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Celanese Corp. (CE)

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MANAGEMENT DISCUSSION SECTION

Operator: Hello and welcome to the Celanese Q3 2023 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 Brandon Ayache, Investor Relations. Please go ahead.

Brandon Ayache

Vice President of Investor Relations, Celanese Corp.

Thanks, Kevin. Welcome to the Celanese Corporation's third quarter 2023 earnings conference call. My name is Brandon Ayache, Vice President Investor Relations and with me today on the call are Lori Ryerkerk, Chairman of the Board and Chief Executive Officer and Scott Richardson, Chief Financial Officer. Celanese distributed its third quarter earnings release via business wire and posted prepared comments on our Investor Relations website yesterday afternoon. As a reminder, we'll 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 both the press release as well as the prepared comments. Form 8-K reports containing all of these materials have also been submitted to the SEC. Before opening it up for your questions, let me turn it over to Lori to provide a few introductory comments.

Lori J. Ryerkerk

Chairman, President & Chief Executive Officer, Celanese Corp.

Thanks, Brandon. So we've done and announced a lot recently. So I just wanted to take a minute or two to emphasize again exactly what we are all working so hard to achieve at Celanese. I can confidently say that at no point in our history has there been a greater opportunity for Celanese to deliver significant earnings growth, as in the next few years. In the Acetyl Chain, we continue to enhance our earnings power and optionality with projects like the acetic acid expansion at Clear Lake and the methanol expansion also at Clear Lake, which will dramatically strengthen our sustainable product offerings. Of course, in Engineering Materials, we continue to integrate and synergize the M&M acquisition, which transforms EM into the preeminent global specialty materials provider. This important and valuable work has been made more challenging in the demand backdrop that remains exceptionally weak and volatile. Our visibility into future macro conditions is limited.

Regardless, our teams have worked tremendously hard to deliver three consecutive quarters of earnings growth since closing the M&M acquisition and to position us to meaningfully exceed our full year objective to reduce net debt by $1 billion in 2023. The work has not been easy, and I sincerely thank each of our employees for their individual contributions and dedication. Quite frankly, while the work is moving forward at pace, the macro environment has temporarily remapped some of the underlying financial benefit of our actions to strengthen our business, but we remain resolute in continuing to take decisive and controllable actions.

Our most recent actions, including the announced changes to our leadership team and manufacturing footprint, are evidence of our ongoing commitment to drive earnings growth and execute against our deleveraging plan. The purpose behind the changes I've made in our executive leadership team is to enhance the alignment of our individual strengths and experience, to accelerate and deliver on the many value enhancing opportunities before us. Scott, Chuck and Ashley are exceptionally well prepared for their new roles and I am confident these changes will immediately enhance the value we drive as a collective leadership team. I speak for our leadership team and broader Celanese in saying we are fully engaged and committed to delivering on the opportunities before us.

With that, Kevin, let me turn it back over to you to open it up for questions.

QUESTION AND ANSWER SECTION

Operator: Certainly, we'll now be conducting a question-and-answer session. [Operator Instructions] Our first question is coming from Mike Leithead from Barclays. Your line is now live.

Michael Leithead
Analyst, Barclays Capital, Inc.

Q

Great. Thanks. Good morning and congrats to Scott, Chuck and Ashley on the new roles. Lori, I wanted to start on Engineered Materials pricing. I think in the prepared remarks you made a comment that pressure has widened throughout the year, but nothing indicates it's structural. So can you maybe just talk a bit more about your confidence here and maybe what you've seen in previous down cycles versus now, just what gives you the confidence in making that comment?

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

A

Yeah, if I think about pricing and again, I'll split it into two. What we've really seen is pretty good price stability in differentiated products. What we've seen them is more of the volume impact there associated with consumer durable, consumer electronics. There we've just seen a pretty significant volume decline as we've seen consumer demand come off this year as people have shifted their spending to more services and experiences. Where we've really seen the price pressure is for more standard grade materials where we're seeing quite a bit of length in the industry in terms of supply, softer demand and everyone having to take price action to come down. What I would say is one of the reasons we're taking the steps that we've announced around Uentrop and other is really to better position our supply with the current demand scenario by shutting down some of our higher cost operating capacity, filling those customer needs with lower cost capacity we already have, or even purchases if that's lower.

And then in the future, as we see demand start to come back to what I would consider more normalized level, we should be able to provide that demand from other assets that we already have in our network and through no and low cost debottlenecks. So again, I think we're in a kind of unique position structurally with very little exports out of China, a very soft, soft environment in Europe. And feel confident in time it'll come up. I mean, auto is a great example. Auto has been very solid this year. We expect that to continue. Medical has been solid. So I think we really are just seeing a reflection of consumer preference in consumer spending which we believe is temporary and off the highs that we saw in 2021.

