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Celanese Corp. (CE)

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CORPORATE PARTICIPANTS

Brandon Ayache
Vice President-Investor Relations, Celanese Corp.

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

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

OTHER PARTICIPANTS

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

Michael Leithead
Analyst, Barclays Capital, Inc.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Joshua Spector
Analyst, UBS Securities LLC

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Michael Sison
Analyst, Wells Fargo Securities LLC

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Matthew DeYoe
Analyst, BofA Securities, Inc.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Duffy Fischer
Analyst, Goldman Sachs & Co. LLC

John McNulty
Analyst, BMO Capital Markets Corp.

John Roberts
Analyst, Credit Suisse Securities (USA) LLC

MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Celanese Second 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 opening remarks. [Operator Instructions] As a reminder, this conference is being recorded.

At this time, I would like to hand 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 Celanese Corporation's second quarter 2023 earnings conference call. My name is Brandon Ayache, Vice President of Investor Relations. 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 second 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'll go ahead and go directly to questions. Darryl, please go ahead and open up 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

Hey, guys. Good morning. I guess first off, Lori, in your prepared comments, you had some comments about China and some of the trends that you saw in 3Q. I was just hoping you'd give us a little bit more color in terms of how things are evolving at that point in context of all the chatter about stimulus, et cetera. Are you starting to see any signs of that permeating through to your business?

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

A

Thank you, Ghansham. When you look at China, it's been a difficult year in China, clearly, as we've seen depressed demand consistent with the rest of the world but probably more pronounced in China. I think what we see different now, as we start moving through the year and we saw some signs of it early in 2Q already, is despite lower demand conditions, conditions especially for the Acetyl Chain seem a bit tighter.

And the reason I say that is when we saw some unexpected outages in the second quarter and here really in July, we did see pretty rapid price response to those outages, which suggests that there's not a lot of spare inventory or spare capacity in that area. And if you look at utilization for acetyl for China – and for global acid, it's around 90%, about the same in China. So again, that suggests to us that although demand hasn't recovered significantly, there is enough demand matched with the supply that we are in a place where we can see some price movement up as we see supply growing.

I would say we're not seeing a lot of response yet to the stimulus. We hear a lot about it. We haven't seen a lot of response yet. But we think it's coming and there are some pockets of strength in China. In particular, autos remains pretty strong in China and the broader Asia area. But we see the pockets of weakness as well – electronics, especially consumer electronics, consumer good – and I would say challenged by the situation in Europe and the poor economy in Europe, which is limiting exports out of China, which is also I think putting a damper on production of goods in China.

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

Q

Okay, terrific. Thanks for that, Lori. And then in terms of the current operating environment, obviously, it's very complex and you're pulling the levers that you need to in terms of managing supply, et cetera. In the scenario that this sort of complexity spills over into 2024, what are some of the other internal offsets we should keep in mind as it relates to the variances 2024 versus 2023 from an earnings standpoint?

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

A

Ghansham, I think you've made a good point. We really have no visibility into 2024 at this time. So we don't really know what demand's going to look like in 2024. If I had to guess, I'd say it's going to be better than 2023. But we don't know. But there are a few things we do know that we know will give us an uplift and we are confident will give us an uplift in 2024.

So if you start with the Engineered Materials side with the amount of inventory drawdown we're doing this year, we will be able to have completely flushed through our higher cost inventory as we move into 2024, which will give us lower variable costs in 2024. We'll see less hits to our P&L from the inventory reductions. We'll see those in 2023. We don't anticipate a lot of those continuing into 2024. So that will be an uplift.

We have an additional $150 million of M&M synergies which will hit next year. That's helped by our first quarter SAP integration, which will get everything on the system and give us additional opportunities for synergy as we get everything fully integrated and cost takeout. And of course with the lack of destockings, I would expect to see next year since we'll have taken so much destocking this year. In addition to that lift then we'll get from share recovery, we should continue to see M&M volume recovery in particular.

