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Celanese Corp. (CE)

Q1 2024 Earnings Call

CORPORATE PARTICIPANTS

Bill Cunningham
Vice President of Investor Relations, Celanese Corp.

Chuck B. Kyrish
Chief Financial Officer & Senior Vice President, Celanese Corp.

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

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

OTHER PARTICIPANTS

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

Michael Leithead
Analyst, Barclays Capital Inc.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Michael Sison
Analyst, Wells Fargo Securities LLC

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

James Cannon
Analyst, UBS Securities LLC

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Aleksey Yefremov
Analyst, KeyBanc Capital Markets, Inc.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

John McNulty
Analyst, BMO Capital Markets Corp.

John Roberts
Analyst, Mizuho Securities USA LLC

Daniel Rizzo
Analyst, Jefferies LLC

Eric W. Zheng
Analyst, Citigroup Global Markets, Inc. (Broker)

Salvator Tiano
Analyst, BofA Securities, Inc.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Celanese First Quarter 2024 Earnings Call and Webcast. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Bill Cunningham, Vice President of Investor Relations. Thank you. You may begin.

Bill Cunningham

Vice President of Investor Relations, Celanese Corp.

Thanks, Diego. Welcome to the Celanese Corporation's first quarter 2024 earnings conference call. My name is Bill Cunningham, Vice President of Investor Relations. With me today are Lori Ryerkerk, Chairman of the Board and Chief Executive Officer; Scott Richardson, Chief Operating Officer; and Chuck Kyrish, Chief Financial Officer.

Celanese distributed its first 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 and prepared comments. Form 8-K reports containing all of these materials have also been submitted to the SEC.

With that, Diego, let's please go ahead and open it up for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we'll conduct the question and answer session. [Operator Instructions] And our first question comes from Ghansham Panjabi with Baird. Please state your question.

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

Hey, guys. Good morning. I guess, Lori, just first off, just given all the various moving parts globally and so on and so forth, maybe you can just share with us your updated view on just the macroeconomic construct globally, vis-à-vis just the US, Europe and China. I think that some of the previous headwinds, the destocking and just weaker growth, et cetera. Thanks.

Chuck B. Kyrish
Chief Financial Officer & Senior Vice President, Celanese Corp. A

Good morning, Ghansham. Thanks.

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

Morning.

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

Look, on the macro, what I would say is, look, it's generally unchanged from what we've been saying in the past few quarters. I would say we haven't seen any big positives or negatives this quarter from what we had expected. We called out last quarter, we really thought we were at the end of destocking. I think, the movement this year, what we're seeing in the order book, the stability of the order book is – has proven that to be true.

In China, specifically, I'd say, as we said last quarter, China for China is pretty steady. It's okay. It's the exports that are lagging to primarily Europe, but also other regions of the world. And we're not seeing some of the pull-through of material because of those – that lag in exports. The US remain pretty steady, I would say, across all the sectors. And Europe, although we did see a little of improvement since the middle of last year, I would still say it remains lackluster and below normal levels in Europe. I would also say as we move forward, we're really not seeing some of the seasonal uplift we would have expected at the end of the first quarter and into second quarter.

Overall, I'd say, all the sectors are pretty steady. I think the notable sector in terms of poor demand continues to be construction, paints and coatings, et cetera. And, although I do think there we would expect as we move into the second half that we maybe start to see some recovery there, I think PPG called out this quarter that they've had 11 quarters of flat to down and they're in second quarter expecting to see low-single digit growth and some further growth in second half. So, we hope that's true. If so, we should see a little bit of recovery there as we moved into the second half.

I mean, I would characterize it, much like we did even a year ago, which is we still think people are still spending. It's they're still spending on experiences, on travel. Airlines are having a good time, but they're not spending on goods yet. It will normalize at some point, but we're not seeing that normalization yet.

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

Q

That's comprehensive, Lori. Thank you for that. And just in terms of the related question as to what would actually kick-start demand from your perspective. Would it just be as simple as interest rates being reduced on a global basis? And then, related to that, you'd call out new capacity over the last six months, specific to the comments on Chinese acetic acid, et cetera. Is that capacity more disruptive than you thought, or is it just that demand was weaker than you thought initially?

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

A

Yeah. Look, I think in terms of kick-starting, it's really just, when do people get confident in the environment again, when do we see a shift back to normalized spending on durable goods. Clearly, we could use some China or – sorry, some Europe recovery would be really helpful. But it's nothing more than that. Like I said consumers are spending. We just need them to start spending on durable goods again. And again I do think that will happen in time.

