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Celanese Corp. (CE)

Q1 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Celanese First Quarter 2023 Earnings Call and Webcast. 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.

At this time, I'd 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 first quarter 2023 earnings conference call. My name is Brandon Ayache, Vice President of Investor Relations. And with me today on the call are Lori Ryerkerk, Chairman of the Board and Chief Executive Officer; and Scott Richardson, Chief Financial Officer.

Celanese distributed its 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.

Since we published our prepared comments yesterday, we're going to ask you, Darryl, to open it up 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 Michael Leithead with Barclays. Please proceed with your questions.

Michael Leithead
Analyst, Barclays Capital, Inc.

Q

Great, thanks. Good morning, guys. First question, Lori, just high level on the full year EPS guide. You're doing about $4.50 of EPS in the first half, which implies about $7 in the second half. I assume synergies, Clear Lake, a few other things are helping in that back half. So I guess is there a way to broadly characterize what you're assuming for market demand recovery in the second half versus, say, controllable actions?

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

A

Yeah. Thanks for the question, Mike. You're right. We need about, on average, a $1 of lift in Q3 and Q4 from where we were in the first half. And so our focus really is on controllable actions. Fix it, we can. M&M volume recovery. We saw about a 10% lift from Q4 to Q1, a similar lift from Q1 to Q2. We continue to expect volume recovery in the M&M business as well.

Productivity, which is coming in at the top of our range for all of our businesses, M&M price optimization, synergies which we'll see building across the quarter. We also do expect some improving demand again in its entirety. We were up about 10% in the first quarter. We'll have some increase again in Q2. But we do expect things to get better still in the back half of the year as we see kind of the EU and Asia competitive dynamic improving and see the end of destocking in the US. And then we should have some tailwinds from raw materials and cost moderation, which should help with margins in all of our businesses and especially in EM as we see those costs flow through to inventory and start to hit the P&L. So I think that's kind of what we're in control of.

In terms of where we see the markets going if we take it first by region. In China, we do expect modest demand improvement in Q2 and into the second half. We do see markets recovering in China, especially auto. And we continue to see some improvement in utilization in acetyls and hopefully get acetyls coming off the cost curve, especially now as we're going into some turnarounds in Asia, we do see some upward price movement and some margin expansion in acetyl.

In Europe, we do expect continued modest demand improvement as well. We saw that through Q2. We expect that to continue at a slow pace into the second half. And then, as I said, we would expect as Asia improves, we see less imports from Asia into Europe, which should help margins in Europe get back to a better level. And in the US, again, we know a lot of people are calling out recession. We're not seeing that in our order books, however you want to define recession. What we're continuing to see is general recovery across a lot of markets. We still had some destocking in Q2. But we expect that destocking to be mostly over as we go into the second half of the year.

And so if you look at end markets, auto has continued to be quite resilient in the EM portfolio. That's helping both our legacy businesses as well as our M&M businesses. 2023 auto build, we still expect to be up 3% to 4% off 2022. And we're at a run rate right now that already achieved that. And we are seeing our own auto volume recovery at a pace significantly better than that and really building on the project pipeline and all the work that's been done in the last several years to build that pipeline both for the transition to EV as well as increasing our content per vehicle. We see auto being a fairly robust end market for us this year even with just a moderate growth in the actual builds themselves.

I would say the most sluggish sector we still see and has baked into our forward look is construction. Although we see some modest improvements in Europe and Asia, in Europe, mostly on the renovation market as energy efficiency regulations come into effect. We still see it to be quite slow in the US and in China where we're not seeing any recovery in really commercial construction yet at this time. And then the other non-auto durables, I would say, electronics, electrification is improving. There's a lot of need for more electrification around the world. And so we see that as a growing market this year. But in consumer electronics and other consumer appliances, we still see that lagging 2022, especially in the US.

And then finally, packaging. We do see resilient growth in packaging, especially in the US. Think about Amazon and everything that's getting shipped from online shopping and also the push for sustainable packaging solutions. But paints and coatings is a bit slow tied to construction. So that's probably a bit more than you were looking for, Mike. But that's a little bit of a summary of kind of where we see things going in the second half and the underlying trends that support our confidence in that $11 to $12 range that we put out for the year.

Michael Leithead
Analyst, Barclays Capital, Inc.

Q

Great. That's super helpful. And then maybe second. You talked in the prepared commentary, Lori, a bit about some of the integration actions you're taking in Nylon 6/6. I was just hoping you could expand a bit about how you're currently thinking about your approach to the Nylon 6/6 value chain and just maybe how Celanese going forward and might be operating differently than, say, M&M standalones, nylon polymerization business or just even the legacy Celanese compounding business there. Thank you.

