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Celanese Corp. (CE)

Business Update Call

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Vincent Stephen Andrews
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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the conference call, Celanese to Acquire Majority of DuPont's Mobility & Materials Business. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the call over to Brandon Ayache, Vice President of Investor Relations. Thank you. You may begin.

Brandon Ayache

Vice President-Investor Relations, Celanese Corp.

Thank you, Darryl. Welcome to the Celanese Corporation conference call to discuss the agreement to acquire a majority of the Mobility & Materials business of DuPont. My name is Brandon Ayache, Vice President of Investor Relations.

The press release announcing this acquisition was distributed via Business Wire earlier this morning and posted on our Investor Relations website, along with presentation slides and accompanying prepared remarks. These items were also included in an 8K issued earlier this morning.

As a reminder, some of the matters discussed today may include forward-looking statements. Also, some of the matters discussed include references to non-GAAP financial measures. Explanations of company non-GAAP measures, as well as reconciliations to the comparable historical company GAAP measures are included on our Investor Relations website under Financial Information/Non-GAAP Financial Measures. Please note the language regarding forward-looking statements and non-GAAP financial measures contained in the slides.

With me today on the call are Scott Richardson, Executive Vice President and Chief Financial Officer; and Tom Kelly, Senior Vice President, Engineered Materials. With that, let me go ahead and turn it over to Scott for introductory comments.

Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.

Thanks, Brandon. Welcome to everyone listening today. Unfortunately, Lori is dealing with a personal issue that keeps her from joining us this morning. At Celanese, we constantly remind ourselves that our people come first, and that holds true even in big days like today. Lori's fine and she'll be able to join us on any follow-up conversations about the acquisition next week.

Since we put out extensive overview materials earlier this morning, including slides and prepared remarks, I will keep my comments brief. We are very pleased to announce the agreement to acquire a majority of the Mobility & Materials business of DuPont for $11 billion in cash. This business is a globally leading producer of engineered thermoplastics and elastomers, serving high-value end markets we all know well, including automotive, electrical and electronics, industrial and consumer.

The strategic fit of this acquisition with our Engineered Materials business is unique and unparalleled. With it, we will immediately double the strength at the Engineered Materials product portfolio in terms of leadership position, flagship industry brands and backward integration. We will immediately enhance our ability to deliver customer solutions by combining the commercial excellence and project pipeline model of Engineered Materials with the product and technology leadership of the M&M business. Simply put, this acquisition will establish Engineered Materials as the preeminent specialty materials company.

As a result of the complementary fit of these businesses, we expect to deliver approximately $450 million of synergies, nearly three quarters of which will come as cost synergies. This will drive an effective multiple of about 8 times EBITDA on a post-synergy basis. A strong balance sheet, as well as growing cash generation, enable us to fully finance this acquisition with committed debt financing. We expect to swiftly deleverage the balance sheet to reduce total debt to below 3 times EBITDA within two years of closing the transaction.

Achievement of synergies will drive growing free cash flow that we expect will double over the next five years. We are excited to welcome the Mobility & Materials team to Celanese. They have built a leading specialty materials business and we are eager to work together to drive continued growth at Celanese.

With that, I'll turn the call back to Brandon to start the Q&A.

Brandon Ayache
Vice President-Investor Relations, Celanese Corp.

Thanks, Scott. Darryl, please go ahead and open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Our first questions come from the line of Ghansham Panjabi with Baird. Please proceed with your questions.

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

Thank you. Good morning, everybody. Congrats on the deal.

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

Thanks, Ghansham.

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

Morning. Can you, first off, just give us some insight into how differentiated the chemistry of the platforms you're acquiring truly are and also frame R&D as a percentage of the sales base and how that's averaged historically?

Thomas F. Kelly
Senior Vice President, Engineered Materials & Corporate Strategy Development, Celanese Corp.
A

Yeah. Good question, Ghansham. This is Tom, by the way.

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

Good morning, Tom.