Michael Leithead
Analyst, Barclays Capital, Inc.

Q

Great. Thank you. And then a question for Scott maybe on free cash flow. I think in Lori's 2024 outlook she laid out in the prepared remarks, maybe $300 million or $400 million of earnings improvement next year, you guys are probably getting a similar type amount of working capital benefit this year. So as we think about free cash generation next year is relatively flat year-on-year a good starting point today or is there further working capital or other cash benefits you think you can get next year?

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

Yeah. Thanks, Mike. We're going to work to ensure that as we see earnings growth, that we put that as much to the bottom line and free cash flow as possible. We've called out CapEx being $100 million lighter next year as well. I think the variable will be working capital and it depends upon kind of what happens with raw material pricing as well as depending on kind of where sales are and what happens with the accounts receivable line. But we're going to do everything we can to continue to bring inventory down next year. There could be an opportunity for further reduction depending on what happens with demand as well as in the raw material landscape.

Michael Leithead
Analyst, Barclays Capital, Inc.
Q

Great. Thank you.

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. I think Eastman's filter tow profits are up, I don't know, $225 million through the nine months. There was no mention of filter tow in your remarks. How is that business doing and how is it affecting the Acetyl Chain earnings?

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

Jeff, as you know we are running that as an end-to-end chain now. We're treating tow as we do other downstream derivatives. What I would say is we're seeing similar impacts in tow. Now we are seeing in the second half a reset of contract pricing which is bringing those margins down slightly from the first half. But that was anticipated with the way the contracts are set up. But I would say we're still on track to exceed the $245 million that we set out earlier this year as our target for tow.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

You're closing your German nylon facility. Is that about 15% of your nameplate capacity in nylon? And what utilization rate are you running at in nylon generally?

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

Yeah. So Uentrop actually is one of the four plants that we have for nylon and it represents right at 25% of our total capacity. I don't have the overall total utilization numbers in front of us, but I would characterize this, Jeff, as much like we've done with POM and other assets where we've really worked on, concentrating our footprint, taking out either underutilized or less profitable assets in order to shift volume into lower cost, more profitable assets, getting more flexibility in our network in terms of purchasing either of polymer or different raw materials depending on where we produce. That's what we're trying to build here with the Uentrop shutdown is, we knew going into the deal that, or we believed that DuPont had excess capacity. Now that we've had some time to look at it, we believe shutting down the Uentrop is the best way to really adjust our cost basis on nylon while still maintaining compounding in Europe, which is necessary for our customers. But I would say this is very consistent with what you've seen us done over the last ten or so years in Celanese, where we've probably shutdown over 15 facilities in the last 10 years as we've implemented these models.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Great. Thank you so much.

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

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

Hey, good morning. I've been told I need to do more math these days. So if I add up sort of your bridges that you gave for 2024 and just use the lower end of the inventory stuff, looks like on no volume growth you could do $12 or better. Is that the right math? And then can you help us on what or how to frame up volume and inflation or deflation upside for 2024?

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

A

Yeah. Mike, we know, we laid out the various buckets. So I think you can do the math. I mean just to reiterate we do expect to get more than $150 million in additional M&M synergy with some of the acceleration of the manufacturing footprint optimization. Hopefully, we can exceed that amount as well since we didn't have all of that baked in. We should get another $100 million once we get Clear Lake acetic acid started up. Debt service goes down by about $50 million. We'll have less inventory reduction next year, so less margin impact from that. And then I think as you're saying the big issue there is really going to be, what is the benefit we see for flushing through higher cost inventory. And this could be a very big number.

It will depend on what happens with raws. As you know, we're in quite a volatile raw material environment right now. And then what happens with demand going forward? If demand stays low, then I think these are the things we're focused on because these are what we can control. If demand goes up, obviously we'll get more margin, but we will also probably see some increase again in working capital. So I would just say there's still a lot of volatility and uncertainty around next year. And that's why we're just really focusing on those big buckets that we outlined that are in our control.

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

Got it. And then when you think about 2024, what do you think could happen to China auto, and some of your end markets? Any initial thoughts when you talk to customers of what the demand environment could be next year?

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

A

Yeah. Again if you could tell me what December is going to look like, maybe I'd be better at thinking about 2024. I mean, things are very uncertain and volatile at this point. I would say on auto, consistent with the forecast you're seeing on auto build, we expect to see some moderate growth in auto really across all sectors, a couple percent. And our growth should track that. We expect medical continue to be strong. I would say based on conversations with customers, I would expect some moderate growth across next year as we start to see some demand coming back. But I would also say the timing of when that starts and the pace at which that happens is very uncertain. So it's certainly a lot less conviction at this point on next year than we might usually have at this point, given the volatility we're seeing.