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

A

Yeah. So let me talk a little bit about Nylon 6/6 in general starting with what we're doing immediately around Nylon 6/6. So in the past, Celanese has not been backward-integrated in Nylon 6/6. So we were just a purchaser of nylon polymer, which was great when prices are low, not so great when prices are high. With DuPont, we've been able to add the backward integration.

What we're doing differently is we've been able to secure a different raw material contract. And instead of being forced to produce PA66 polymer, we have options. We have flexibility, we have optionality. We can choose to produce backward-integrated nylon polymer when it makes sense. We can make less and buy nylon polymers from others if that makes more sense. We can make less of it if we see the demand profile not supporting higher production rates. And we can make more of it if we see a sudden resurgence of demand.

And so that flexibility, which is much more like we run our other businesses like GUR and POM and even acetyls, gives us a degree of flexibility and the ability to make value across a wide range of market conditions that DuPont really didn't have or really didn't exercise. And so we've already done that. We've gotten most of the Celanese nylon grades already certified to start with the DuPont polymer. We've been using DuPont polymer out of inventory, raw polymer, compounding it to make the Celanese branded products.

And we've been flexing that and to really start managing some of the inventories that had been built last year for both raw and for finished polymers in the DuPont product line. And so that's a degree of flexibility and a way of running the business which is different. We've also talked about how we're pricing differently, pushing price on more differentiated grades, lowering prices in some case on more standard grades to really get our inventory in line with the demand profile and therefore the cost profile of our inventory in line with the demand profile. So that's kind of the immediate things we're doing.

As we think about PA66 longer term and of course we spent a lot of time studying this before we went into this deal. We know a lot of people are like, well, PA66 is under hood. That's going to decline. We don't see it that way. If we look at electric vehicles as they're coming on the market, we find that the addressable content per vehicle is almost double compared to what we've traditionally have in ICE. And we think a lot of those new opportunities in electric vehicles also extend to PA66 as we see performance requirements increasing for electric vehicles.

So longer battery life, higher heat management required. These things are very suited to PA66. So if you think about parts that PA66 is suited for in EVs, things where you replace metal for lightweighting when you need the strength of the PA66, things like battery cell frames [indiscernible] (00:11:20), the brackets and the mounts for the electric motors and then things in the electrical system like high voltage connectors. And it's the PA66, the standard grade, but also the high temperature nylon grades which are particularly applicable here and which we didn't have in our portfolio prior to the acquisition of M&M. And I would say for our legacy EM business, we're about halfway to capturing the addressable content for EVs. Obviously, the M&M business was not as focused there and so not as far as long. But we are using our project pipeline to also drive these applications of PA66 into EVs now that we have those molecules available to us.

And I think if you think about PA66 beyond electric vehicles, there are huge applications there in electrical and electronics, which was an area that M&M was really underrepresented in historically. So if you think about electrification and the need for not just electrification for vehicles but for everything, you think about people wanting to get out of natural gas for homes, but basically the electrification of everything.

All the outlets would say electrification, electricity demand is going to more than double in the next five years. So with that comes data management centers, power distribution centers, all of these things require polymer. And specifically, all of them can benefit from the availability of PA66. And so we think there's going to be a strong pull-through for PA66 as the demand rose for building out our electrical infrastructure. And again, this is an area Celanese has been in for some years. And now we're able to apply that market knowledge and that end use knowledge to the PA66 profile and pull those volumes through using the project pipeline model.

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. I think you've reduced your earnings per share goal by $1. What was the source of that decrease?

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

A

Yeah. But if we look at the first half, our first half came in about where we – in total where we expected the first half to come in with 1Q being up because of some unanticipated commercial opportunities for spot market volumes as well as some pull-forward from the second quarters, especially in auto – a few parts for auto and a few for medical implants.

And so since we don't expect those – we're not counting on those unexpected opportunities reoccurring in the second quarter and second quarter is a little bit lower. And we are seeing the demand in the second quarter not build as quickly as we had thought at this time last quarter. And so that reduction to $11 to $12 really reflects that slower demand growth that we're seeing across second quarter going into third quarter and just accounting for that in our outlook for the second half.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

Is it fair to say that as a base case, second quarter volumes and prices are flat sequentially?

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

I expect for volumes for Engineered Materials, we should see the volumes increasing moderately across the second half, especially in M&M as we have market share recovery and just base business demand increasing in automotive and some of the other end applications. I think for acetyls, we also expect moderate growth into the second quarter as we start seeing more recovery in the end markets.

Right now for acetyl, pricing is challenged although we are seeing some early green shoots on China acid pricing and margin expansion. It's very new though. So although we've baked what we've seen so far into our projections, we think there's still some more room there, possible upside there. And I think for Engineered Materials, we do expect some margin expansion as we go to the second half, particularly as we see the lower raws and energy cost from the first half pulling through the volume and inventory, which will help with margin expansion in the second half.