On the acetyl side, we know at a minimum we have at least this additional $100 million contribution from Clear Lake acid that we have next year. And then with the more than $1 billion net debt reduction that we'll take this year, we'll have lower interest expenses next year. So again, if you take all those factors, those are things that we feel very confident will lift our earnings from 2023 to 2024 regardless of what happens to demand.

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

Q

Thanks so much.

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

Michael Leithead
Analyst, Barclays Capital, Inc.

Q

Great. Thank you. Good morning. First question. When you look at the weakness in Engineered Materials during 2Q and into 3Q, can you help us roughly understand how much is just due to weaker end demand versus how much is due to weaker price? And other than POM, can you talk about where you're seeing the most competitive pricing pressure today?

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

A

Sure. Thanks, Mike, for your questions. As we look at Q2, if we look at what we had guided to versus our performance; clearly, we were below what we had expected in the quarter. I'd say half of that gap came from the M&M side. About half of that was really the inventory drawdown in M&M, which we really hadn't anticipated. So the earnings associated with that. And the other half is really just the weak demand, again, especially industrial and electronics.

And how I would try to describe what's happened in demand is if you look at differentiated products, that's really where we've seen lower volumes. We've seen our customers taking lower volumes of differentiated products again because they don't have the end-market for their goods. And we haven't moved price on differentiated. We've been able to hold price, but we've just seen the volume drop off.

We have chosen to take molecules instead of moving them and therefore not needing them in differentiated. We've gone ahead and increased sales into the standard grade markets where we are able to capture volume but at a lower margin or a lower price. So it is a combination of volume and price. And it is a big factor of mix in terms of less differentiated, more standard grade, again, allows us to keep volume, which we think is important as we move towards recovery. But we've had to take some price concessions to make that happen.

And in terms of what molecules, POM is certainly the big one I'd say for the heritage Celanese molecules. We've had a few others, especially those more differentiated molecules that go into electronics, connectors and that sort of thing, which have also had a volume impact. Again, I think it's short term. I think we'll see recovery there. And then on the M&M side, it's nylon. And again, I would say it's that switch from differentiated standard grade is more significant in terms of earnings than necessarily any volume impact.

Michael Leithead
Analyst, Barclays Capital, Inc.
Q

Okay. That's super helpful. And then just second. If I look at your updated EPS guidance, it seems to imply going from about $2.25 at the midpoint in the third quarter to slightly north of $3 in 4Q. So can you just help us understand what you think kind of gets sequentially better there in the fourth quarter?

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

Sure. As we move from the third quarter to the fourth quarter, there's a couple of things happening. One is we have initiated about an additional $60 million to $80 million of cost controls. And most of that impact will show up in the fourth quarter since this is work that we've been doing just the last few months. So most of that will show up in the fourth quarter. You have additional M&M synergies which show up in the fourth quarter versus third quarter. And then we are expecting a pretty robust fourth quarter. In fact, right now, we would say we would expect fourth quarter to be our best quarter of the year. So partly, we think that.

On destocking, we think destocking in the Western Hemisphere should be over for the most part in the third quarter. Probably a little bit of stocking carrying into the fourth quarter from Asia. We also think we'll have less seasonality. Because we've had so much destocking across the year, we wouldn't expect the usual amount of seasonal destocking that we see in the fourth quarter. And the last factor I would say is, given the acquisition of M&M, we are now more heavily weighted towards Asia and China than we were before. And typically, fourth quarter is a very strong quarter in Asia and China as we go before Chinese New Year, which will more than offset any seasonality we would expect to see in the Western Hemisphere.

Michael Leithead
Analyst, Barclays Capital, Inc.
Q

Great. 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. Can you talk about VAM volume growth or contraction by geography please?