I think your question on China, what I would say is, I would say that new capacity, has it been more disruptive than we thought? I would say yes, because the demand for that which was being planned to go in has not developed, so there were some downstream consumers that were being built at the same time. They've been delayed. Obviously, they've been delayed because the demand for those products are delayed. So, it is ultimately a demand answer.

The good news there is, though, we are seeing some acetic acid flowing into new applications like caprolactam and others. So again, I think it's a temporary phenomena. If you look at what's been added, even what's to come, this is not such a large number that I think we're back where we were 20 years ago. I think, we – it's just a question of, demand normalizing and catching up with the supply we have now.

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

Q

Perfect. Thank you so much.

Operator: Thank you. And our next question comes from Mike Leithead with Barclays. Please state your question.

Michael Leithead
Analyst, Barclays Capital Inc.

Q

Great. Thank you. Good morning, team. I wanted to dovetail and ask about full year guidance. Lori, it seems like from your remarks just now, the macro conditions are maybe still a bit uninspiring, so depressed from sort of the $5 [indiscernible] (00:07:27) in first half, so about $6.50 at the midpoint in second half. Is that all controllable Celanese actions or do you need the world to get a bit better from here to hit those numbers?

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

A

Thanks, Mike. I would characterize it as we will hit those numbers with just controllable actions. And if you think about it, M&M synergies are heavily loaded and compounding as we go through the year. So now that we have full visibility into the data, everything due to our S/4HANA upgrade for the M&M asset and some – and also the results of like the Uentrop shutdown and some of the other footprint actions we took last year, we really start to see those synergies grow and compound as we move through the year. So that's the major impact.

The Clear Lake expansion, while we did have a little bit of help in the first quarter from that, that will also continue to grow as we move through the year. Debt service is another one which is more heavily loaded into the second half of the year. And I would also say, our turnaround cost in the first half is about double what it's going to be in the second half. So we get some tailwind there as well.

So I would say everything we know now says we're well in that range just based on what we know. We've not really built in any recovery other than the end of destocking, as we said before. So I think, we – I feel very – still feel very confident that we will be within that range for full year.

Michael Leithead
Analyst, Barclays Capital Inc.

Q

Great. That's helpful. And just as a follow-up question on Engineered Materials, I think, in the prepared remarks, you talked about continued pricing pressure. I was hoping you could unpack that somewhat. Just where exactly are you seeing the most pricing pressure today and was that a nylon-specific comment or more broad-based across the portfolio?

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

A

I would talk – think about that, Mike, in terms of it's really continued from what we saw in the fourth quarter of last year, really no significant changes there. Raws have come down as well. And we've been really mismatched here in Engineered Materials for more than a year on, where kind of pricing for standard grade materials was versus the cost structure. And as you saw with some of the margin expansion we alluded to in the prepared comments, we're definitely catching up there, but we're not seeing a lot of ability to move pricing here in those spaces. So, the team is focused, however, really around continuing to move the pipeline and work on upgrade of mix as we work our way through this year and then into 2025 to address that.

Michael Leithead
Analyst, Barclays Capital Inc.

Q

Thank you.

Operator: Thank you. And our next question comes from Jeff Zekauskas with JPMorgan. Please state your question.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Thanks very much. When you look at your Engineered Materials volumes year-on-year, they're down 12%. Maybe global auto production is down 1%. And when you look at the demand for the coatings companies, maybe it's down low-single digits. Why does Engineered Materials have a larger volume decrement?

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

A

Yeah, Jeff, I would really point to some of the real standard spaces we participated in last year really to start moving some of the inventory levels that we had as we finished 2022. And that's really more of the driver than anything else. We also saw a little more seasonality in the medical sector here this year versus what we saw last year. So those are the main drivers.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Okay. And then, sort of the reverse is the Acetyl Chain where, volumes are up year on year, 11%. And I take it that what you want to do is run your Clear Lake expansion more or less [indiscernible] (00:11:47), is that part of the reason why volumes are up? And, do you expect, as a base case for your volumes to be up 10% or more this year? And maybe could you comment on filter tow? In that we saw really strong numbers out of Eastman, but your Acetyl Chain doesn't seem to be growing its adjusted EBIT very much.

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

A

Jeff, maybe let me just make a few comments and then I'll let Scott add more detail. I mean, what I would say is we don't have a strategy to run acetyl necessarily at higher volume. The justification for the Clear Lake expansion was really in productivity, right? Energy catalyst shipping by shipping more out of the US, less out of Asia. So, that's not the strategy.