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

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

Thank you. Good morning, everyone. Hey, Lori, maybe you could just give us a bit more color on the demand spike that you saw in March. Maybe stepping back, was there any sort of theme in particular that you can hone in on, any region in particular that saw that increase? And as you kind of step back, was it more so of a pull-forward from 2Q that benefited March, do you think?

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

Yeah. Ghansham, let me talk about that a little bit. So as we saw in March – what we saw in March is we saw our books starting to really – at the time of the call, we were really seeing good volume showing up on our books in our base businesses. And that gave us some confidence about second quarter.

I think the unanticipated commercial opportunities that we saw though at the end of March, which really got us above our guidance, was a number of things. One, there was some unusually high spot demand at the end of the quarter. So things like POM and nylon, also Tow and RDP. So it was across both of our businesses. And I think because of our flexibility we have in our supply chain and our operations, we were able to capture a significant share of that unexpected volume that arose at the end of the quarter. I would say that was the majority of that.

I think though we also did see accelerated buying in a few products in auto and in medical implants, which was a little unusual because we had expected quite a big headwind from medical implants and in fact had some orders come in. In the case of medical, I think that probably pulled forward from Q2. And in auto, we think it's also some pull-forward from Q2 in anticipation of better demand in Q2. So I think on that one, is it pull-forward or is it just quicker demand recovery? Not sure yet. That's not clear. But we're kind of characterizing it as pull-forward until we see if that's a sustainable trend.

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

Q

Got it. And then as it relates to the US and your comments on destocking, just a bit more color there in terms of which particular end markets. I assume construction is part of that. But curious to hear your thoughts. And then just judging by destocking that's occurred in other geographies, including Europe; what do you think is a reasonable timeline in terms of the destocking event? Is it two quarters, three quarters? How are we thinking about it now?

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

A

Yeah. What I would say, Ghansham, is we really saw the end of destocking in Europe and Asia for the most part as we moved into the second quarter. Where we've really seen destocking continue is in the US. And there auto is pretty robust, I would say, across all of the areas. But I think there we see destocking continuing in consumer goods and industrial for the most part. And right now our projection is – we think that's going to continue through second quarter but be pretty much over as we move into the third quarter. And that's some of the uplift we expect to see in the second half.

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

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

Hey, good morning. Lori or maybe Scott, you started the first quarter with negative free cash flow. Can you help us walk into the $1.4 billion? You maintained free cash flow $1.4 billion. How does that sort of unfold? Do we turn positive in 2Q or is it more a second half-loaded?

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

A

Yeah. We expected to be negative just kind of coming off of where Q4 was from a sales perspective and then kind of when we had the interest payment. So as we walk into the second quarter, you've got higher levels of earnings coming through. We also had really abnormally high CapEx from a cash perspective in the quarter as well as cash taxes being higher. That goes away at a higher level. We're at more normalized levels in the balance of the year. With the higher earnings levels coming through now in the balance part of the year, we would expect to be able to kind of get up and average much higher levels as we go forward. That sequential walk from Q1 into Q2 is about a $700 million lift from where we were in the first quarter when you kind of put all those things together.

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

Got it, okay. And then I think in your prepared remarks, you said that 50% of the first quarter EPS came in March. So April's at $1 – no, I'm sorry, March is at $1. And then if you think about April, May, June; it typically is better than March, I think. So what happened, do you think, in terms of the deceleration into April, May and June? And I thought maybe that $1 could have sustained throughout the quarter.

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

A

Yeah, good, Mike. I would say a significant portion or a portion, I should say, of that $1 in March really was related to the beyond anticipated and spot-like opportunities we were able to capture in March. And so we've not seen those repeat in April and we haven't baked them in as repeating later in the quarter, whereas the base level of earnings has continued to grow moderate – will continue to grow moderately across the month. So I think we're just trying to be realistic in terms of what we think is repeatable and what was fortunate. Again, we're positioned to take advantage of those spot opportunities if they were to arise again. But we don't want to bake that into our forecast.

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

Matthew DeYoe
Analyst, BofA Securities, Inc.

Q

Good morning. So it looks like you beat your 1Q M&M EBITDA guidance and 2Q is expected to accelerate. But the prepared comments no longer mention that lift of like $700 million to $750 million in EBITDA. Are you walking away from that level? What do you kind of expect M&M can deliver this year for EBITDA?

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

A

Thanks, Matt. We're really happy with how the integration is going and the value uplift we're starting to see in the M&M asset. Our concern at this point is the fact that second quarter is not accelerating at the pace that we thought across all of our businesses. And so we're going into the second half at a little lower demand rate than we had originally called out last quarter. So that applies to M&M as well.

