a couple of years out?

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. That's a lot of questions all rolled into one, Mike. Let me see if I can parse that apart. So, if we look at 2023, there's a lot of ways we can get to the \$12 to \$13. And there's a lot of things that could happen in terms of energy price and everything else. I would think of it as going forward. We, including 2023, we expect EM and Acetyl to contribute roughly evenly for the next few years. This year it might be a little stronger on Acetyl than EM, as we work through kind of the restoration of M&M base earnings and start to capture synergies. But I would say for the next several years, I would consider them roughly equal, because we also have the Clear Lake project coming on this year, which is going to add another \$100 million to Acetyl. We have BAM expansions and other things coming on.

So I think that's a good starting place. If we look at that foundational level of earnings, what I would say is, today we think it's about \$1 billion to \$1.1 billion. That was before Tow, Tow is going to be at or above kind of the \$250 million that we called out at the time of the Investor Day in 2021. So that kind of puts \$1.25 billion to \$1.35 billion range which is pretty consistent with the numbers you saw. But then again, we'll add a \$100 million on a full year basis for Clear Lake. But that that is, again, the foundation level of earnings. So we're still operating at very high capacity utilization in Acetyl. Despite the softness, despite everything else, even in the fourth quarter our utilization was 70% in China, but 90% on global basis. That's still pretty high. And that's I think where we're going to see maybe a little more volatility in Acetyl because the market is going to react more quickly to outages due to turnaround or unplanned outages or movements in raw material pricing. So, I can't really say what I think the midrange is, but I would just say, there's – we've seen in Acetyl as we can see a pretty sharp spike up in a very short period of time as the market reacts to short and medium term changes.

Michael Sison

Analyst, Wells Fargo Securities LLC

Q

Great. Thank you.

Operator: Thank you. Next question is coming from Hassan Ahmed from Alembic Global. Your line is now live.

Hassan I. Ahmed

Analyst, Alembic Global Advisors LLC

Q

Good morning, Lori. Lori, obviously, in the prepared remarks, a lot of commentary around destocking, restocking and the like, I was hoping you could give us some historical context as you look at your portfolio. In terms of destocking, historically, how long have your destocking cycles lasted? What did the restock look like once the destocking was over and the like? I'm just trying to get some sort of perspective in terms of where inventory levels are right now, what the bounce back could look like and the like.

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. So I would say historically we've seen destocking last kind of a quarter, especially in EM, maybe a little bit less in Acetyl because they don't have as much inventory. And I would say – I wouldn't even say we're necessarily seeing restocking at this point. I would say we're seeing a return to normal levels of demand. Typically, when we see restocking is when prices start to go up and people start getting worried that prices in the future are going to be higher than they are today. So they take the opportunity to build inventory in advance of an anticipated price increase. Again, as I said earlier, I think with where we are today, where raws are down, natural gas is low. The anticipation in the market is that prices are going to go lower or stay low. And so I don't think we'll really see restocking until we see a turn up. But we do see a return to normal levels of demand starting now in March.

Hassan I. Ahmed

Analyst, Alembic Global Advisors LLC

Q

Understood. Understood. And as a follow-up, on the Acetyl Chain side, you guys talked about how pricing through the quarter was – Chinese pricing at cost curve levels. Yet, despite that, you guys obviously idled some facilities, yet you generated around 25%, 26% EBITDA margins. So I'm just trying to get a better sense of Celanese's cost curve positioning as it sits right now.

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. So there's – I think, there's a couple components to that. I think in China specifically, while I believe throughout the end of the fourth quarter and into the beginning of the first quarter, we were at the cost curve in China in terms of the industry, our cost position is a bit better than that. And it has to do with the scale of our operations, the technology that we have, and therefore improved cost bases we have versus the vast majority of the producers in China.

So we continued, even when the rest of the industry was at the cost curve to make even a small amount of margin in China. And then, of course, we're benefited by the fact that we have a very large facility in the US Gulf Coast. So when we saw natural gas prices coming off in – at – towards the second half of the fourth quarter and as we've gone into the first quarter with low natural gas prices, that is a big margin uplift for us versus people who are producing out of coal or even crude at these kind of prices. And that opens up windows for us to move material to Europe and other parts of the world out of the Gulf Coast.

And so I think, it is that global optionality that we have, that global footprint, as well as the optionality we have to move things up and down the chain that really allow us to continuously deliver high level of margins from what some might consider commodity business. It certainly does not give commodity returns.

Operator: Thank you. Next question is coming from PJ Juvekar from Citi. Your line is now live.

PJ Juvekar

Analyst, Citigroup Global Markets, Inc.

Q

Yes. Hi. Good morning, Lori and Scott. Lori, do you have a long-term view on the competitiveness of your European assets? And what I mean by that is, European VAM capacity was shut down. Is that the marginal capacity that goes in and out with the market, like what Singapore plant used to do in Acetic Acid? Can you just take a step back and explain to us sort of the marginal capacity in Europe and your plans there?