Now, having said that, we will run all of our assets where it makes sense from a demand standpoint and from an economic standpoint. So I wouldn't say that that's the biggest factor there. What I'd say on tow is, we did see a significant uplift in tow this year. That uplift is continuing into this year. And if you look at our first quarter volumes, I think some people have called out more seasonality. We really saw first quarter, within the typical seasonality for tow, which is minor, we're talking 1% or 2%. So, I think, we're seeing that – I would suggest to you we're seeing enjoying the same markets for tow that our competitors are. But of course, it is now in our acetyl chain and we have more decision points that we can make around it to really maximize the value of the chain.

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

A

Yeah, let me just add. I think as Lori said on tow, 2024, very similar to 2023, not a continued lift, very stable there. When you look on a year-over-year basis, Q1-to-Q1, Jeff, the main driver volumetrically is really just where the industry is. If you recall where we were in the first quarter of last year, we were coming off very high energy prices in Europe in the fourth quarter of 2022. European demand was relatively soft. In addition, we were still see seeing China dealing with COVID in the early part of the year, which impacted volumes. So that's really the main driver on a quarter-over-quarter basis here in the acetyl business.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Thanks so much.

Operator: Thank you. And our next question comes from Michael Sison with Wells Fargo. Please state your question.

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

Good morning. Nice start to the year. For 2Q, well, EM volumes, is there I guess it still – looks like it's going to be down year-over-year. But third and fourth quarter for EM, do you need volumes to improve year-over-year to sort of hit the outlook and how much, if at all?

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

A

I think, as we work into Q2, Mike, volumes will move up a little over where they were in Q1. On a year-over-year basis, relatively flattish. Any differences are more mix related. As I talked about earlier with kind of where we were on moving nylon last year to really get our inventory levels down. And, we will see an expectation that volumes move up really driven by two things in the second half. One, just, as destocking has ended and that kind of normal flow through, not a real significant restocking or anything, but just slightly higher levels of volume coming from that in the second half. But more importantly, really, a commercialization of our pipeline. And, we went really to an integrated commercial model in Engineered Materials in April of last year. The average length of time projects in our pipeline takes is about 18 months. So we expect kind of the efforts the commercial team has been putting in now for the last year really start to take hold and see the value coming towards the end of this year from that.

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

And then more of a little bit of a longer term question. Sales in EM running about $6 billion, maybe a little bit better than that. But, longer term, when demand does recover, China goods, et cetera, is this a $7 billion business and what would the operating leverage on again volume come back look like on at growth?

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

A

Yeah. Look, I you know, I don't know the exact number where this could end up. I mean, the way I would characterize it is we expect over the next year or so that EM basically starts contributing at the same level as acetyls from a margin standpoint. And then after that, while acetyls will continue to grow at GDP, GDP plus a little bit, we would expect margin growth for EM to still be in that roughly 10% range that we've had in the past. So, I would think about it that way, so ultimately there's no like in number, the number continues to grow, but that's the growth rate we expect.

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

Thank you.

Operator: Our next question comes from Vincent Andrews with Morgan Stanley. Please state your question.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Thank you. Starting to read a bit that some of the trade complexities in the Red Sea area are starting to resolve themselves. And so I guess, one, would you agree with that? And two, if the case and if the shipping channels become a little less challenged, how would that impact your businesses? Good, bad or indifferent?

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

A

Hey, Vincent. Thank you. Look, I would say we've been pretty indifferent so far. What we found is, shipping channels move stuff when there can be a temporary disruption pretty quickly, renormalize in a new way. So I – we haven't really seen an impact so far. And similarly, I wouldn't expect a big impact if we see some of the issues resolved. I think, the market is pretty quick to correct itself.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Okay. And then if I could just ask a follow-up on the nylon business. In the prepared remarks, there was a comment about higher variable costs for higher velocity products. That's quite a mouthful. Could you just unpack that for me?

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

A

Yeah, Vincent, it's really related more to the POM business and it's really the flow through of methanol since we weren't producing as much of our own methanol in the first quarter, it's the flow through of that higher cost product into POM that gets sold here in the second quarter. That's really the main impact.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thanks very much.

Operator: And our next question comes from Josh Spector with UBS. Please state your question.

James Cannon
Analyst, UBS Securities LLC

Q

Hey, guys. This is James Cannon on for Josh. You in your prepared remarks talked about the price cost benefit in the first half. Are you expecting much flow through into the second half or does lower pricing kind of erode that?

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

A

I wouldn't expect lower pricing to erode that, James. A lot will depend upon what happens with the raw material complex. We kind of know for the first half what the flow through of that's going to be. So a lot just depends upon how raws develop in the second half to see how much of that continues or not.