Thomas F. Kelly
Senior Vice President, Engineered Materials & Corporate Strategy Development, Celanese Corp.
A

So in terms of the quality of the businesses, if you think about it, DuPont is far and away the leader in PA66 nylon in the Hytrel elastomer space. They've just got a fantastic portfolio of vertically integrated polymer families that link up really well with what we do, so really excited about having those as part of the portfolio. In terms of R&D percent of sales, I'd say relatively comparable to where we are.

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

Okay. That's helpful. And then, Scott, maybe on slide 15 where you have the 5% sales CAGR, can you just give us a bit more color on that dynamic? How much of that is sort of driven by just cyclicality, some of the currently challenged end markets like auto OEM recover, and what are the other constituents that add up to the 5%?

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

Yeah. And let me just kind of go back, broadly speaking, at the organization kind of enterprise level, Ghansham. I mean we've historically said Engineered Materials grows in the high single digits. From a revenue standpoint, the Acetyls business has some more volatility to that, but more kind of historically low single digits largely driven by price, at least over the last decade, as opposed to volume.

So we bring this business into Engineered Materials. We expect that revenue growth, again, to be kind of more in that mid- to high single-digit range overall. So when we kind of blend that together, that 5%, we think, is kind of over time where we'll land on average kind of with the blended portfolio. Some years, it's going to be higher than that, and we do expect – we have that opportunity here over the next several years and then some years, it may be a little bit lower. But we really do believe that 5% is sustainable growth level.

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

Okay. Thanks so much and our best to Lori.

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

Thanks, Ghansham.

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

John Roberts
Analyst, UBS Securities LLC
Q

Thank you. Excluding Delrin makes the antitrust easier here. Are there other areas that might result in an adjustment after the antitrust review?

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

No, John. There's really nothing material at all with the portfolio that we're buying.

John Roberts
Analyst, UBS Securities LLC
Q

Okay. And then was there an option to structure this as an RMT? It would seem to have been at least within the reasonable possibilities of structuring it that way.

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

I think given the – what the public comments had been from the target, I think a cash transaction was the preferred transaction and for us, we were happy with that as well.

John Roberts
Analyst, UBS Securities LLC
Q

Thank you.

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

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

Thanks very much. What are the cash costs for the cost savings?

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

Yeah. So the cost of synergies, Jeff, is around $300 million and we expect that largely to be weighted towards 2023 and 2024.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
(

Are there any non-strategic assets that you think will have to be divested? Do you think you'll hold on to the whole thing? And are there any tax synergies?

Thomas F. Kelly
Senior Vice President, Engineered Materials & Corporate Strategy Development, Celanese Corp.
A

Hi, Jeff. This is Tom. In terms of the assets that we're getting, we're really very excited about all the assets that are coming over. If you see one of the assets, the Tedlar films business, we worked with DuPont to exclude that because we just didn't see the strategic fit. but the other ones are all complementary.

Do you want to take the tax question?

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

Yeah. And I think we'll work the tax angle, Jeff. I think we would expect just with the fact that from the base Celanese business we have today, our JVs come in on an after-tax basis, so that does bring our tax rate down a bit. So we would expect our overall tax rate to move up a little bit because you don't have the benefit of the JVs as prevalent here with this acquired asset. So we will work on kind of what that optimized portfolio will look like over time.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC Q

Okay. Great. Thank you very much.

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

Thank you.

Operator: Thank you. Our next questions come from the line of Duffy Fischer with Barclays. Please proceed with your questions.

Duffy Fischer
Analyst, Barclays Capital, Inc. Q

Yes, good morning. First question's just around when the deal closes, what would you anticipate the leverage to be day one? And when you look at how you want to structure the debt, what are your thoughts kind of fixed versus variable? What will that look like once you get it set?

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

Yeah. Duffy, I think at day one, we expect to be just slightly above 4 times. We will structure the debt in a way that is a combination of fixed and pre-payable. It is important that we have an element of pre-payable there early days as we generate cash flow. And hopefully, we're even more – that we see the synergies come faster. And if we do, delevering is certainly the priority. So having that flexibility on pre-payable in the first several years is critical.