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. No. Thanks for the question, PJ. Look, maybe to clarify, so VAM going down in Frankfurt wasn't because VAM couldn't make money in Frankfurt. It was just we saw the demand go down so much toward the end of the year. I mean, VAM demand in December was down or in the fourth quarter was more than 50% off Q3. So we had a really huge demand destruction in the fourth quarter because of pricing, because of the weather, because of destocking, because of all of those things.

And so – but even at that, I mean, we could have run VAM profitably. It is not normally the most expensive VAM production in our network. But because of the high pricing we were seeing in Europe last year, it just made sense because total capacity for the globe was down. It just made sense that we shut down that facility that was challenged due to energy pricing and moved material from other lower cost energy locations. But we're starting it up now. I mean, the March order book for VAM in Europe is really the strongest we've seen in six months. So, now, we need IPH and it makes sense where we're going to be about – I think, the order book right now is about 85% of what we saw in the third quarter.

So it makes sense to start up VAM. We have lower energy prices. So, again, Frankfurt returns to not being the highest priced one. So, again, this is the beauty of a global network. We have the optionality to take units down, to skew where we make it based on what is most cost competitive at the time, based on where the demand is at the time. And that just happened to be Frankfurt last year, but it could be something different in the next year. But that's why we like having all of this optionality around the globe.

PJ Juvekar

Analyst, Citigroup Global Markets, Inc.

Q

Great. Thank you. And then on M&M, it seems like it was really undermanaged in last one year of ownership. Do most of M&M issues are residing more on nylon area? And can you upgrade the M&M portfolio because I think you had more easy exposure than them. And so is there a natural upgrade there? Thank you.

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. So I would say if you look at the portfolio from M&M, certainly nylon was the most challenged. I think elastomers was more robust. And even within the nylon portfolio, probably high temperature nylons and some others didn't see the impact that was more, I would say, in Zytel and the PA66 line. And as we've called out before, I mean, there were many issues around decisions being made around pricing, both positive and negative, maintaining volume in standard grades and those sorts of things. And there were very high raw material costs and a take or pay contract that required them to take it.

So I think there's just a lot that went into that underperformance in 2022. But the good news is these are things that are fixable. And this is what Tom and his team have been working very hard on in the last three months is moving the pricing, getting the inventory down in the fourth quarter, which certainly hurt us in the fourth quarter, but will help us now as we go forward in 2023 and are able to sell lower cost basis inventory more in line with pricing. So I think the good news is going forward, this is all stuff that is fixable and we are working rapidly to do so.

Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.

A

Yeah. The earnings power of this combined portfolio hasn't changed from when we announced the deal a year ago. If anything, I think it's – we're even more convicted around that going forward. There is near-term challenges and we've been over the last several quarters very clear about the disappointment in the performance. And it is requiring a big lift in the near term. But the long-term earnings power of these combined portfolios then combined with the Acetyl Chain, as you look out three to four years is very substantial.

Operator: Thank you. Next question is coming from Kevin McCarthy from Vertical Research Partners. Your line is now live.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Q

Yes. Good morning. Lori, can you elaborate on the 1.3 million ton expansion of Acetyl capacity at Clear Lake? What are you baking into your numbers with regard to timing of the start-up and operating rate given the current market conditions? And then any thoughts on how you would see that earnings trajectory evolving through this year and into 2024 would be helpful.

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. So the project itself is going well. We are still anticipating an on-time, on-budget start-up mid this year. So we expect to have it running for, let's just call it, roughly half of the year. At the time we did the project, we called out – while we have the ability to run 1.3 million tons additional, we really did it as a productivity project.

So savings that we get from being able to move volumes directly to Europe, the savings that we get from catalyst savings, energy savings, et cetera. So of that \$100 million a year credit, we'd probably only see about \$25 million of that this year because we have start-up costs, we have ramp-up time, all that sort of things. So I'd expect to see about \$25 million of that back credit this year. And then next year we should be at the full \$100 million.

Now, having said that, to the extent that demand deliver continues to grow robustly and energy prices continue to be favorable in the Gulf Coast, it will make sense to try to run the unit for volume as well. What point that will be at? I couldn't say, at this point, it's going to depend on demand in raw material, and energy economics. But if that were to happen, that clearly is a higher return case for that project than we had with just the base productivity number that was baked in there.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Q

I see that. That's helpful. And then secondly, if I may, a couple of financial questions for Scott. Will you comment on your 2023 capital expenditure budget? And with regard to the first quarter, what level of interest expense are you baking into your EPS guide?

Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.