James Cannon
Analyst, UBS Securities LLC

Q

Okay. So just as a follow-up to that. I think if I look back a quarter or two, you gave in your prepared remarks comments on price cost being potentially the highest part of the year-over-year bridge. Is that still possible or just given where we stand, is that maybe a little bit more in question?

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

A

It's definitely still possible based on what we're seeing for the first half. And then again, we'll just have to see how raws develop in the middle part of the year to see what then gets expensed towards the back half of the year.

James Cannon
Analyst, UBS Securities LLC

Q

Got it. Thank you.

Operator: Our next question comes from Kevin McCarthy with Vertical Research Partners. Please state your question.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Yes. Thank you. And good morning, everyone. In your prepared remarks, you talked about two key synergy drivers for Engineered Materials, namely the shutdown of Nylon 66 in Germany and the SAP ramp. Can you address those? And maybe translate it to how much earnings uplift you might be anticipating in the second quarter through the fourth quarter? It didn't sound like there was much in the first quarter from those items.

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

A

Yeah. Look, I would characterize it as, for the footprint actions we've taken and there's been a number of smaller actions that we've taken as well, not including Mechelen, which we've just announced, because that will really show up in next year's number. We expect about a $50 million synergy lift on a full year basis from those. And you're right, I mean, we're just now starting to see the benefit of Uentrop, which is the biggest piece of that. So, there's that.

And then, I would say, on the SAP, the direct impact, I mean, obviously we get rid of the TSA, but we've had at our own people. So, that's a smaller number than you might think although significant. The real benefit is that we now have one view of the data and we have everything in one system. And it is really helping us with our planning and scheduling and forecasting of demand in Engineered Materials. And so, again, all of that kind of gets rolled into our synergy number. And that number for the full year is $150 million lift from last year.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Okay. Thank you for that. And then secondly, for Chuck, perhaps, can you talk about how your free cash flow outlook has evolved? And specifically, I'm interested in any guidance you might be able to provide on cash taxes or the expectation there for in 2024. It sounded like maybe there's some timing issues around taxes we should be thinking about.

Chuck B. Kyrish
Chief Financial Officer & Senior Vice President, Celanese Corp.

A

Yeah. Good question, Kevin. Yeah. Let me walk through how we're thinking about 2024 cash flow. Yeah, I would say we do expect the same cadence as we saw last year where our cash flow will be second half-weighted. Teams are working hard to generate a total result for the year that's roughly consistent with last year. It'll be subject to a few timing elements, of course.

Outside of EBITDA growth, I would point to these drivers. And we are working really hard to produce a working capital benefit to free cash flow this year and that would be driven by further inventory reductions. Right now, we've assumed $100 million working capital benefit for the year and it'll depend on a few factors. I would say working capital though, it'll be back end-loaded. It should be a use in the first half, in particular as we're preparing for some of these footprint actions. And then a source in the second half. Either way, I would point out, that's a significant headwind to free cash flow versus 2023 as we had a tremendous year in working capital benefit to free cash flow last year, that was really driven by about $400 million positive cash from reducing our inventory. So I just wanted to point that out.

You're right, cash tax. It is an unusual year for us for cash taxes. In total this year, they'll be about $300 million. That's higher year-over-year by $75 million. One unusual item that we have that'll hit us in the second quarter, we're going to pay almost all of a roughly $90 million transfer tax that's related to the previously announced debt redomiciliation projects that are currently in execution phase and are key to our cash repatriation plans.

We will pay this onetime tax in the second quarter, but we would expect to be able to recoup that tax in future years through the associated foreign tax credits. It is a big payment here in the first half. So I did want to call that out. I mean, if you think about cash tax of the $300 million, three quarters of that will be in the first half.

I would say cash cost, the synergies should be $100 million to $150 million this year. That's higher year-over-year by $25 million to $75 million or so. It'll also just kind of depend on what that final number ends up being and the timing of some of those actions, positive offsets to free cash flow this year, year-over-year, lower cash interest by about $50 million, and a benefit of $100 million to $150 million in lower CapEx versus last year. So hope that helps in terms of some of the drivers in our thinking and especially the timing associated with those.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Very much so. Thank you, Chuck.

Operator: Thank you. And our next question comes from Aleksey Yefremov with KeyBanc Capital Markets. Please state your question.

Aleksey Yefremov
Analyst, KeyBanc Capital Markets, Inc.

Q

Thanks. Good morning, everyone. Now that Clear Lake is up and running, is rationalization of your acetyls acids firmly off the table or is that an option to be considered because there's tough supply demand environment?