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

Got it. And congrats to everybody with the new roles. Thank you.

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

A

Thanks.

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

A

Thanks, Mike.

Operator: Thank you. Next question today 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. So I wanted to follow up on the price cost or like the inventory, the lower cost inventory that can flow through, I guess Lori you sounded a bit more uncertain on that, but it still could be large. I guess, if you look at where pricing is in fourth quarter, is that a level if that holds, you would actually get a spread benefit into next year? Or do you need pricing to move up from here? Just wondering around the kind of moving parts there. Thanks.

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

A

No, look, even I think at the pricing we're seeing now, we are starting to see some pull through of that lower cost inventory. And we see that as a moderate impact on our quarter-on-quarter growth. So I think even at these pricing, we would expect to continue to see some portion of that pull through. Obviously if we saw pricing increase that would help more. But we also have to consider what the price of raw is going in and we are seeing some upward pressure on raw materials this quarter as well. But look, I would say in all cases, we expect some impact from that flushing through of higher cost inventory. It's just the magnitude will depend on raws as well as future pricing.

Joshua Spector
Analyst, UBS Securities LLC

Q

Okay. Yeah, I guess just maybe to pin it that, when you talk about it being the biggest bridge item, if pricing stays where it is, is that a true statement or does that come down?

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

A

I would say if pricing and raws stay where they are that would still be a true statement.

Joshua Spector
Analyst, UBS Securities LLC

Q

Okay. Thank you. I'll leave it there. Thanks.

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

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Thank you and good morning to all and congratulations to those with new roles. Excuse me. I just wanted to ask a couple things. One, in Acetyls in the third quarter, there clearly was a benefit despite a bunch of headwinds from outages in Asia. So I'm wondering if you have any way of sort of sizing that in the third quarter and what you anticipate in the fourth quarter. Seems like there's some comments that you're still going to have some higher pricing flowing through in the fourth quarter. And I'm just wondering if that's just sort of a delay of inventory flowing through or what? And then secondly, on the tax rate, I understand why it's lower this year and that it was originally contemplated in the lower guidance. But if the demand environment is going to stay, not a lot different from where it is today, at least through the first half of next year, does that mean you have a lower than normal tax rate next year as well? Thanks.

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

A

Yeah, Vincent, let me see if I can answer that. What I would say is we did see a positive influence from the higher Asia pricing that we saw as a result of supply outages in the third quarter. Most of those occurred in the last few weeks of the year. I would think of those as pretty much offsetting the impacts of the contract pricing reduction that we had called out and the turnaround impact that we saw. What I would say is going into the fourth quarter now, we're really, we've seen that price drop back to closer to the cost curve, maybe slightly above it. So we've kind of lost that benefit in China. We will see a little bit of benefit, although significantly less of that in the Western Hemisphere in the fourth quarter, specifically Western Hemisphere pricing lags by about a quarter. So we'll see some benefit, but not to the same extent that we saw the benefit in the third quarter.

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

A

And then on the tax rate, Vincent, a lot is just going to depend upon the geographic mix of earnings. If things stay exactly as they are this year, then certainly we could be at lower levels. If we see things normalize back to kind of what I would say is the normal mix of geographic demand, then we'd be back more next year in that kind of 12% range.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Thanks very much.

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

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you and good morning. And first, congratulations to Scott, Chuck and Ashley. Lori and Scott, just on EM pricing, pricing is up about 38% in 2021-2022 should be down this year maybe around 8%. If we do go back to pre-2021 cost levels, do we retain some portion of this price increase? And if so, why is that the case?

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

A

That seems like a very long time ago, Dave. What I would say is the good news is we are seeing volumes come back. And so in some areas like medical, like auto, we're kind of back to 2019 levels. I think so pricing similar, margins probably similar. Again consumer demand, durable goods, electronics, very, very soft. Pricing for differentiated grades, okay. I think that's something that we can keep. I think with the kind of the current low demand and therefore the long supply for some of those standard grades, we're going to need to see some more demand before we can get the pricing back up to those kind of levels.

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

A

Yeah, David, I would just add, I think, given some of the structural changes that we're making, we do think we should be able to hold that, that price as we get back to kind of normalized raws. And I think one of the things we've talked about is now with the Engineered Materials business and the Acetyls business being about the same size. As we see in more normalized demand environments, the raw material landscape move up and down we should see some kind of movement in margins in EM versus Acetyl. So, overall, it should kind of fundamentally lower earnings volatility for the enterprise as a whole once we get back into kind of normalized conditions.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Q

Very good. And just on Clear Lake, the asset expansion for next year, how should we think about the ramp up to the $100 million of normalized annualized earnings? Should it be half of that next year in that range or something more or less? Thank you.