And so what we're really focused on now – and so what I would say is if that plays out the way we see now, I would say we're kind of at the lower end of that $700 million to $750 million that we called out. And so what we're really trying to get our teams to focus on is making sure we're delivering growth so that as we get towards the end of the year, we are basically on track for an EPS-neutral quarter going into – either sometime in the second half or going into 2023, which would be at that kind of $200 million EBITDA range including synergies.

Matthew DeYoe
Analyst, BofA Securities, Inc.

Q

Thanks. And can you talk a little bit more about the product flow out of China and POM into Europe? POM is not really a product I have a ton of line of sight into. So maybe kind of give us an idea of where margins are in Europe now versus China or what the theoretical kind of compression risk looks like for the European business, how far along we are on maybe some of that [ph] arbed (00:24:25) closing from European products – or Chinese products.

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

Sure. It really started back in the fourth quarter and when we really started seeing – really even through the third quarter last year when we really started seeing the very high energy prices in Europe. That raised the price of palm in Europe and provided an arbitrage opportunity for palm coming out of Asia, both China and Korea, out of Asia into Europe because demand was very low in Europe. And so those molecules found a home in Europe where it could be highly competitive even with the shipping costs to be there.

Now, obviously, with the COVID resurgence in December and going into the first quarter, we saw those volumes still flowing in the first quarter even as we started to see energy prices coming down in Europe. But because of the lack of demand in Asia, there was still an opportunity to move project into Europe. And while we still see volumes moving in the second quarter, we really expect that now demand is coming back up in Asia, that those molecules will find a home again in Asia. Prices are down and competitive in Europe with that on a landed basis. And so we should see those prices stabilizing again in Europe, I think, as we move through this quarter and into the third quarter.

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

Joshua Spector
Analyst, UBS Securities LLC
Q

Yeah, hi, thanks. Two questions and [indiscernible] (00:26:09) one here is – you seem to pull a lot of levers today to basically keep free cash flow in the range that you provided despite the cut to earnings. Just curious, one, what levers are left if things don't play out as you see it? And two, as you look at your guidance, you're talking about demand improving. Does the lower end of your range reflect a scenario where demand doesn't really improve from 2Q levels? Or would that be another cut that we'd need to consider? Thanks.

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

Yeah. Let me start with your kind of last question first. I think the lower end is a range that we feel is achievable even with only really moderate growth. And there are some areas we know like auto where we feel quite comfortable we'll continue to grow this year at a very moderate pace because of the pent-up demand for auto. So I would say we feel very confident in the $11 – short of a global recession, on the $11 end of our outlook and our cash flow reflects that.

But if we were to say go into a global recession, we have a really unexpected downturn here well beyond anything any of us are imagining right now; there are still levers within cash flow. And we saw that in 2020 with COVID. So if we really see that kind of scenario develop and our demand goes down; one, we'll have more working capital release because the value of inventory goes down. We'll be able to go down to even more minimum inventories. And we would also have cost savings as we would take steps similar to what we did during COVID to slow production rate, possibly even shut down plants for a period of time. And you have cost saving benefits that come from that. So I think we feel very comfortable in our ability to deliver the level of cash flow that we've indicated given the steps that we've already called out.

Joshua Spector
Analyst, UBS Securities LLC
Q

Okay, thanks. So just a quick follow-up just on the inventory adjustment in 2Q. Kind of thinking along again similar scenarios here, is that something contained within 2Q or is that something that drags into the second half? Just what's baked into the outlook there?

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

A

Yeah, so we're assuming a working capital release from inventory of $300 million or more. So if you think about 2Q, that's a $100 million reduction in working capital. And that comes with the [ph] 30% to 35% (00:28:46) impact on EBIT. So as we go forward, you would expect to see that same impact continue through the second half as we take other inventory adjustments. Obviously, different inventory adjustments come at a different EBIT depending on what pricing is doing. But I would expect to see some impact from inventory as we move through the year.

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

A

Yeah. And Josh, and that's all baked into the guide that we gave.

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

Good morning. Lori, would you elaborate on your acetyl outlook in China? If we look at some of the consultant assessments of acetic acid prices, they really haven't done a whole lot over the last two months or so. But in listening to your commentary, it sounds like maybe there's some upward tension building there. If that's correct, would you attribute that to some of your competitors' outages over the next month or two or do you foresee a more sustained cyclical uplift as the year plays out?

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

A

Yeah. Thanks for the question, Kevin. So acetyls in the fourth quarter was definitely sub-foundational and I think we talked about that. We're really essentially at the cost curve and in some periods of time during the quarter and fourth quarter and even into first quarter, even below the cost curve from time to time.