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

A

Hi, Aleksey. Thank you. I would say we're pretty satisfied with where we are with our footprint for acetyls. I mean, everything we have is specifically designed to serve a certain region and set of customers. And we like having the optionality and flexibility that we have. We've also continued to build out our downstream. You saw the announcement about new VAE in China, some of the RDP debottlenecks we're doing, and that really is all about, how do we continue to build the foundational level of earnings in acetyl and really kind of stabilize our earnings from acetyl.

But if you look at, just specifically at acetic acid, for example, Clear Lake clearly, we believe the lowest cost, lowest carbon footprint, really important to meet our needs in the US and now into Europe. China really serves China again because of our technology there. We believe one of the lowest cost producers in China. And then Singapore meets the needs just for the rest of Asia, particularly India and some other areas and is still very competitive with other sources of supply into that region.

So, again, I would say, we're always looking at our footprint, what we need to add if there's opportunities to debottleneck, but also opportunities to rationalize. But right now, I would say our footprint is pretty fit for purpose.

Aleksey Yefremov
Analyst, KeyBanc Capital Markets, Inc.

Q

Thanks, Lori. And as a follow-up, it used to be fairly transparent to investors to see your outgrowth in Engineered Materials versus end markets. It's been harder to judge through the last few quarters. Are there any metrics such as wins, I don't know, your size of your pipeline that you can point us to, to kind of demonstrate that you keep outperforming your end markets or that outperformance will resume perhaps in future periods?

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

A

Look, I would say, the pipeline is our winning factor, if you will, for Engineered Materials and what has allowed us to outperform in our sector. I think that continues to be true, especially now that we're one year since we went into a common system for, both our heritage assets as well as our acquisition of M&M. And we do continue to look at it very closely. I will tell you, the number of projects being generated is consistent. More importantly, the value of the projects that are being generated is very strong. But maybe I'll ask Scott if he has any more details on that he wants to add.

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

A

Yeah. I mean, we gave a stat last quarter about the fact that we created about 20% more revenue opportunities per sales employee in the second half of last year compared to what we did in second half of 2022. And so that is, I think, a really good proof point to how things are moving. The only other thing I'd add is, we've been doing a lot of really cleaning up of this new kind of integrated business over the course of the last 18 months. And that will start to stabilize as we get the footprint actions in place and really get our inventories now kind of back in line with where they need to be. So I think it'll be a little more visible, Aleksey, as we get, into the end of this year and into the next year as to being able to see that outperformance versus the various end markets.

Aleksey Yefremov
Analyst, KeyBanc Capital Markets, Inc.

Q

Thank you.

Operator: And our next question comes from Arun Viswanathan with RBC Capital Markets. Please state your question.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Great. Thanks for taking my questions. I guess, first off, just curious about your comments around volume. It sounded like the activity in Q1 was seemingly getting slightly better and better in the earlier part of the quarter and then maybe it stalled out in March. And then are you seeing a similar pattern here of things maybe getting better in April? I mean, how would you kind of characterize Q2 thus far versus your comments and then what you saw in Q1? Thanks.

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

A

Yeah, look, I would say from a volume standpoint both for acetic acid and EM, it was very much as expected in Q1 throughout the quarter.

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

A

And then as we look to Q2, the order book is in line with the guide we've put together right now, Arun. I mean, we're through the month of April and we have good visibility here to May. So I think we feel comfortable with the comments we've put in the prepared comments.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Okay. Thanks for that. And then just a question about the second half and as you look into 2025, so looks like you'll be ending the year on a, say $6.60 rate for this – for EPS for the second half. If you were to annualize that, maybe you're, $13.25 or so. If you add some volume and maybe some deleveraging on top of that, it seems like you could get close to $14. So is that kind of how you're thinking about 2025? I know it's a ways off, but just maybe got some – wanted to get your initial thoughts. Thanks.

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

A

Yeah. You know, like we've had so much variability in the last few years, I hesitate to go much further out than a quarter these days. But look, I think if you look at the run rate in the second half, because it's built on controllable actions, not built on market, that's not an unreasonable place to start as you start thinking about 2025.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Thanks.

Operator: Our next question comes from David Begleiter with Deutsche Bank. Please state your question.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you. Thank you. Good morning. Lori, there was a competitor outage in acetyl starting I think late, late February. I believe it's still on allocation of VAM and acid. Or did you benefit and are you still benefiting from that competitor situation?