A

Yeah. So capital, we still expect to be in kind of that \$550 million to \$600 million, range and you know, that – where we land there will really be dependent upon where we see the demand recovery as well as the outlook into the out years. And as we continue to really put the combined EM and M&M portfolios together. And then from an interest expense standpoint, we're in that kind of \$600 million, you know, again, that \$550 million to \$600 million range for the year and we'll have about a quarter of that here in the first quarter.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Okay. Thank you very much.



Operator: Thank you. The next question today is coming from Frank Mitsch from Fermium Research, your line is now live.

Frank J. Mitsch

Analyst, Fermium Research LLC

Hey. Yes. Hi. Good morning and congrats, Mark Murray, if you're listening. Lori, I wanted to ask about the level of auto builds that you have embedded in the guide for the year and where you think Celanese can perform relative to that level of industry auto builds.



Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

Yeah. So we're assuming – our 2023 forecast is basically – assumes flat in 2023 to the second half of 2022. So that's kind of like at a \$85 million range, which really aligns pretty well with the IHS outlook this year, which they're forecasting an increase of 3.6%, that's almost exactly the same number.



And that really is assuming US and Europe about 5% up, Asia up about 2%, with China being the weakest point at 1%. Still, I would say, we're still, though, 5% lower than 2019. But we do believe that that – we're pretty consistent with IHS in this. We believe auto builds are going to be constrained by chip availability, not by demand. We think that pent-up demand is still there.

And so to the extent, chip would be more available, I think autos will build. Other years, as we've seen, sometimes they're not as available but we're assuming kind of flat to second half 2022. I would say we would expect our contribution ourselves into auto to be maybe a couple percent above that. And that's based upon a few things.

One is the locations where we're stronger. So, historically, we've been stronger in the US and EU. Now, with M&M, they've always been a bit stronger in Asia. But even having said that, I think we think we'd be a few percent above that.

The other thing is the presence that we have in electric vehicles. I mean, over 10% of our sales by volume go into electric vehicles from the heritage EM portfolio. And we continue to see that EVs are growing at a faster rate than ICE if you look at the forecast going forward. So based on that, I would assume a couple percent kind of low single-digit percent that we would expect to be over the build rate in terms of our auto growth.

Frank J. Mitsch

Analyst, Fermium Research LLC

Got you. Thank you. And I know, maybe a question for Scott. I know that the comment was M&M inventory levels were really high and elevated given the take or pay contracts ended the year at \$2.8 billion in terms of your inventories. How should we think about the impact of maybe inventory reduction on working capital in 2023?



Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.



Yeah. As I said earlier, Frank on the free cash flow question, we'd like to see at least a \$200 million reduction which will largely come out of inventory as we work through the year. I mean, that's going to largely be dependent on a few things. One, being able to bring absolute volumes down. Two, depending on what were to transpire with raw materials.

And I think with energy and gas already coming down, that will give us some wind at our back. But we really would like to see the volumetric reduction kind of contribute to that \$200 million in total and then any pricing reduction be on top of that. So, we're kind of hoping and planning for that \$200 million reduction right now.

Frank J. Mitsch

Analyst, Fermium Research LLC

Q

Thank you so much.

Operator: Thank you. Our next question today is coming from Matthew DeYoe from Bank of America. Your line is now live.

Matthew DeYoe

Analyst, BofA Securities, Inc.

Q

Good morning, everyone. I know you adjusted term loan covenants, but do you still have to hit the 3x net debt-to-EBITDA by yearend 2024 that was stipulated by the rating agencies? But can I just use consensus EBITDA [ph] and hand out and then feedback could (00:49:16) very well be wrong, but like, you give yourself some cumulative cash flow generation over the next two years, but that consensus EBITDA puts you at like [ph] 3.5, 3.3 (00:49:25). So is there a concern internally about this? And do you start thinking about other asset sales, is that necessary?

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

Look, I don't think there is a concern internally as we've said since the time we did the deal. I mean, there are always levers that we can do. I mean, from an asset sale standpoint, again, we don't feel we're in a position we have to do an asset sale. I mean, we did Food Ingredients because we had the right partner with the structure we wanted that would give us both benefits, and allows both to participate in the growth in that business. And so the timing was right to do that.

And I would say, we will continue to be opportunistic with our businesses, both our legacy businesses, as well as our acquired businesses. If and when we have the right buyer and what we think is a fair price, of course, we would consider it. But, we believe that although this year has started slow, the recovery we expect to see this year, our ability to generate cash from working capital and others that we will be able to meet the expectations of the rating agencies this year, as well as next year and into the future. Scott, do you have?

Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.

A

Yeah. I mean, look, we viewed this as a near-term challenge that required a near-term solution and that was to amend the covenants. We're still pushing to get to that 3 times lever at the end of 2024. And it really starts with, as Lori talked about, generating cash. Generating cash to pay down debt, lower that interest cost. I talked about the M&M incremental interest of \$550 million to \$600 million. We have legacy interest of \$60 million to \$70 million, lower that by paying down debt. And then also find ways at which to lower that interest cost through redomiciling some of the debt as we talked about earlier on the call. So it is really just about systematically bringing the debt down through cash generation.