Duffy Fischer
Analyst, Barclays Capital, Inc. Q

Okay. And then I believe that DuPont had some favorable contracts with INVISTA around nylon. Nylon has had some pretty wild pricing swings in nylon 6,6. Is there a part of that $900 million this year that you would see as kind of overearning that is going to normalize around that spread between the favorable contracts and where nylon's trading? And is that still long-tenured for you going forward or is that something that will roll off fairly shortly after you take these assets?

Thomas F. Kelly
Senior Vice President, Engineered Materials & Corporate Strategy Development, Celanese Corp. A

No, we don't see any favorability built into that $900 million, Duffy. And look, we've spent a lot of time obviously, as you can imagine, diligent – I think the position that DuPont has around the HMD supply and feel very confident that we'll be able to manage any volatility that comes with that going forward.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Great. Thank you, guys.

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

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Yes, good morning. Scott, would you walk through the various sources of cost synergies that you envision on slide 14? You quantified those as $275 million to $350 million and there's a fair amount of detail there. But I think it would be helpful if you kind of walk through the plan and where you see low-hanging fruit and higher-hanging fruit over time.

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

A

Yeah. Kevin, let me kind of break it down into four buckets. We see about approximately a quarter that will come from manufacturing utilization and scale of kind of that wider manufacturing network. The second is about a quarter from backward integration into polymerization and other procurement synergies.

Then about a quarter for more productive customer engagement via kind of bringing the commercial and technical functions together. And then the last area is also about a quarter, which is other efficiencies from really kind of bringing the broader fixed cost base together. So that's kind of how we look at that breaking down and it really does work out to be about 25% in each of those four buckets.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

That's convenient. And then secondly, would you comment on D&A? So a few facets, if you don't mind. What is the D&A attached to the assets that you're buying? And do you have any preliminary view of step-up and how you might treat that for reporting purposes as it relates to the deal-related amortization?

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

A

Yeah, I think – let me take that second piece first. We are working on the structure of that step-up. It really is just going to be dependent on the various jurisdictions and how it comes in, and so more to come on that. With regards to the D&A, it's right around $250 million.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Okay. Thank you.

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

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Thank you and congratulations, everyone. Maybe just to start with Scott, one of your objectives is to increase their win rate with customers, so maybe you could talk a little bit about your own experience competing against them and what you think you're going to able to do better now that you own the assets. And the other thing I found interesting in your slide deck, you – in those – in one of the charts, you indicated that you thought they had stronger brand equity than you did. So maybe you could just sort of help us understand how you're going to capitalize on that.

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

A

Yeah. Let me start with that second piece first, Vincent, and then I'll turn it over to Tom to talk a little bit more about win rate. These are recognizable brands and much like we talked about when we did the Santoprene acquisition, customers ask for the brand. They don't ask for the chemical name. They ask for the DuPont brand and that, for us, we felt like in – even in the early days of having Santoprene in the portfolio, the power of that, when you take that brand equity and put that onto the way that we drive projects and the deep customer relationships that we have, we think bringing that together with the legacy Celanese polymers, bringing that together with the Santoprene brand that we've acquired, we think, really gives us really good revenue synergy optimization opportunities.

Thomas F. Kelly
Senior Vice President, Engineered Materials & Corporate Strategy Development, Celanese Corp.

A

No, I think you said it well, Scott. Look, in every transaction we've done so far, we're already seeing this happening with Santoprene. We've been able to have at least 1 percentage point of growth to the acquired businesses from really implementing that project pipeline model because look, it's really stunning in a lot of detail where you're winning, where you're losing, digging into why and then putting actions in place to improve those win rates. So we're really confident about that, Vincent.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thank you. And just to follow-up, is there any capital investment that you need to make? Where are they on capacity? Have the assets been constantly reinvested in or is there going to have to be some type of step-up?

Thomas F. Kelly
Senior Vice President, Engineered Materials & Corporate Strategy Development, Celanese Corp.