So what happened is if you look at coal pricing in China, while acid pricing has remained at about the same level for the last several months, we've actually seen coal pricing come down. From Q4 to Q1, coal pricing came down about 20%. And so you see some uplift in the actual margins. So now we're still very close to the cost curve in terms of margin. But it stabilized a little bit through first quarter. And then some of the turnarounds which we expected to happen in the first quarter got pushed to second quarter. We're starting to see those turnarounds start. And as that takes capacity out of the system, that further tightens the supply-demand situation.

We see margins slowly creeping up. And just really in the last five days, we've started to see a slow increase in acetic acid pricing which – we've baked that into our guidance, that small increase that we've seen. But I'd say it's still early. We need to see if that price sustains. But we think there is a chance that that is sustained with now the more normal level of outages we expect going forward. The last six months have been remarkably stable in the acetic acid world. Not a lot of unplanned downtimes, not a lot of increases in demand, not a lot of planned downtimes. And I think we're going into a more typical period now where we will have occasional outages, both planned and unplanned, which will give us periods of market tightness that we'll be able to take advantage of.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Thank you for that. And then, secondly, for Scott, can you speak to your debt reduction target for this year? You affirmed your free cash flow or at least endorsed free cash flow of $1.4 billion. I think that number excludes the proceeds that you expect from your Mitsui deal, which I understand to be $400 million or more. And so can you put that into context in terms of how you can attack the balance sheet over the next eight or nine months here?

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

A

Yeah. Thanks, Kevin. If you go back, we had stated a goal of reducing net debt by $1 billion in 2023. With the cash flow that we expect, we'll certainly do that. And when you layer in the Mitsui proceeds on top of that, certainly we'll well exceed that net debt reduction target that we had when we first announced the deal a year ago of $1 billion.

So we feel good about where we finished the year from a net debt perspective. And then given what Lori talked about earlier on where we would expect from an earnings trajectory to exit the year as we drive cleanup of the inventory on the balance sheet and we start expensing much lower cost inventory as we go into the second half and then exit the year, we feel good about the earnings trajectory to get to that 3 times target that we had initially stated by the end of 2024.

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

Q

Hi. Good morning. This is Bhavesh Lodaya on for John. I would like to hear your thoughts on the competitive landscape in Europe between your businesses. In your prepared remarks, you mentioned some price concessions you offered there in EM. Any changes to your competitors or perhaps a change in the products mix that is happening there? On acetyls where all your competitors have the level of flexibility you mentioned of moving product from Asia. So assuming things are not as easy as even for your competitors, any changes in market share or capacity there?

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

A

Yeah. In terms of the competitive landscape in Europe, I think the real challenge there has been imports from Asia, again reflecting the low demand in Asia and the improved cost position Asia had compared to Europe when they had much higher energy prices. And I should say Europe energy prices have come down significantly. But they are still high relative to the rest of the world. And so, again, we see that situation improving, especially now with increased demand developing in Europe. We really see that having improved now at the end of the first quarter, going into the second quarter and then further improving in the second half of the year.

On acetyls competitiveness, it has been a very stable market, so it's been very competitive as there's – and it's also been a period of seasonably low demand for acetyls as well as some of the impacts of China holidays and just lower China demand and the slowdown in the construction industry globally and the impact that has on acetyls. Again, as we start to see recovery, even a slight recovery in Europe and Asia in construction, as we start seeing normal levels of shutdown; we do see an opportunity there to capture additional margin in the acetyl space.

The ability to capture additional market share is really based upon our commercial model and the optionality and flexibility we have to take advantage of when there are spot opportunities by moving molecules around the globe, by flexing up and down our product chain. In first quarter, we took advantage of the stronger markets for emulsions and RDP further down the chain, which helped boost our profitability in the first quarter. As we start to see some movement in the acid price in China, there'll be an opportunity to take advantage of it there. So it really is all around – more so than market share, it's more around the flexibility and optionality and the ability to capture in any given market in any given time any upside potential that exists.

Q

Got it. And secondly, on Clear Lake, congrats on the commissioning there. You mentioned $100 million worth earnings contribution next year. Is it all incremental to your overall global earnings level or will some of it be offset by, say reduced operating rates somewhere, perhaps in China where you're running close to your cost curve?

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

A

Yeah. So the $100 million is on top of our already kind of $1.3 billion level of foundational earnings for acetyls. So that's raising the total global acetyl foundational earnings from $1.3 billion to $1.4 billion. And if you think about it, it's really about 50% based on what I'd call ratable productivity, so things like reduced catalyst costs, reduced energy costs, reduced maintenance costs, et cetera. And then about 50% of it is based on having kind of built-in turnaround and outage coverage in the network by having two units at Clear Lake. And then, obviously, there's additional upside to that if we were to get in a period of higher demand and higher pricing to basically raise our output from in totality of our Acetyl Chain.