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

A

Yeah. Look we, the Clear Lake asset expansion will start up within the first quarter. And so I would expect that ramp up to start kind of immediately after the startup.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you.

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

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Good morning. Lori, I think in your prepared remarks had mentioned that you ceased production at certain Engineered Materials facilities in Brazil, Argentina and, Germany, beyond the nylon shutdown that you discussed previously. Can you just put that into context for us? I wasn't entirely clear on whether these are temporary idlings or more permanent structural changes. Maybe you could talk through kind of where you are in that asset rationalization process today?

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

A

Yeah, I would say for the majority of the ones that we've named, so the ones in Argentina, Brazil and Europe these are more permanent shutdowns. Now we are taking temporary actions in things like VAM in Frankfurt and others where really we're using that as flex capacity to meet the current demands of the network, which is lower than normal, but where we will need that capacity when we come up again. But the ones we've announced recently, I would consider those structural changes to really redefine where we are on the cost curve by taking out our highest cost producers.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Okay, that's helpful. And then I wanted to follow up on synergies. Can you tell us what the synergy related benefit was in 3Q and what you're expecting in 4Q? And then when we look at the targeted tailwind of $150 million next year, would you describe that as rateable or ramping throughout the course of 2024?

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

A

Yeah. So Q3 was actually a little bit lower than we anticipated because some of our, I would say at the lower end of kind of 10% to 15% sequential uplift we had expected on synergies because with our volumes a little bit lower some of our synergies are volume related. Again, we expect, though, a small synergy, sequential synergy increase in the fourth quarter. But the real synergies will start to come in after we do the completion of our cut over to SAP next year in the first quarter, and after we take some of the shutdowns that we announced, for example, the shutdowns in Uentrop, that will happen in January and February. So the synergies will definitely ramp across 2024. But I would say starting more in the second quarter, into the second quarter and through the end of the year.

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

A

Yeah, Kevin, in the third quarter, synergies were around $30 million in total, which was incrementally up about $10 million, $11 million off of Q2.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Got it. Thank you so much.

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

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Morning, Lori. Lori, in your prepared remarks, you guys talked about maximizing the make versus buy flexibility. I mean to me, the legacy sort of Celanese portfolio, you're pretty much optimized that side of things. So is it fair to assume that a lot of this sort of optimization work will be on the EM side of it? So that's part one of the question. And the second part is that it seems that right now there's a fair bit of idling or permanent shuttering going on. Could this also mean in the future some greenfield buildouts happening as well?

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

A

Yeah. Thanks for the question, Hassan. So what I would say is we're really focused on building in flexibility across all of our products. And so we're not just looking at make versus buy flexibility, but we're also looking at sourcing flexibility for raw material, regional flexibility, flexibility in contract commitment much as we did with tow, more multi-sourcing versus single sourcing, specifically for PA66. Yes, we want the flexibility to make versus buy, especially in this low demand period where we can often buy cheaper than we can make in Europe in particular because of higher energy cost and higher fixed costs, higher raws there. But I would say, this has been a consistent theme in Celanese and one we're just now applying to the heritage M&M portfolio. So I think, but I would also say we've also applied this in Acetyls with some of our contracting around raw materials and others. I mean, it is a way we continue to develop and deliver value uplift year-on-year even without a large amount of volume growth. So I think we expect that to continue. And I think as a result of that, you will continue to see some footprint optimization continuing over the next few years.

And I would say in terms of greenfields, I wouldn't anticipate anytime in the next many years a lot of greenfield build. I think what you'll continue to see us take advantage of the footprint we have and the opportunity to do no and low cost debottlenecks around the world much like the Clear Lake expansion where we're basically doubling the size of our unit for $400 million. So we think we have a lot of opportunity already on the ground to significantly expand our footprint without major investment.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Very fair. And just switching gears a little bit. Look, I completely sort of understand that visibility is extremely low right now. But just thinking beyond sort of the near-term, I mean with some sort of historical context as well. I mean, this destock has been unprecedented, both in terms of absolute volume declines as well as the ongoing duration of it. So just as you sort of sit there and look at the legacy Celanese portfolio as well as the history of living through these destocks with the acquired businesses, I mean, what could a potential eventual restock look like?

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

A

Yeah, look, at some point, I think there will be some restocking. When that happens, I would say highly uncertain. Right now, we're just happy to see people starting to return to normal order patterns in some polymers in particular, I think acetyls we're seeing more. I think, I would think about restocking as being a few percent. But again, I think that could be spread across a pretty significant period as I think people will be nervous to rapidly restock after what we've been through the last year.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Very helpful, Lori. Thank you so much.