A

We don't see that as being overly material right now, Vincent. We are going to do what we've been doing in our own assets, which is really looking at opportunities to get more efficient on using lines, a lot less changeovers, putting single polymers on each line. That naturally gives us the ability to – you get more on stream reliability time, you get more capacity out. And so with the wider network now of plants around the world, it gives us a really great opportunity to really take a step back and say how do we want to optimize that network, broadly speaking.

So I do think we're going to have some productivity opportunity around really capacity across that broader network. One thing I do want to also highlight that we put in the materials is the Asia presence here of this business is really strong. And that's an area that as we kind of overlay our base business, we think that's a real opportunity to further optimize in that region of the world. And obviously we historically went to market in Asia through our joint ventures with the Polyplastics divestiture a couple of years ago, the continued growth of our base business. This acquisition really accelerates our presence into Asia. The M&M business has really great customer relationships that we think we can leverage.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Sounds great. Congratulations again.

Thomas F. Kelly
Senior Vice President, Engineered Materials & Corporate Strategy Development, Celanese Corp.

A

Thanks.

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

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

Yes, hi. Good morning, Scott.

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

A

Hey, P.J.

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

Trying to understand, how do you ring-fence the PFAS liability 100% and what steps have you taken so that nothing comes back to you at some given point in time in the future?

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

A

Look, I think as we put in the materials, P.J., we have a broad uncapped indemnity from DuPont for the historical PFAS liability and that was part of the negotiation from day one. And this has been a clean deal and we feel strongly about where we landed there.

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

Okay. And my second question is, are there any revenue synergies? Because you have nylon, they have nylon. Is there anything that you can do there? And then related to that, DuPont, if you think about it, has been busy forming DowDuPont in the split. There are other divestitures that happened. So, now you'll be focused on this particular asset, you think you can grow this business faster than what DuPont did?

Thomas F. Kelly
Senior Vice President, Engineered Materials & Corporate Strategy Development, Celanese Corp.

A

Hi, P.J., it's Tom. Absolutely. And if you look at the back, we kind of break out where the revenue synergies are coming from. About – roughly about 1% of the revenue synergies in terms of top line growth are coming from implementation of our project pipeline model, which has been proven over time to be successful in providing top side growth.

The other 1% is going to come from commercial excellence. So we talked about how we have the ability to move through pricing in our end markets and make sure we get value for the products that we sell. We think that's another 1% of top line growth and then there's another remaining bucket around what I would just describe as cross-selling synergies and we really feel strongly about is they've got a very strong commercial sales force with application development personnel that are very capable. We've got a great customer-facing team. You put those two together and we'll get even faster growth. So, overall, we do see pretty significant revenue synergies certainly coming in the next two to three years.

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

A

Yeah, P.J., as we break down revenue synergies in any deal, we kind of look at it as access, access to different customers, access to different polymers or different geographies and this asset is very complementary to what we've done. We know the asset very well. We've seen them in the marketplace for a long time. That complementary nature, we do believe, presents an opportunity when you bring these together to really lift that growth profile.

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

Great. Thank you for the color.

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

A

Thank you.

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

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you and congrats on the deal, Scott and Tom. Scott, in the prepared comments, you reference $4 billion of value creation. How do you calculate that number?

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

A

Yeah. I mean there's a lot of different ways to get at that, David. I mean a simple way is to kind of take that synergy number that we put out there and then put a simple multiple on that. Hopefully, the multiple would expand but put a 10 times on it and you get that $4 billion. If you look at the value creation potential and kind of DCF [ph] that's back (21:37), that's another way and it all kind of ends up in that $4 billion to $4.5 billion range.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Q

Great. Just want to make sure about that. And should we assume on buybacks, Scott, that all buybacks are suspended until further notice going forward, especially this year?

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

A

Yeah. So – yeah, David, the focus is really going to be around reducing the debt here over the next several years. And the one thing I will say, we had said 2022, greater than $15 a share. We still believe that will be greater than $15 a share even without repurchases baked in.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thank you very much.

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

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

Thanks. Good morning, gentlemen. You gave us a margin and sales forecast for this year for the acquired business. I think it's 24% margins. Can you talk about the history and volatility of that margin pattern and then what you see out over the next couple years as auto builds come back?