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

A

Thanks, Jeff. On VAM in general, the markets have been a little weak for VAM as we've seen. I would say Europe is still our most challenged geography. Really, there there's not been a rebound in paints and coatings, construction and building as we continue to see the economy really drag on VAM. I think globally the indication of this is we do see VAM utilization has moderated into the mid-80s on a global basis, which is the lowest we've seen for many years, I would say, really since early COVID.

We are seeing some recovery in VAM in the US, I'd say especially – or in the Americas, I should say, especially in packaging. Packaging continues to be pretty strong and that's one of our bigger end markets in the Americas. And then in China, although we see some of the more industrial uses of VAM coming back; again, not seeing a lot of rebound yet in construction and building although with some of the stimulus that's been announced, perhaps that is to come here in the second half.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Okay. And then for Scott. Are there any hard objectives that you need to reach in order to retain your investment grade rating? Or are there no hard objectives?

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

A

Yeah. I think, Jeff, we've been talking very consistently going back to when we announced the deal in 2022 about two focus areas. The first is reducing net debt by $1 billion in 2023 and then achieving 3 times leverage towards the end of 2024, into early 2025. And I think those continue to be where we're focused on, I think, that first objective as we called out in the prepared comments.

We're very confident, given the cash flow that we're going to generate this year, of hitting that $1 billion of debt reduction. And then with the additional proceeds coming in from the Food Ingredients transaction, that will allow us to actually go up another $450 million above that from a debt reduction perspective. So definitely on track and tracking ahead for that first objective and then continuing to build plans and a focus around cash generation and harvesting as well as the EBITDA lift into 2024 that Lori talked about a few minutes ago to be able to get to that second objective.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Great. Thank you so much.

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. Thanks for taking my question. In your prepared remarks, you talked about the mix impact within M&M. I just recall one of your opportunities to grow earnings. You're going to go after some of the more commodity markets that maybe DuPont walked away from. Has anything there changed in terms of that mix impact or really where you can go after different shares? Any of that taking place this year or is that more of a longer term target now?

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

No, I wouldn't say it's a longer term target. It's just that it will take us probably through the end of 2024 or maybe even into 2025 to recover all of that volume. Some of the strengths you see in M&M volume is starting to get some of that standard grade back. Again, we've had some offsets though as we've had lower demand for differentiated grades. But we have been able to go after and get some of that standard grade back.

The good news is that DuPont Zytel has really been speced in to all of these standard grades at some point. So it's not a question of having to recertify. But some of the standard grade markets do work on contracts. So we need to wait for people's contracts to roll out so we can get the opportunity to go in there. So I would say we're on track with our plan to recover standard grade commodity grades, if you will, to use your words, materials. But it is something that will take us several years to get it back fully again just because of the way the business is contracted.

Joshua Spector
Analyst, UBS Securities LLC
Q

Thanks. And just on the cash side, I guess, with the JV, you liberated some additional cash. How do you think about the opportunities there over the next year or so? Is there any other opportunities that you would maybe accelerate because of the uncertain demand environment? Or do we think about improvement being more organic-based? Thanks.

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

So I'll let Scott comment on the math. What I would say is, look, we remain confident in our ability to generate sufficient cash flow through earnings and through inventory drawdown and other steps to meet all of our debt requirements and commitments. And so we'll continue to be opportunistic as we always have been in terms of future divestments and opportunities. That really hasn't changed again because we have a lot of confidence in our ability to meet our cash commitments.

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

Yeah. And I think while we'll be opportunistic on possible other deals, our focus really is on what we can really control. And we have been now talking most of this year about reducing our inventories and harvesting cash from the balance sheet and then focusing on our CapEx, bringing that down to $500 million this year and then as we put in the prepared comments, lowering it even further down to $400 million next year. And so with that and then the expectation of higher earnings, we do believe that as we continue to work our way through the second half of this year and then into next year, the free cash flow generation will be robust. And then we will use that cash to continue to aggressively lower debt.