Operator: Thank you. Next question is coming from Aleksey Yefremov from KeyBanc Capital Markets. Your line is now live.

Aleksey Yefremov
Analyst, KeyBanc Capital Markets, Inc.

Q

Thanks and good morning, everyone. I wanted to return to the M&M synergies in your 2024 bridge. The $150 million improvement, does it depend on volume improvement or demand improvement or is it independent of it?

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

A

So the $150 million what I would say is, look, initially I would say there was some volume improvement in that because some of the synergies are volume related. I think that's why you see us continuing to accelerate some of our manufacturing footprint work to better align current demand with our supply. And we will get synergies from there. So I would say we are fully committed to delivering well over the $150 million this year. The blend maybe slightly different than we had set out, say, a year ago at the time of the deal. But we think we have sufficient activities underway to deliver that.

Aleksey Yefremov
Analyst, KeyBanc Capital Markets, Inc.

Q

Thanks, Lori. And then staying with EM, you just announced shutdown of some assets. Have you seen the industry and your peers either idle or announce permanent shutdowns in any significant polymer chains?

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

A

Yeah. I think if we look at the industry probably specifically PA66 is where we've seen the most activity. We have seen some additional capacity being built out in Asia, particularly in China, for nylon polymer, which has increased market length in a period of lower demand. And, therefore, we've had some increased competition, depressed pricing. You've seen all those impacts. I think what you see though is much like our shutdown, we start to see other industry participants take action. So we've seen a nylon intermediate producer announced the shutdown of one of their largest assets here in the last month, which represents about 10% of the intermediate production. So I think you see the intermediate using this as an opportunity to take out some of the legacy higher cost assets in different parts of the world that have become quite high cost and work towards rebalancing. Again, when demand returns, I think we'll be in a much better position. But I do think you've seen a number of commercial actions going on across the industry to address it.

Aleksey Yefremov
Analyst, KeyBanc Capital Markets, Inc.

Q

Thanks, Lori.

Operator: Thank you. Next question is coming from Frank Mitsch from Fermium Research. Your line is now live.

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

Good morning. And let me also offer my congrats. Maybe if I could ask the destock question a little differently. You mentioned in the release the prepared marks that you're seeing it end here in the fourth quarter in the

Americas and Asia, though will continue in Europe. What gives you the confidence that we're going to be finally done in the Americas and Asia in such that 2024 we're going to see underlying demand growth in those regions?

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

A

Yeah, I think our confidence really comes from obviously conversations with our distributors and our direct customers as well, but also just the buying patterns we're seeing in the US. I mean we don't have a lot of visibility into future purchasing because what we're finding is when now especially in the Americas, when people want to buy, they want it now, which suggests to us that they are fully destocked because they don't have inventory in their chain that they can pull on. And I think in the US at least, we're starting to see some recovery, especially in those areas that have been weak, like consumer durables and electronics to maybe more normal demand patterns. So I think it's the customer buying patterns that I would trigger off of to say we feel pretty confident that we're at the end of destocking in the US. I would say less so in China. China I would describe as consumer demand in China for China is come back to, I would say, near normal levels. But obviously China export volumes are still very weak, which is a significant portion of the China demand. And then in Europe, I just say outside of auto, we really just don't see any improvement in Europe as I think consumer confidence remains very low in light of the war in the Ukraine and higher energy prices and higher inflation. We're just not seeing that behavior start to pick up in Europe yet.

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

Got you. That's very helpful. And then look at, the early look at 2024 suggests that there's a bunch of one-time cost actions that you took in 2023 that will not be repeated. So that should set up an easier comp. I'm just curious if you could kind of quantify or provide an order of magnitude of that and perhaps if plant turnarounds also play a role in some expectations for 2024 to be better than 2023, any any color there would be very helpful.

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

A

Yeah, I think, we had called out a couple quarters ago $60 million to $80 million of one-time actions that we were taking this year to really offset some of the softness we were seeing still in the second quarter. And we're achieving those across third quarter and fourth quarter. What I would say is those are really related to actions we've taken to idle lines, to cut cost out of facilities that aren't running full. If demand does not pick up, obviously we will continue to realize those benefits next year as well. If demand picks up, we will be more than happy to spend that money again in order to capture the margin that will come from the increased demand. So I don't see that as a big factor either way in our bridge from 2023 to 2024, because we'll either get it in earnings or we'll continue to see it as cost savings.