Thomas F. Kelly
Senior Vice President, Engineered Materials & Corporate Strategy Development, Celanese Corp.

A

Yeah. I'll just talk about the go-forward, Bob. Certainly we see that the leverage that you're going to get from recovering auto builds being a real driver and moving that EBITDA margin level up just as you see in our base business. So, we think although it's 23% in 2022, that's our projections, we would see that moving closer to the top end of 25% to 30%.

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

A

Yeah. And volatility is something, Bob, we've looked at, too, at the overall enterprise level, bringing this into the portfolio, a larger Engineered Materials business within all of Celanese does enhance kind of the predictability and consistency of the annual earnings growth. And when we model that going backward, it does kind of help mute some of those – that volatility we've historically had, largely driven by the Acetyls business.

And there are natural hedges that exist in the portfolios, Acetyls versus Engineered Materials, and now with the M&M business included in that, from everything from currency to raw materials, and then also kind of reduces that overall volatility. And now making Engineered Materials greater than [ph] 15% (23:59) of the overall enterprise, we think, adds a level of scale that will, over time, reduce that volatility that's historically been in our earnings.

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

And you guys have done a remarkable job on the project model and being nimble, being very deliberate, and quick to act on new opportunities, whether to push them out or to develop them. I guess I was under the impression DuPont had quite that same strategy here, and maybe some of their products were higher volume. So, how do you marry the two models, your sort of quicker, nimbler cross-selling versus what theirs may have been more of a traditional long-run, higher-volume model?

Thomas F. Kelly
Senior Vice President, Engineered Materials & Corporate Strategy Development, Celanese Corp.

A

Yeah. Look, I think there's opportunities to bring in a little bit of both into the commercial models going forward. Look, I think there's elements of what DuPont is doing, Bob, around focusing deeply with strategic customers. That's great, and we don't want to lose that. But we think there's a lot we can apply more broadly, taking their portfolio and implementing the project pipeline model. We're going to find opportunities there to create a lot more value and growth in the future.

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

A

Yeah. Bob, I think specifically around taking these products into the non-auto segment, we've seen this already with Santoprene, very similar type of discussion, and we think that is an important area of revenue synergies going forward.

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

Great. Thanks, guys.

Thomas F. Kelly
Senior Vice President, Engineered Materials & Corporate Strategy Development, Celanese Corp.

A

Thank you.

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

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

Yes. Good morning. And my first question is, DuPont is reporting the businesses having – the portion of M&M that they are selling as having $800 million in EBITDA in 2021. And you're saying that the business will generate $900 million of EBITDA in 2022. I understand that these are round numbers, but you could talk about maybe how that would calculate to double-digit growth in EBITDA in 2022. How do you get there?

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

A

Yeah. I mean, I think at a high level, Frank, just given what we saw from our raw material compression perspective during 2021, it muted margins a bit. We're seeing from the forecast, the volumetric growth baked in similar to kind of what we're seeing in our base business. And then just as – we see recovery largely in segments like automotive, that volume is coming back. And so I think where we also saw margin compression in 2021, pricing is moving up here in 2022, so you kind of get not just volume growth, but you get some margin expansion on a year-over-year basis.

Thomas F. Kelly
Senior Vice President, Engineered Materials & Corporate Strategy Development, Celanese Corp.

A

And the only thing I would add to that is they were facing some of the similar supply constraints that we were dealing with around raw materials, also logistics. So, a lot of that we see abating during the course of the year.

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

Got you. That's very helpful. And, obviously, Celanese has done several Engineered Materials deals in the past. I'm just curious if you could go back and look at the deals that you've already done. What are the sort of synergies that you've been able to realize typically as a percent of sales or percent of EBITDA over years one, two and three on your EM deals in the past?

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

A

Yeah. Each deal has really been different, Frank. I mean, the nice thing about this is the scale element does present some different types of opportunities. Some of the more smaller, one site only compounders that we bought a few years ago just had a bit of a different profile. But the four buckets of synergies that I outlined earlier, that is really the playbook. And in some of those, we were higher weighted towards manufacturing optimization. This one is really a balance of all four of those elements.