Joshua Spector
Analyst, UBS Securities LLC
Q

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 good morning, everyone. Scott, wondering if you can give us any more color on your comments in the prepared remarks about being able to trim the debt out and remove the refi risk from the next several years.

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

A

Yeah. We put the maturities in place that we did a year ago because that's what was available to us. And what that yielded was higher levels of maturities coming up in 2024 and 2025. And so as we said at the time, we would be opportunistic around what we could do to bring those towers down. As we look at the landscape, we think there could be an opportunity for us to bring those down and really match up the maturities over the next few years with the lower levels of cash flow that we're at with where the economy is right now but still very robust. And so bringing those down to the levels of free cash flow generation in the next couple of years.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

And that would be straight debt or are you considering a convertible type thing or anything like that?

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

A

Our focus in the past has really been around bonds and term loans. And we think that's been the right structure for us from a capital perspective. We've looked at everything, but that's our current focus.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thank you very much.

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. Last quarter, you gave us a bridge to get that extra $1 per share. You had a couple of things, M&M integration, unwinding of high cost inventory, lower natural gas and a couple of other things. So when you think about that $1, could you give us a little bit of color of how that has changed in the sense that is it – you still have that $1 but for minuses that sort of get you to the third quarter and fourth quarter outlook?

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

A

Mike, if you look at that, we were seeing some uplift in acetyls last quarter when we gave our outlook. We had expected that to probably continue over the quarter. Obviously, in acetyls, they had a good quarter. They came in at the bottom end of the range but not further up in the range because we did see some settling back, if you will, to below kind of at-cost curve levels.

And then in Engineered Materials, as I said, what we really saw is we saw a bit more of an inventory impact in M&M. We saw this really continued destocking and especially in industrial and E&E. And we had [indiscernible] (00:20:38) again, for the same reasons with acetyl, when we did our earnings call last quarter, we really were seeing strong order books in April and saw that as an indication of some recovery happening across the quarter. And again, in May and June, we saw that really not happen. So I think we certainly what we just pointed in our performance, I think we understand it. And I think we feel very confident though in the guide that we've given for the rest of the year.

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

Got it. And again, if you take a look at your outlook the prior quarter, fourth quarter would have been somewhere around $3.50. And I think there was some confidence that that would be a good run rate heading into 2024, meeting $14 some like EPS. So when you think about the new run rate of $3 in the fourth quarter, I know predicting next year is a little bit early, but how do you think about that $3 in the fourth quarter as it relates to a run rate potential for 2024?

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

A

Look, again, just looking at the actions I laid out earlier, the things that are within our control, I think that's a very reasonable expectation.

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

Thank you.

Operator: Thank you. Our next questions 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. In your prepared remarks, you guys talked about the destockings lasting longer than previous cycles. Now, obviously, having lived through 2008-2009, the COVID lockdown period and the like; multiple lessons must have been learned. So my question really is that as you think about the restock being a longer duration destock, certainly seems like a deeper destock; what potentially over the next couple of years do you think the restock will look like? And I guess where I'm going with this is has the sort of inventory appetite of your customers changed materially living through all the craziness of the last decade or so.

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

A

That's a really interesting question, Hassan. It's always hard to predict some of our customer behavior. I think we are seeing a very deep destock. And I think that speaks to the uncertainty people feel about the market. I think, again, especially the uncertainty in Europe and what that means, just not for the European market but also for the China export market. If we look at US markets, I would say reasonably recovered, probably not a lot of destocking left. I would tell you though China for China is doing okay. But China for export is really where that uncertainty lies and we see value continue to be taken out of the chain as well as everything into Europe.

So it's a very kind of unusual global situation that we have right now. As a result, I think, and with low prices, people assume prices are staying low. So there's no reason to carry inventory. There is a lot of availability of materials, so there's no reason to carry inventory. But we also saw post COVID how this can change very quickly. As soon as prices start to increase, as soon as we start to see consistent demand recovery; I do believe customers won't want to be back in the same situation they were at the end of 2020 and we'll start to see people wanting to restock.