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

A

I would say, while there was some temporary run up in pricing, it was pretty small and fairly short lived. So I would not say we're seeing any benefit from it continuing and the benefit was pretty small during the quarter. And I think that just is reflective of really the lower demand that we've been seeing globally, that an outage of that magnitude really didn't move the market very much. And again, I think it's not as much a question of supply, but just demand is really still not back at normalized levels, particularly even in the Western Hemisphere.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Q

Understood. And just on M&M synergies, what were they in Q1? What will they be in Q2 and what should be the cadence in the back half of the year?

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

A

I don't have an exact number here in front of me. I mean, I would tell you Q1 is definitely the lightest and they continue to build and compound as we move through the year.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you.

Operator: Thank you. Our next question comes from John McNulty with BMO Capital Markets. Please state your question.

John McNulty
Analyst, BMO Capital Markets Corp.

Q

Yeah, thanks for taking my question. So I guess the first one is on raw materials. So I believe for EM, you were expecting as much as a $150 million benefit as kind of lower cost rolled through the system. It looks like you got you're going to have $20 million in the second quarter and it's comparable to what you saw maybe in the first. So is that still a reasonable outlook just based on where raws are right now that, you could see a $100 million, $110 million of benefit in the back half of the year or have things gotten better or worse? I guess can you help us to think about that.

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

A

Yeah, John, as I said earlier, definitely in line to be in that range based upon what we're seeing for the first half. And again, a lot just depends upon what – how things move in the middle part of the year to see how our cost structure will develop as we get into the second half.

John McNulty
Analyst, BMO Capital Markets Corp.

Q

Okay. And then I guess the second question would just be in the acetyl chain business, obviously, there's some new capacity in the markets beyond just yours that are impacting the business. It looks like there's more capacity coming on next year potentially as well. So I guess if we don't see much of an improvement in the overall demand environment, are there other levers that you can pull in your acetyl chain business to drive incremental profitability or are we at a point now where it's really going to be about the market improving and developing from a demand perspective?

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

A

Yeah. So let me make a few comments on that, John. If we look at this year, there were two large world-scale capacities added in acetic acid in China. And again, the impact of those has been a bit more than we thought because some of the companion downstream consumers that were supposed to come on at the same time have been delayed due to just overall demand in the market.

Next year, there's really only one smaller unit coming on that we're aware of in acetic acid, some other capacity a little bit in VAM. It's not enough that it should have a major impact, but we're still not at the whim of the market. I mean, we still find opportunities to use both our global and our chain flexibility to really maximize our earnings in this market and try to maintain that level of foundational earnings. I'd say the other good opportunity which is developing for us is our ability now to provide sustainable products into the market based upon the CCU projects that we've put in at Clear Lake. Now that we have our ISCC certification for methanol as low carbon material, we're able to offer that to all of our customers in kind of whatever acetic acid product they desire, and we are seeing a lot of interest in that. We also have a sustainability advantage for VAE, which customers are interested in for kind of its low odor, low VOC emissions.

So I think there are some opportunities we have that are unique to us that others do not currently have at this period in time. And we see that demand starting to grow and hope that will become a more significant part of our portfolio.

John McNulty
Analyst, BMO Capital Markets Corp.
Q

Great. Thanks very much for the color.

Operator: Our next question comes from John Roberts with Mizuho. Please state your question.

John Roberts
Analyst, Mizuho Securities USA LLC
Q

Thank you. It sounded like the sequential change in EM earnings was nylon up sequentially and other plastics earnings down sequentially. Was the decline – the sequential decline in the other plastics due to the downturn or price pressure or what drove that?

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

I would focus on the turnaround costs, John. I mean, that was really the largest driver is really offsetting the nylon.

John Roberts
Analyst, Mizuho Securities USA LLC
Q

And then I wasn't thinking that medical was that seasonal. What's driving the seasonality in medical?

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

It's – honestly, John, it's kind of what we always see. In some years, it's more acute than others. And we saw it come down a little more than what we saw last year from Q4 into Q1. And it's really just the timing of how our customers build the inventory for the New Year. And it, Q4 ends up usually being one of our strongest quarters and Q1 tends to be weaker, which kind of goes counter to how everything else moves. But that's kind of been the historical seasonality really in most of our medical business.

John Roberts
Analyst, Mizuho Securities USA LLC
Q

Okay. Thank you.

Operator: Our next question comes from Laurence Alexander with Jefferies. Please state your question.

Daniel Rizzo
Analyst, Jefferies LLC
Q

Hi. This is Dan Rizzo on for Laurence. Thanks for getting me in. You talked a lot about the Clear Lake expansion. I was wondering if an expansion in Singapore or someplace like that would be necessary given the growth that's potentially there in India over the next, I don't know, a few years to decade?