Matthew DeYoe

Analyst, BofA Securities, Inc.



Thank you. No. I appreciate that. And then on the VAM and EVA side. So, like, I know acetic acid is pretty stable from a supply perspective outside of yourself and what are you doing [indiscernible] (00:51:45) for like decent VAM and EVA capacity growth over the next two years. Does that impact your spreads? I know demand growth there has been pretty good. Is that going to absorb? How do we think about that?

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.



Yeah. So if you look at what's happening, there are some builds going on. So acetic acid we do expect one startup in 2023, late 2023 in China. And we're also expecting a few VAM startups between 2023 and 2024. But if you look at the typical growth that we see for the Acetyl Chain, we need a full plan kind of every other year or so.

So, I don't think the rate of growth that we're seeing is inconsistent with the growth in the world. We are still at fairly high utilization. Again, I think the fact that we are at high utilizations will keep the volatility a bit more. So we'll do as we saw in fourth quarter or you may during periods of low demand and seasonality, go to the cost curve, but that can recover quite quickly. But I don't see it having a major impact on our margins going forward on kind of a long-term or full year basis.

Operator: Thank you. Our next question is coming from David Begleiter from Deutsche Bank. Your line is now live.

David Begleiter

Analyst, Deutsche Bank Securities, Inc.



Thank you. Lori, in the comments, you mentioned some destocking in the Americas in paints and coatings and construction applications. Could you give a little more color on what you're seeing there, and where we are in that process?

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.



Yeah. So we typically see seasonality because obviously when it's cold and snowy and things, people aren't painting outside. And so, that's typical, I would say, also this year because we're coming off a period of high pricing for many of these materials because of the higher raws and the higher energy we saw during 2022, I think people took the opportunity, much like we did, in EM, for example, to draw down some of their inventories through the end of the year and get rid of higher cost inventory to make room for lower cost inventory going forward with anticipation of lower energy and raw material costs and pricing.

So I think that's really the dynamic that we saw this year. Again, in the US, we haven't really seen the pickup yet as we have say in Europe. But I think it will come. There's no kind of structural reason that we think paints, coating and constructions is going to be off in 2023 versus 2022.

David Begleiter

Analyst, Deutsche Bank Securities, Inc.



Understood. And just in acetyls, you referenced a \$60 million earnings increase versus the last trough. Can you try to bridge that gap? What's improved in your operations? Because you've always been a good operator in this business, but you seem to have taken a step up since – over the last couple years as well.

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. Look, I think it's a number of things. We've continued to invest in our Acetyl assets both foundationally, so investing in reliability, in quality, energy savings, productivity, so we continue to improve our cost basis. From that, we've improved our contracts in many of our areas for raw materials for the Acetyl Chain.

I think that's probably the primary improvement we've seen in Acetyls over the last few years. The operating model we use in Acetyl is taking advantage of that end-to-end as well as geographic optionality is really strong, is running really well. But I would say it's really the improvement in productivity, the improvement in contracting as well as some of the minor kind of capacity adds, that capacity creep that we've had across our facilities, which gives us additional optionality and the addition of Elotex, which gives us further optionality down into the chain, which is especially helpful as we move into these kind of slower winter months.

Brandon Ayache

Vice President, Investor Relations, Celanese Corp.

A

Kevin, we'll take one more question, please.

Operator: Certainly. Our final question today is coming from Jaideep Pandya from On Field Research. Your line is now live.

Jaideep Pandya

Analyst, On Field Investment Research LLP

Q

Hi. Thanks a lot for taking my question. Just basically wanting to understand in the context of capacity shutdowns in the upstream side, in nylon chain, how do you see yourself with regards to positioning in the value chain? Is this fundamentally more positive for you or is it fundamentally more negative for you in this context? Thank you.

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

Well, prior to the acquisition of M&M, obviously we were a big buyer of nylon and would have been unhappy to see shutdowns in the upstream because that would lower price. But now that we both polymerize as well as compound nylon, I would say generally I would consider this a help for us as it tightens up the amount of nylon being produced and should raise value across the chain.

Operator: Thank you. We reached the end of our question-and-answer session. I'd like to turn the floor back over for any further or closing comments

Brandon Ayache

Vice President, Investor Relations, Celanese Corp.

Thank you. I'd like to thank everyone for calling in today. As always, we're around if you have any follow up questions. Kevin, please go ahead and close up the call.

Operator: Certainly. That does conclude today's teleconference and webcast. You may disconnect your line at this time and have a wonderful day. We thank you for your participation today.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2023 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.