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

That's very helpful. Thanks, and congrats.

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

A

Thanks, Frank.

Thomas F. Kelly
Senior Vice President, Engineered Materials & Corporate Strategy Development, Celanese Corp.

A

Thanks.

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

John McNulty
Analyst, BMO Capital Markets Corp.

Q

Yeah. Good morning. Thanks for taking my question. When you look at the customer overlap of the two businesses or the customer relations of the two businesses, I guess, how much is overlap and how much, if you can kind of put it in the percent, like how much new exposure does DuPont bring you?

Thomas F. Kelly
Senior Vice President, Engineered Materials & Corporate Strategy Development, Celanese Corp.

A

Yeah. In terms of the percentage basis, it's probably a little bit challenging to calculate that. But look, just – let's give a couple of examples, right? In medical where we have a really strong channel to market and have been in that market for many years, DuPont hasn't really been playing very much, right? So, that's wide open space for us.

If you look at the E&E space, what's interesting is we were about the same size in electrical and electronics as DuPont on a revenue basis. So look at the opportunity there. If you can think about the scale of us taking the DuPont portfolio more broadly into our E&E customers, there's a lot of opportunity there. So, we see a lot of opportunity to quantify it's difficult, but we're pretty excited about it.

John McNulty
Analyst, BMO Capital Markets Corp.

Q

Got it. Fair enough. And can you just help us to think about the CapEx required for the business going forward or for the business that you're acquiring?

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

A

Yeah. How 'we've kind of looked at it historically, John, is let's kind of use a round number in call it $500 million of CapEx in our base business. We've said that kind of splits out about 50/50 or so between the two businesses. I mean, you've got some corporate stuff in there. We would see this business probably on annualized basis.

If you were at $500 million, it's probably going to be about 20% of that, probably a little bit less. And I think what we will see happen is as we get the business into the overall portfolio, there will be opportunities really to consolidate what we're doing in EM here. And so we'll look at what does that timeline of capital needs will look like depending on what we can get from rev gen opportunities [ph] from (30:28) synergies.

John McNulty
Analyst, BMO Capital Markets Corp.

Q

Got it. Thanks very much for the call, and congratulations, guys.

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

A

Thank you.

Thomas F. Kelly
Senior Vice President, Engineered Materials & Corporate Strategy Development, Celanese Corp.

A

Thanks, John.

Operator: Thank you. Our next questions come from the line of Arun Viswanathan with RBC Capital Markets. Please proceed with your questions. Hey, Arun. Would you be able to check if you're unmuted?

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Apologies for that. Thanks for taking my question. So, my first question, I guess, is just getting back to some of the pressures that you saw in 2021 or this business potential you saw. You noted, I guess, some extra special pressure from energy costs on the natural gas side as well as in Europe. Was that also a drag, I guess, for this acquired business? And do you see that dissipating? Or what's the outlook for that?

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

A

Yeah. There's a little bit of that there in Europe. We're a little heavier weighted towards energy consumption in our portfolio in Europe than what they are, I mean, as we said, about, call it, around the half of their sales are in Asia. And so that's where, from our standpoint, the portfolios are really complementary. There's – we're a little heavier Europe than they are, and so we had a little more exposure to that.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Okay. Thanks for that. And I guess my other question was a little bit longer term in nature. So, this business has really transformed through several acquisitions of SO.F.TER and Nilit and disposition of Polyplastic (sic) [Polyplastics] and then Santoprene and now the DuPont Mobility & Materials business. Is there synergy still with the [ph] AC unit (32:11)? And you've kind of described this as the preeminent engineering materials company. So, is that positioning it for separation ultimately? Or how are you thinking about Celanese as a whole now, post this transaction?