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

Yeah, we don't see that on the horizon. It probably wouldn't – if there were more of an increase in demand, it probably wouldn't necessarily make sense to expand the Singapore plant. But for what we have right now and for that developing market in India, Singapore is a business and we have options to bring material into Singapore from other parts of the world should we see that demand increase.

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

Yeah. Dan, the only thing I'd add is on a downstream basis, the VAE expansion that we've just done is as much for growth in Southeast Asia and India as it is for China. Honestly, we have a – we already have a VAE plant in in Singapore. That plant was actually supplying some demand in China. We're now able to kind of shift that network really to service growing customers in our VAE demand such as paints and coatings, mortars and adhesives.

Daniel Rizzo
Analyst, Jefferies LLC
Q

Thanks. That's really helpful. And then with cost, we talked again a lot about price cost with raw materials. But I was just wondering what's happening with labor and potentially transportation costs, if they're kind of elevated and going higher and if that could have a kind of a negative impact towards the second half of the year?

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

Look, I think we've seen over the last several years, pressures on labor cost, as has everybody. But I would say, through productivity steps and others, that's managed, that's baked in. And I'm not seeing any significant pressure there for the second half of the year.

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

Yeah. And on transportation, I mean, this is a common theme we've seen now for a while. And, I think that has impacted product movements around the globe for the industry broadly. So really nothing is different now or in the second half than what we've been seeing here for a while.

Daniel Rizzo
Analyst, Jefferies LLC
Q

Thank you very much.

Operator: Thank you. And our next question comes from Patrick Cunningham with Citi. Please state your question.

Eric W. Zheng
Analyst, Citigroup Global Markets, Inc. (Broker)

Q

Hi. Good morning. This is Eric Zheng on for Patrick. On the incremental excess supply in China acetic acids, do you have an outlook on when the delayed downstream startups will be resolved? And once that is resolved, do you expect it to have a meaningful uplift in acetic acid pricing in China?

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

A

Yeah. Look, the projects that we were aware of I think are, a quarter or two delayed. I mean, the real question, of course, is that demand for those products has to be driven by more demand for exports, quite frankly. And so how long that takes to resolve is really tied to consumer spending, general view of the economy, people's confidence in buying goods again. So I would say while we do expect that capacity to be to start up, whether it will run full or whether it will just replace other capacity remains to be seen.

The other thing that I said earlier, which I'd emphasize again, is there are some new uses in China of acetic acid that should start taking some of those capacity like caprolactam. So, it's – I can't give you a number now, but I would say, I think we're still several quarters away from starting to see any significant movement in that.

Eric W. Zheng
Analyst, Citigroup Global Markets, Inc. (Broker)

Q

Okay. Got it. Thank you.

Operator: Thank you. Our next question comes from Salvator Tiano with Bank of America. Please state your question.

Salvator Tiano
Analyst, BofA Securities, Inc.

Q

Yes. Thank you very much. So firstly, I want to ask a little bit on Engineered Materials and specifically your autos exposure. As we're seeing more and more automakers delay their EV plants [ph] and stick with (00:41:48) ICE engines even just a few months ago. How does this change, I guess your plan and your potential margin uplift? And also, are you seeing any impacts for consumers trading down to lower priced models as well?

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

A

Well, let me try to answer the first part and then I'll let Scott take the second part. I would say, look, as long as consumers are buying vehicles, we're happy. EVs do have about a 10% higher content available to us than ICEs. But we still have a very large position in ICE vehicles. And to the extent people are converting to hybrids, hybrids are about 25%, 20% more content available to us than ICEs. So, while there are some shifts and shifts in which products, as long as people are buying vehicles, like I said, we're happy.

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

A

Yeah. And we have to continue to work our pipeline really to touch on all three areas, whether it's battery electric, hybrids or ICE, just because, each market is developing a little differently. I mean, in China now, over 20% of the market is EV. And so we still have to continue to focus EV there pretty heavily. So it is important that we kind of build that broadly speaking. We have not seen a significant change in terms of the types of vehicles and what our customers are buying and really an impact to our business at all. And in fact, I mean, if you look at things on a year-over-year basis, which is probably the right way to look at it, auto builds were up, I think around 2% or so globally. Our business, our volumes are up about 4% on a year-over-year basis into auto. So I think from that perspective specifically, we feel like the project pipeline model continues to deliver value for us.

Salvator Tiano
Analyst, BofA Securities, Inc.