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

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

Yes, good morning. Congratulations on the mechanical completion for the Clear Lake acetic acid facility. I know you gave some earnings projections for the balance of the year and for next year. I'm just curious as to how this is going to impact your operating rates at some of your other facilities. How should we think about the industry overall and the impact that this may have?

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

A

Yeah. So thanks, Frank. We are happy to have the mechanical completion behind us and we're moving now into the commissioning phase and anticipate production in Q3. Look, at the lower natural gas prices we're seeing, which greatly advantages our location there in Clear Lake, I would anticipate you would see that facility running at higher rates, which could reduce rates because of global demand in – reduce our operating rates in China and Singapore as we continue to supply Europe from the US. And we'll be able to supply Europe even at higher volumes entirely now coming out of the US and it's cost effective to do so.

I don't know that you'll really see opportunistic shipments to Asia although that's possible in the second half. The volume of that though is limited. There are supply constraints around availability of vessels and availability of receiving tankage, et cetera. But that arbitrage could open up as well. I think what we need to realize is Clear Lake is not only the lowest cost producer of acetic acid now in the world and will be able to produce a significant volume of it. But it is also the lowest carbon footprint producer of acetic acid in the world.

And so we think that is going to open up a lot of opportunities for Clear Lake. And from the impact on the industry, clearly, I think it will make some impact in terms of volumes you see moving from Asia to Europe as we'll be able to service volumes in Europe much more cheaply from the US.

Frank J. Mitsch
Analyst, Fermium Research LLC
Q

Got you. So the intent would be to run that flat out and ramp up some of your other facilities. Where do you think operating rates are in acetic acid as we look at the second quarter? And of course, you guys recently restarted your Nanjing VAM facility. If you could talk about operating rates in the VAM area as well, that would be helpful.

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

Yeah. Look, industry operating rates globally for both acetic acid and VAM are still kind of in that 90% range. Maybe from time to time, a bit lower. But it's still kind of trending towards that 90% range. It just has been so stable, which is a little bit unusual in this business, for the last six months that people have gotten comfortable at those operating levels and demand has been down, again, normal seasonality. And so it feels quite comfortable. But at 90%, we are now positioned to take advantage of really any either planned or unplanned downtimes that occur globally in either acid or VAM or any of the downstream derivatives. And that's really where we've seen the opportunity in the past is when we start getting some either regional or short-term misallocation between supply and demand.

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. I wanted to follow up on that a little bit on the demand side of the equation because one of the issues I've been having in our own [ph] SMB (00:41:48) models here is trying to sort of reconcile what I think the underlying demand number is versus what shipments have been to try to account for.

Obviously, we had a lot of issues with unplanned outages over the last few years. But we also had very strong building and construction demand in the Acetyl Chain. So how do you reconcile that when you sit here today and think about what the actual underlying instant demand is versus shipments and maybe how much shipments might have overstated demand in the past and maybe understating demand now in terms of thinking through what operating rates can look like over the next couple of years?

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

Yeah, look, it's been a bit of a confusing time, frankly, I would just say. If we look at fourth quarter last year when prices were very low, we started seeing demand really coming off particularly in Asia although operations were fairly stable, we certainly still saw some molecules moving as people anticipated different things.

And as we go forward, we also saw a lot of shipment and people carrying higher inventories before that because of all of the supply chain issues that existed around the world. And you recall like in the first half of 2022, VAM and emulsions, there just wasn't even enough molecules out there to meet the customer demand. And so people were carrying a lot higher inventories and we saw the reduction in demand through the fourth quarter. We saw people really destocking in the fourth quarter. We called that out at the last earnings call.

I would say now as we've moved through the first quarter and especially March and beyond, we do see demand recovery coming back for fibers, for other end uses. Construction is still, I'd say, the weak spot although even in like in Asia, we're seeing a little bit of recovery in construction. And in Europe, we're seeing recovery in construction not so much a new builds but in renovation for energy efficiency where a lot of our downstream derivative products go.

So we are seeing the demand coming back, again, with a few exceptions. And so that is starting to bring the volumes up. But we're not really seeing restocking occurring yet as people feel fairly comfortable because we've been in such a stable period and haven't had the supply chain issues. I think customers feel fairly confident they can get the materials they want. As we see demand continue to increase, I expect we'll see some level of restocking. And with that higher demand, we should see some tightening of pricing and seeing some pricing uplift across all the regions.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC
Q

Thanks very much. I'll leave it there.

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

Arun Viswanathan
Analyst, RBC Capital Markets LLC
Q

Great. Thanks for taking my question. I guess the first thing was you noted about $1 of uplift from 2Q into 3Q and 4Q. Would that be split kind of evenly between the two – the $2 to be split evenly? So you're looking at 3Q, 4Q about equivalently or is 3Q typically seasonally higher?