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

A

No, Arun, we're focused on getting to transaction closed and preparing for integration, and then bringing in and driving what we think is going to be very robust cash generation to be able to very quickly reduce leverage. And so our focus really is on this leading portfolio of businesses that we have. The Acetyl Chain and the Tow business really enhance the return profile that we have and generate tremendous amounts of cash flow. I mean, they also add a lot of scale and integration benefits to bringing this M&M business in here over the next several years. So, our focus really is on integration, and that's going to be where the leadership team is focused here over the next couple of years.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Got it. Thanks a lot. Congrats on the deal.

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

A

Thank you.

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

Laurence Alexander
Analyst, Jefferies LLC

Q

Good morning. First, how much of the combined business is vertically integrated as a percentage of sales? And as you look across the portfolio, how stable is the CapEx run rate expected to be? Are there any parts of either the acquired business or your own that on a five-year horizon need an investment cycle to – so that you can maintain your vertical integration?

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

A

Yeah. So, let me start with the second piece on capital, and then I'll let Tom talk about vertical integration. Overall, I think, when you put the portfolios together, I think that will be a very sustainable CapEx base going forward.

We've been very open about the fact that our Engineered Materials business needed additional assets in Asia. This allows us to acquire some of those assets.

We will look at where our – where and when do those investments in Asia need to happen now with the combined portfolio. And my guess is, as we look at the projects on the M&M side as well, we'll see some of those same benefits and opportunities to kind of bring in the portfolios together, but we do see a pretty overall sustainable CapEx base and very stable CapEx base for the next several years for the combined business.

Thomas F. Kelly
Senior Vice President, Engineered Materials & Corporate Strategy Development, Celanese Corp.

A

Yeah. Laurence, in terms of your question around degree of vertical integration, it's really outstanding that the combined portfolio will be about 80% backward integrated in the polymer.

Laurence Alexander
Analyst, Jefferies LLC

Q

Thank you.

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

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

Q

Hey. Thanks for taking my question. Congrats on the deal. Slides note that you expect to be below 3 times leverage by the end of 2024. What is your long-term leverage target now and where does leverage need to be in order to resume share buybacks?

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

A

Yeah. Matthew, the focus is on getting down and we believe we have a great plan to get there. I mean, the cash flow generation here, the combined portfolio is, as I said before, pretty robust. So, we think 3 times is very achievable by the end of 2024. And then the long-term leverage, we'll be in that 2.5 times to 3 times range.

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

Q

Great. Thanks. And then the $275 million to $350 million of synergies in the first three years, any details on the cadence there? Do you think it'd be pretty ratable over those first three years?

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

A

Yeah. The cost energies are probably – I mean, the best way to think about that would probably be 25% or so in year one, getting up to 50-ish percent by the end of year two, probably slightly above that, and then hitting the full stride of those cost synergies by the end of year three. It always is slightly back-end loaded, but here we do think there's certainly some good quick wins in the first two years from a cost perspective.

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

Q

Great. Thank you very much.

Thomas F. Kelly
Senior Vice President, Engineered Materials & Corporate Strategy Development, Celanese Corp.

A

Thanks.

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

Aleksey Yefremov
Analyst, KeyBanc Capital Markets, Inc.

Q

Thank you. Good morning, and congrats. I wanted to ask you about electric vehicles. What polymers within this DuPont business that you're acquiring could gain from EV content? And what are areas do you think are most at risk to lose content?

Thomas F. Kelly
Senior Vice President, Engineered Materials & Corporate Strategy Development, Celanese Corp.

A

Yeah. So, good question. Just a reminder that Celanese has been competing in this space for years now with our ECOMID and our FRIANYL compounds. So, we've extensively studied, really down to the model level, content per vehicle for polymers like PA 66, i.e., nylon versus PA 6 and other polymers. And I would just say that what we've done from our work shows that there's still a lot of [ph] jump-alls that are (37:35) happening going forward in the transition to electric vehicles. Certainly, hybrid is great from a content perspective from what we're acquiring. But even in EV, we see opportunities to grow the portfolio.

Obviously, the transition has to be made. A portion of DuPont's portfolio is in more the traditional auto under the hood application. We feel really confident that with our commercial model and our reach into the OEMs and the tiers will make that transition very successfully.