Q

Great. Thank you. And I also want to ask to go back a little bit on the China acetyls capacity expansion. I assume some of these downstream projects that were supposed to absorb the acid demand are on the polyester chain, but at least from our estimates, are there a bunch of VAM and EVA projects as well? So certainly as they come online, they will absorb more of the acetic acid. But you do participate in these markets and you did have a comment in the prepared remarks that you have much higher variable margins, I believe, in the downstream projects. So as this capacity comes online on a net basis, would that actually be good for you or could it be a source of margin pressure because you may lose some margin there on your downstream business?

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

A

Look, I would simplify it and just say, any additional demand for acetic acid, no matter which end market it's into, is good for us. So again, because, we do sell a lot of acids to others as well.

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

A

Yeah. And I would just add, I think, when new capacity starts up, whether it's acetic acid, VAM, et cetera, it's going to come in and it's going to have a near-term impact. But, those things then even out over the subsequent quarters and our business is really about flexing our global network and that full value chain. And so one quarter we're going to make money one way, the next quarter we're going to make money a different way. And that really is the uniqueness of this kind of integrated value creation model that we have within the acetyl chain.

Salvator Tiano
Analyst, BofA Securities, Inc.

Q

Great. Thank you very much.

Bill Cunningham
Vice President of Investor Relations, Celanese Corp.

A

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

Operator: Thank you. And that final question comes from Hassan Ahmed with Alembic Global. Please state your question.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Morning, Lori and Scott. Again, wanted to revisit the acetyl chain, particularly in China, I mean, reading through your prepared remarks, it just seemed like, the first quarter was like, a tale of two cities. It seemed, you guys started very strong and then by February pricing started weakening. I'm just trying to understand the dynamics behind that. I mean, it seems, the two new facilities that you guys talked about, they've been around for, call it five or six months. So what really caused that change between the first half of Q1 and the second half?

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

A

Hassan, you may recall, I mean, typically in China, Q1 is seasonally lower demand quarter because of Chinese New Year. So if you look at total, if you look at acetic acid pricing specifically in China, I mean, what we did see in Q1 was the lowest price since fourth quarter of 2020. And again, not unexpected, very much in line with what we've expected. And again, it is based on, the lower demand. I would also tell you, even though that new capacity maybe came on two quarters ago, it takes a while for them to ramp up and to really get into the market. So I would say it's shaping up very much as expected. I would also say, this is normal, as Scott said, that there is some minor disruption in the market when these come online. But, things do settle down over time.

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

A

Yeah. And let me just add, Hassan. I think, it's important to remember we have the single largest – our single unit, the largest single unit turnaround in the history of the corporation in the first quarter largely hitting the acetyl chain business. We had some of these dynamics in China, yet the business still generated 28% EBITDA margin. So it's a very resilient business that finds a way to still deliver value even when we see market disruptions or when we see higher costs from things like turnarounds.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Very helpful. And as a follow-up, if I could just sort of hit on the 2024 guidance, again, maybe in EBITDA terms, I mean, over the last couple of months, you talked about some of the drivers and I just want to make sure numerically I'm thinking about them or they're trending as you guys had stated a couple of months ago. I mean, you talked about the M&M synergies being, call it $150 million EBITDA-wise, worth of a tailwind Clear Lake expansion being around $100 million. And then obviously, you had some offsets in terms of headwinds from some of the outages that you had last year. So, I mean, as you sort of sit there and think about some of those headwinds and tailwinds incrementally year on year, how much of a boost will we get from some of these controllables and new capacity additions?

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

A

Yeah, again, I think if you look at versus 2023, those things that you called out M&M synergies, that's $150 million, Clear Lake expansion, we've asked them to still deliver $100 million for the year, and we probably have another an offset of about $100 million, maybe a bit more for higher turnaround related expenses as well as some of the non-repeatable impacts from last year. I think the two factors you are not factoring in there is, we will have lower debt service this year as we've paid down over $1.5 million of our net debt. And, that's probably another $50 million or so. And then we'll have lower cost flowing through from our inventories with all of the inventory we took out last year and be able to flush out some of that higher cost inventory. And as we said, that may be the single biggest factor this coming year as well.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Very helpful. Thank you so much.

Operator: Thank you. And there are no further questions at this time. I'll hand the floor over to Bill Cunningham for closing comments.

Bill Cunningham

Vice President of Investor Relations, Celanese Corp.

Thank you. We'd like to thank everyone for listening in today. As always, we're available after the call for any follow-up questions. Diego, please go ahead and close out the call.

Operator: Thank you. With that, we conclude today's conference. All parties may disconnect. Have a good day.