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

A

Yeah, Frank and I would say our focus is really on now actioning other things that are going to be more permanent in nature given some of the things we called out in the prepared comments. So we can make kind of more sustainable cost reductions and really the lower the overall fixed cost base of the company. And that then gives us an ability to withstand lower demand environment in the future and get much greater leverage on the fixed costs that we have.

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

Great. Great. Thanks so much.

Operator: Thank you. Next question is coming from Arun Viswanathan from RBC Capital Markets. Your line is now live.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Great. Thanks for taking my questions. Congrats, to everyone on the new roles as well. So I'm just looking at the bridge for 2024, and again, obviously [ph] a number of (34:32) questions been asked here. But if we think about Q3 EBITDA around $625 million and Q4 looking a little bit similar from your segment commentary make up you're exiting the year at maybe like a $2.5 billion run rate, you have maybe $100 million coming from the AC uplift and then $150 million from incremental synergies and then maybe a couple other items including the lack of an inventory hit. So that puts us at maybe$ 2.8 billion, or between $2.8 billion and $3 billion. Are we thinking about that correctly as far as EBITDA goes? And is volume the main driver that would push you above that range?

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

A

Yeah. We've called out what those factors are. I would say the big unknown at this point remains demand and pricing, particularly raw material pricing, which as we've seen this year can cause quite a lot of volatility. Hopefully, we'll be able to give a better guidance next quarter.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Okay. I appreciate that. And maybe I can just ask one on the balance sheet. So obviously a lot of progress there as well as restructuring the debt profile and redomiciling. Do you expect any other further opportunities there? And I guess could you just reiterate what your target leverage level is, maybe as you exit 2024?

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

A

Yeah, Arun. I mean, our focus right now is continue to accelerate cash generation and aggressively repay debt. We have obviously moved the maturities out since we last talked a quarter ago. But certainly now our focus is on bringing down overall net debt. We're going to be focused on repatriating cash and using that cash to reduce debt. And then with the cash generation, we should next year, between repatriation and cash gen, we should be able to reduce debt by almost $2 billion, net debt reduction, certainly well north of $1 billion. So I think from that standpoint, that's where the focus is today. We don't have a need really to adjust maturities or refinance. Certainly if markets change, we'll be opportunistic around that. But we're going to continue to focus on every single quarter marching down and bringing our leverage levels down with a target to get to 3 times as quickly as possible.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Great. Thanks.

Operator: Thank you. Next question is coming from Laurence Alexander from Jefferies. Your line is now live.

Laurence Alexander
Analyst, Jefferies LLC

Q

Good morning. Just when you think about kind of the improving the productivity in the acetyls through shrinking capacity [ph] and I guess also parts of VM, (37:39) if you think about the next three, four years, if there is no significant surge in demand, how much of your capacity could be optimized or rationalized through shifting through process improvements at your larger facilities and debottlenecking and upgrading the network? In other words, how far are we in this upgrading process and at what point would you need to start considering just sort of new greenfield projects?

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

A

Yeah, let me take them as two separate. I would say on acetyls, we have done a lot of work over many years now to really reduce the number of facilities that we have and really have larger, very efficient facilities strategically located regionally and our activities, including the big expansion at Clear Lake. But we've also had many, many small expansions in many of our downstream derivatives to basically keep it at the same or greater volumes and certainly much higher margins as a result. I would say we've also done that work in the heritage EM portfolio over the last call it 10 years as we adopted the new models and the project pipeline models. And you've seen a lot of those actions in the announcements we've made over the last 10 years. I think now for us, that's now taking the M&M portfolio and applying that same mindset to that. So I don't really have a number yet what that means in terms of capacity that we would take out. Again, I don't really see any time in the near-to-medium future any need for greenfield, because we have sufficient capacity, even with some of the strategic shutdowns in our existing network. And we have a team that's exceptionally good at finding low and no cost debottlenecks to our existing assets to add very efficiently and inexpensively additional capacity.

Laurence Alexander
Analyst, Jefferies LLC

Q

Thank you.

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

Salvator Tiano
Analyst, BofA Securities, Inc.

Q

Yes, thank you. Firstly, I want to ask a little bit, as you said, the shutdowns in Engineered Materials are maybe part of the $150 million synergies. So I'm just wondering, where do these actions in your original plans when you acquired the DuPont assets or were they more just in response to recent market conditions? And I guess if the latter why wouldn't the synergy target increase given that these are incremental actions?