Aleksey Yefremov
Analyst, KeyBanc Capital Markets, Inc.

Q

Thank you. Very helpful. And just to follow up on vertical integration, more into building blocks and raw materials such as ADN. Do you see this integration via long-term contracts sort of changing at all in any way over the next two, three years, let's say, compared to the last two, three years that DuPont was running the business?

Thomas F. Kelly
Senior Vice President, Engineered Materials & Corporate Strategy Development, Celanese Corp.

A

Yeah. If you're asking whether we would consider backward integration into the key raw materials, we don't think that would make a whole lot of sense. If you think about it, the scale of DuPont's polymerization and compounded capabilities is really strong, and makes them an attractive buyer for HMD. And we think they're in a very strong position. And with the market potentially lengthening as more ADN and HMD capacity comes online, it makes sense to just continue to contract for supply.

Aleksey Yefremov
Analyst, KeyBanc Capital Markets, Inc.

Q

Thank you.

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

A

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

Operator: Thank you. Our final questions come from the line of Jaideep Pandya with On Field Research. Please proceed with your questions.

Jaideep Pandya
Analyst, On Field Investment Research LLP

Q

Thanks a lot. First question really is around the DuPont Teijin JV. Could you just tell us, like, did you sort of strategically want this? And is this something that also fits into core Celanese portfolio, or is this something which is a business you could exit potentially?

The second question is around the synergies that you actually get from the Exxon Santoprene acquisition and DuPont. They have worked quite closely together on launching new next-generation products in the past. So, how excited are you around the elastomer space?

And then finally, I mean, obviously there are quite a few assets floating around. So, maybe it's a unfair question, but was this always your preferred number one target, or you've actually done a thorough due dil of what is available and come to a conclusion that this is really the best fit for you? Thanks a lot.

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

A

Yeah. I'll take that last question first, and let Tom answer the first two. This has been a target that we've known very well, as I mentioned earlier, for a long time. And it has been really our first choice option if it ever came available to really – because of the complementary nature of the business from several of the things I mentioned earlier, the geographic footprint, the polymer set that they have, and then really the branding capabilities and the success that the business has had. This is a very high-quality business, high-margin business that fits very much kind of hand in glove with our Engineered Materials business, and we're thrilled to be able to welcome the M&M team into Celanese.

Thomas F. Kelly
Senior Vice President, Engineered Materials & Corporate Strategy Development, Celanese Corp.

A

Yeah. Just to follow up on the DuPont Teijin Films business, and one thing, just to step back again, remember, as what – look at the portfolio in the Advanced Solutions segment, we looked very carefully at each of those three businesses, and we made a decision that Tedlar was not a good fit, so we worked with DuPont to hold that back.

In the case of DuPont Teijin Films, we saw it as two things: One, a downstream consumer of the Rynite PET. So, it's important to continue that vertical integration. And we also thought about it as the ability to access a different form factor for Celanese. So, films are not something we've traditionally been in. So, being able to access that, understand how we can leverage that for other products in our family, was important.

On the elastomer space, you mentioned Santoprene being the leader in TPVs. Obviously, we're acquiring the leader in copolyester, and these have applications well beyond auto, into medical, other applications. So, we're really excited to have really what are the two biggest leaders in the high-value elastomer space.

Jaideep Pandya
Analyst, On Field Investment Research LLP

Q

Thanks a lot, and well done.

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

A

Thank you.

Thomas F. Kelly
Senior Vice President, Engineered Materials & Corporate Strategy Development, Celanese Corp.

A

Thanks.

Operator: Thank you. I would now like to turn the call back over to Brandon Ayache for any closing comments.

Brandon Ayache
Vice President-Investor Relations, Celanese Corp.

Thanks, Darryl. We'd like to thank everyone for listening in today. As always, we're available after the call if you have any further questions. Darryl, please go ahead and close out the call.

Operator: This does conclude today's teleconference. We appreciate your participation. You may disconnect your lines at this time. Enjoy the rest of your day.