And then relatedly, how much of that dollar uplift is under your control? I know you feel very comfortable with the $11 level for the full year. But maybe if you could just walk through maybe the walk from $2.50 to $3.50, say how much would be coming from M&M synergies and how much would be coming from volume and how much would be coming from internal cost reductions or something like that, that'd be helpful. Thank you.

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

Sure. So I would say let me again start with the end. Probably of that $1 uplift, the $0.75 is the bottom end of the range, which would get us kind of to the $11. We feel very much that's in our control. That's within our ability to see. Again, assuming markets develop moderately in the way that we're calling out now combined with the controllable actions, combined with what we've seen with raw materials and energy, if those things all continue as we've called out; then we clearly have a line of sight to that $11.

To get to the upper end of the range, which would be more like $3.75 a quarter, would require some further demand improvement across the end markets. And so you're right. Usually in terms of timing, usually Q3 is a bit higher than Q4. I think we don't really have a lot of visibility on that yet. But I would say I actually wouldn't expect them to be that much different this year. Although we typically get seasonality in Q4, that seasonality is in the western hemisphere.

Now with the acquisition, we have much more exposure in Asia which tends to be very strong in Q4. So I would expect for Engineered Materials, for example, that those would be similar levels in Q3 and Q4. And in fact, if we're in recovery – we've had some very healthy Q4s before when we've been in recovery as well as we have synergies building throughout the year so that our highest number for synergy will be in Q4. So I right now would say I would expect Q3 and Q4 to be to be similar, although typically Q3 has been a higher quarter than Q4.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Great, thanks. And then just as a follow-up, you're going to be exiting the year theoretically at around $7 second half level of earnings. And still that would be maybe reflective of just a modest demand environment. So would you expect kind of continued growth as you look into 2024 and similar to that second half and growing from there? Is that a fair starting point? Thank you.

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

A

Yeah, look, I think that's a fair starting point. Obviously, we'll have some quarter-to-quarter variation because of seasonality and other things. But assuming a steady demand environment, we will continue to get additional benefits from M&M. We've historically grown our own Engineered Materials business in kind of double-digit range year-on-year. And we will get the further benefits from having Clear Lake online as well as some of the other expansions, including the integration of Tow into acetyls, which will continue to grow on a year-on-year basis as we move forward. So I think that's not an unreasonable place to start when you're thinking about 2024.

Operator: ...come from the line of Hassan Ahmed with Alembic Global. Please proceed with your questions.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Good morning, Lori and Scott. A question around some of the guided to sort of self-help sort of measures to boost EBITDA. Earlier, you were talking about being able to attain around $130 million in 2023 worth of M&M synergies as well as slightly north of $140 million from the Tow business overall. So how is that tracking? Are those numbers still sort of attainable, beatable? Where do we stand with that?

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

A

Yeah. So we had called out before $100 million to $135 million of M&M synergies. We fully expect to be at the top end of that range. So we are on track for that. In the second quarter, we had about $10 million of synergy from M&M. There's another $10 million or $20 million that will be added to that in the second quarter and continue to build through the year. So we feel very comfortable in achieving that $135 million of M&M synergies this year.

We feel very comfortable that we have achieved the uplift from Tow. That was very obvious in the first quarter. And we also got an additional $10 million or $20 million of uplift in the first quarter from Tow spot sales, which was part of our model going forward that we wanted to be able – those will be there every quarter. But I think it shows the value of having integrated it into acetyls and running it in a different way. It gives us more options to capture upside than we've had in the past. So I feel very comfortable with that number on Tow.

I think the other thing is productivity. So we've historically achieved $100 million to $150 million a year of gross productivity. Through the first quarter, we are on track to achieve at or above that top end of that range on productivity. And this is productivity separate from M&M synergies. So I think when we talk about self-help, we feel like we're really delivering on all of these areas as well as delivering on the volume recovery in M&M, the pricing recovery and all those things that we've laid out relative to the deal.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Fair enough. Very helpful. And as a follow-up, you had a nice sort of bump up in EM business' EBITDA margins, Q4 to Q1. Around 20% EBITDA margins, you guys reported for Q1. And obviously you gave some near-term sort of guidance showing the uplift in EBITDA in that business. But from a margin perspective, longer term, as we look at sort of 2024 and beyond; where do you see EM business EBITDA margins going? Because historically pre-M&M, you guys were reporting EBITDA margins well into the sort of low to mid-30% range. Should we eventually expect a sort of move towards those sort of levels of margins?

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

A

Yeah. Look, in Q1, the combined Engineered Materials was about 20%. We expect that to move up across the year really as we lift the EBITDA margins on the M&M business. So by the end of the year, I think we should be more around that 23% range for the year. And I fully expect as we continue to grow M&M, as we continue to grow our base business, as we continue to high-grade the portfolio and realize the value of the synergies; that we will move into that more historical level of 25% to 30% EBITDA margins, which is actually about where we've been the last few years.