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

A

Yeah, great question. Look, we knew at the time of the acquisition or we believed at the time of the acquisition that DuPont had more than sufficient capacity to meet normal demand conditions and requirements. And we assumed that some would be more efficient or less efficient than other. We just didn't know which assets those would be. So we've needed this time we've had since the acquisition to really look at how all of these plants are operating, what their cost structures look like, where the most opportunities are to really fine tune our footprint to build in the most flexibility, the more synergies, the lowest cost footprint, like said, much as we've done with Celanese over the last 10 years. So the actions you're seeing us taking now is really addressing that overcapacity now that we've been able to identify where that is. Some of the temporary shutdowns and line shutdowns and things we're taking are more in response to the near-term demand environment leaving us flexibility for the future.

But the things like Uentrop and Argentina and those that we've announced that they are more permanent in nature.

Salvator Tiano
Analyst, BofA Securities, Inc.

Q

Okay, perfect. And [ph] I want to (41:41) ask a little bit about your Q4 guidance and assumptions. I think there's still a lot of questions regarding what's the demand structure and destock, destocking, et cetera. But I think the, what makes I guess your outlook will be different. But most of the companies that have reported so far is that you made the comment, if I understood correctly, you expect a more muted destocking in Q4 than normal, whereas I would say the vast majority of your competitors expect the same, if not a more intense destocking quarter. What, why do we differ versus, I guess, most of the other chemical companies here?

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

A

Yeah. I mean, I can't really comment on what anybody else believes is going to happen. As I called out earlier, we base our views on what we're hearing from our customers, what we're hearing from our distributors, big customer order patterns that we're seeing and our experience with those order patterns. Certainly it helps that half of our volume in Engineered Material is going into automotive, and we expect automotive to be quite solid across Q3 to Q4. So we're really just dealing with the other portions of our demand when we're looking at what is the impact for the fourth quarter. So again, I can't really say why we'd be different, but certainly our share of auto may be one of those impacts.

Salvator Tiano
Analyst, BofA Securities, Inc.

Q

Perfect. Thank you very much.

Operator: Thank you. Next question today is coming from Andrew Keches from Barclays. Your line is now live.

Andrew Keches
Analyst, Barclays Capital, Inc.

Q

Yeah, thanks. Just to clarify the comment earlier on the debt repayment. So it sounds like, and you said cash flow will be used to handle the maturities now that you've reprofiled, but that excess cash you're running, can you just remind us where your operating needs are? And can you get all the way down there in 2024?

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

A

Yeah. Thanks, Andrew. Cash balance is a little north of $1.3 billion right now. And we'll be repatriating that cash now in the coming months. And then once we get integrated on one system, which we expect to happen in the early part of next year, then we'll be able to start moving that cash balance down to where we think we can, minimum needs would be right around $500 million. So we definitely are confident that we'll be able to get to that $500 million level during 2024.

Andrew Keches
Analyst, Barclays Capital, Inc.

Q

Okay, great. And then I just didn't catch the answer on the leverage metric. I know you said 3 times in the past. Are you putting a horizon or a timeline on that at this point?

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

A

No. I mean, look, we had originally targeted the end of 2024, and we're going to do everything we can to get close to that. Last quarter, we said it may bleed into the early part of 2025. A lot just depends upon what happens with our cost reduction plans, which is another reason why we continue to take aggressive action on getting controllable earnings improvement from cost reduction and where the macro and the demand plans that we have. The other things the teams are doing largely in Engineered Materials is really working the revenue synergy side of things. And the revenue synergy side, bringing M&M into our project pipeline model will start to yield opportunities and then close wins as we get further into 2024. So the pace and speed at which we're able to execute on those plans will certainly help us accelerate that deleveraging plan.

Andrew Keches
Analyst, Barclays Capital, Inc.

Q

That's great. Thank you.

Operator: Thank you. Next question is coming from Patrick Cunningham from Citi. Your line is now live.

Patrick Cunningham
Analyst, Citigroup Global Markets, Inc.

Q

Hi. Good morning. Thanks for taking my question. How are you thinking about potential portfolio actions? Let's say if demand does not get better from here. Is there anything that maybe stands out as separable or where you can structure a similar deal as the food ingredients JV?

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

A

Yeah, I think as we've called out in past calls, we are going to continue to be opportunistic and disciplined in our approach to divestment. We continue to look at a number of assets from both the heritage Celanese as well as the M&M portfolio as possible divestiture target. But we really need to understand what the future potential of those assets are and what the value to us is and then identify other parties that will value them more than we value them. So I would say we continue to look for opportunities, but we will be selective about what we do so it doesn't impact long-term growth as well as making sure we get fair value for it.

Patrick Cunningham
Analyst, Citigroup Global Markets, Inc.

Q

Got it. And then just on the [ph] ECO-B brand products (46:33) containing recycled CO_2, what sort of relative premiums do you expect to achieve? And would you be fulfilling incremental demand there? Or is that more of just optionality with the rest of the portfolio?