Operator: Thank you. Our next 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. Just want to say it's very commendable that you guys have loaded the balance sheet with debt and not gone for a rights issue. But since the deal the world has changed quite significantly. And you're doing everything you can to right-size the business. But just want to understand the legacy EM business. How are you making sure you're not starving this of capital? Because there's a lot of focus on M&M. That's my first question.

The second question is on the competitive landscape in China. There's a lot of Nylon 6 and 6/6 polymerization capacity coming in China. So just putting it in context of the value chain, do you actually benefit because the chain is going long in polymerization in China or is this going to create headaches on the pricing for you? Thanks a lot.

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

A

Thanks. Look, on the question around legacy EM, I think the thing to realize is we've really focused in the last six months in forming One Celanese teams. So we have put an organization in place that brings all of our businesses including Santoprene together under new business line groups under the best set of leaders that we could pick out of the combined organization. And we've really focused on developing a culture of One Celanese.

So we're not looking – although for the benefits of this call, we do talk about how we're doing in each part of the business; we're not running it as two separate businesses. We're running it as one business. We have everybody on the same sales platform. We have everybody in the project model. We look at our – our capital processes have been combined. So we look at it in the same way. So I don't think we're at any risk of ignoring one part of the business to the benefit of the other because we really are running it as one business now, even though because we currently still have two financial systems until we can integrate the IT systems, we are able to track it separately.

But in terms of how we're running it, they're a combined sales team. We're approaching customers as One Celanese with a full slate of products. And if you look at – you may be concerned because of some of the callouts we've done in the reduction of CapEx. But really if you look at that reduction of CapEx, it's really just about reassessing the timing of our projects to really align with the revised demand outlook we have now and also integrating the M&M capacity we have into the project views to say we may now have capacity on the ground. We don't need to go build it.

So really optimizing the combined capacity we have, which has let us delay or eliminate some of the projects that we had thought we would need to do to gain capacity. So we haven't really cancelled any material projects. We haven't made any significant cuts to our reliability and maintenance and those things that make us a reliable supplier for our customers. This is really about optimizing the new footprint and adjusting our CapEx to go with the new demand forecast we have going forward.

And then on the question on polymerization of PA66. There is a lot of PA66 capacity coming on in Asia. I think one thing to remember is a very small portion of the PA66 production actually goes into Engineered Materials. The vast majority of it goes into fibers. And so it doesn't all dump into Engineered Materials. That is really a function of compounding and others. It is though one of the reasons we have been so focused on building optionality into our supply chain of raw material polymer so that we can have a choice in terms of make versus buy, whichever is the most economically attractive. It's why we have a contract that allows us more flexibility. It's why we're trying to get our inventories back to a level of control. And it's why we're really looking at the totality of our footprint to really be able to take advantage of low PA66 raw material prices if that's available or to make it if we see an advantage to continue to produce ourselves.

Brandon Ayache
Vice President-Investor Relations, Celanese Corp.
A

Darryl, we'll take one more question please.

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

John Roberts
Analyst, Credit Suisse Securities (USA) LLC
Q

Great. Thank you. You converted M&M over to the Celanese project pipeline or backlog model. How would you characterize their number of new projects versus the legacy Celanesean backlog?

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

That's a good question. I'm not sure I have a number in front of me. What I'd say is we've been pleased with their willingness to use the model, if you will, and their understanding of how this adds value to the new Celanese. And I'd say the projects that are being entered are growing as we move through this transition and people really understand what we're looking for.

Again, it helps that we have combined everybody into one organization. We have one sales team. And so our growth in the project pipeline is good. We are a little bit separate from that. But we also are finding a lot of interesting things in the M&M C&I portfolio that we hope to be able to bring to market. And so I think I would just expect to see it accelerate over time as we get everybody fully onboard and adjusted to the Celanese way of working.

John Roberts
Analyst, Credit Suisse Securities (USA) LLC

Q

And then you've restarted the VAM unit in Germany. If there's a cold winter or some sort of energy supply disruption, have you made enough changes to keep that plant up in that scenario or will you just shut it down again if we get an energy spike?

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

A

So John, I would say it was still economically attractive to run it last year when we shut it down. On its own, it would have been economically attractive. But the situation there was the global demand was so low, it was more economically attractive to shut it down and supply material out of the US. So it really is a question of total demand profile across the globe. It is an attractive unit. It is cost-efficient. It really was related to the high energy prices we saw there. So our intent would be to run it. We hope demand would keep up with that. But we will always look at our entirety of our portfolio and make decisions about what to run and what not to run based on what's most economically attractive.

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

Brandon Ayache
Vice President-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 you may have. Darryl, please go ahead and close out the call.

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