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

A

Look, I think you've said it best in terms of optionality. We actually started that project just on credits and it was justified based just on additional methanol for use in Clear Lake. And really the cost advantage of make versus buy for methanol on an average basis. So that was the justification for the project. Since the time we started the project, obviously markets have continued to develop for more sustainable products for lower carbon footprint products. And we do believe for certain that there will be a premium that will be available for more sustainable products. I would think not so much, I don't anticipate we will be in the biomethanol market. Our intent is to take that methanol and further convert it into lower carbon downstream derivatives. So think lower carbon, acetic acid, lower carbon VAM, lower carbon VAE, lower carbon POM and other polymers. And that's really where we think the advantage is as end users will see more value in being able to have low carbon. So think of it simply as being able to through this project put CO2 in the paint on your wall that would otherwise be vented to the atmosphere. I mean, that's where we see the premium coming, from people who want to have that impact on their environmental footprint.

Patrick Cunningham
Analyst, Citigroup Global Markets, Inc.

Q

Great. Very helpful.

Operator: Thank you. Next question is coming from Jaideep Pandya from On Field Research. Your line is now live.

Jaideep Pandya
Analyst, On Field Investment Research LLP

Q

Thanks. The first question is really on the nylon chain. There is a lot of upstream capacity in monomers and polymers coming in Asia. So could you just tell us like maybe on a fundamental basis, how do you add value in your nylon sort of portfolio? And in the long run, why would you actually want to be more in the polymerization? Why wouldn't you want to be more downstream, asset light, use this capacity that is coming in Asia and create more product differentiation? That's my first question. And then on the Acetyl side, there is capacity again coming in China, some of the plants have been late this year in ramping into next year. So how do you see demand, supply, balance in [ph] Acetyl and VAM (49:15) next year? Thanks a lot.

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

A

Thanks for the question. As I said earlier, we do see the polymerization capacity and some intermediate capacity coming on stream in China. We have seen some other industry shutdowns going on, but we remain really excited about PA66. Again, a lot of what's coming on is polymer. A lot of the value is adding in compounding. A lot of our PA66 goes into highly differentiated products where we are the sole supplier. And we see a lot of future potential for PA66 in EVs, for example, uniquely to EVs. Lately we've had applications for battery cell frames and inplates, high voltage connector brackets and mounts for electric motors. So we see the EVs continuing to extend to the extent that we see some moderation in EV production, we think that will be in favor of hybrids and hybrids have even more PA66 content. So that's only a good thing for us. And then if you look at the next five years, we also see electricity demand more than doubling, partly driven by EVs, but also driven by the electrification of everything. And there will be a strong pull on PA66 for that in building out electrical infrastructure.

But again, these don't tend to be standard grade materials. These tend to be highly differentiated. They need fire retardants, they need all sorts of different things. And that's where we really see the value being added is in the differentiation achieved through compounding. And look, we always want the flexibility to make versus buy because we do see these markets swing because of outages and other things going on. So this is really about building more optionality into this chain in a way that M&M didn't have because they got a very cumbersome take or pay. They had a lot of overcapacity. They had single sourcing. We have been systematically resolving these issues so that we will have a flexible and highly optional PA66 chain where we think we can achieve significant value uplift.

Brandon Ayache
Vice President of Investor Relations, Celanese Corp.

A

Kevin, We'll take the next question as our last one, please.

Operator: Certainly. Our final question today is coming from John Roberts from Mizuho. Your line is now live.

John Roberts
Analyst, Mizuho Americas

Q

Thanks and congrats to all as well. After the startup of Clear Lake VAM in early 2024, do you have the option of permanently closing the VAM unit in Frankfurt or do you need to maintain some optionality and flexibility by only doing temporary closures? And excluding any one-time upfront cost, is there a significant cost difference between a permanent closure in operating Frankfurt in the stop and start mode?

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

A

Yeah, John, we're building a new acetic acid plant in Clear Lake, not a VAM unit. So we did the expansion in Clear Lake in VAM a number of years ago. So we feel really good about our current network in VAM.

John Roberts
Analyst, Mizuho Americas

Q

And do you think the prolonged [indiscernible] (52:20) divestment process contributed to some of the weakness in the Engineered Materials market?

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

A

Yeah, I, hard to say, but I don't, we haven't really seen that that's been an impact at all in terms of impacting the POM market.

John Roberts
Analyst, Mizuho Americas

Q

Thank you.

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

Brandon Ayache
Vice President of Investor Relations, Celanese Corp.

Thank you, Kevin. We'd like to thank everyone for listening in today. As always, we are around for any follow-up questions that you have. Kevin, please go ahead and close out the call.

Operator: Thank you. 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.