So maybe a direct answer to your question. I think it is a deeper destocking because of the accumulation of just global macroeconomics, geopolitics and everything else. But I have no reason to think we won't see a recovery at some point. And I don't think people have gotten comfortable with a lower level of inventory once demand comes back. I think there's just a lot of uncertainty about what is that timing of demand recovery.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC
Q

Very helpful. And as a follow-up on the EM side of it. Again, in your prepared remarks, you guys talked about moving from exclusive distribution arrangements in the west to dual or multi-distribution approaches. How do you see the impact of that sort of playing out near term as well as on a go-forward basis?

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

Yeah. I think it's really a matter here of we are such a much bigger company now that continuing to have single distributors in these major geographies is probably not giving us the breadth and the reach to the amount of customers we need to be reaching to generate the new opportunities and volume sales that we desire to have. So this is just about – we need to have multiple partners to really get to the full range of customers and the full range of end markets.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC
Q

Very helpful. Thank you so much, Lori.

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

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC
Q

Yes. Good morning. Just a follow-up on the balance sheet discussion. Scott, you ended the quarter with $1.3 billion in cash and I believe you have another $450 million coming in from the Nutrinova deal. Is it your intention to just continue to accumulate cash to address your senior unsecured notes due in July of 2024? Or would you prefer to refinance them over the next few quarters instead of paying them off with cash?

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

Yeah, Kevin. I think we're not in the business of holding cash right now. We want to find ways in which to reduce that debt as quickly as we can. We still have term loans that we have coming up. And so we can utilize that cash for the term loans. I would also remind you we do have a $300 million interest payment in the third quarter. So we will use the cash we have on hand for that. And then we have maturities coming up still later this year that we will handle as well.

We've talked very openly about having cash in other geographies that we need to move back to the US. And we're building those pipelines now and we expect to be able to get that cash back here to the US by the end of the year. And then once we get our systems integrated in the first part of next year, that will give us an ability to operate the company at a much lower amount of cash, probably right around $500 million. So I think with that, that's going to free up a lot of opportunity for us to use that cash for de-leveraging given the maturities we have coming up plus the term loans we have outstanding.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC
Q

I see. Thank you for that. And then on a related note, your balance sheet reflects approximately $1.5 billion as the sum of short-term debt and current portion of long-term debt. That actually ticked up a little bit sequentially. I would have thought that it would go the other way with the term loan paydown of $370 million. Can you speak to what's in there in terms of how much you might have drawn on the revolver and what you might owe affiliates at this point?

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

Yeah. Mainly it's ticked up, Kevin, just because of foreign exchange. Mainly the euro moved up a little bit, but that's the big delta there.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC
Q

Okay. Thank you.

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

Thank you. It seems like a sharp acceleration in the China macro may be needed to improve the POM and PA66 trade flows. Is that right? And does the recent PA66 capacity expansions within Asia, China make that business recovery more challenging?

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

Our outlook is really not based on any increase in demand. We have a little bit of improvement at destocking occurring the rest of the year again based on our view of the market. But we really aren't forecasting any uptick in demand in any particular region. So I wouldn't say that's needed to meet our $9 to $10 range for the year. Certainly, it'd be welcome, but I wouldn't say it's needed. And I would say the expansions in nylon – nylon has always been pretty well supplied. There has been plenty of compounders. There's been plenty of polymerization out there. The expansions you've seen are maybe more on the upstream side, the raw materials side of that. So I don't see that that really changes our dynamics much around nylon.

We continue to focus our nylon on more differentiation, getting into highly differentiated product, looking for new applications, new end markets, that share regain based on our good customer relationships especially in standard grade. That's what I talked about earlier, the regain of share over the next couple of years with those and really taking advantage of our integrated value chain and our option to be in or out of the polymerization market depending on where things are. So I'd say I think we're positioned well to either make, blend or buy it, whatever works out. And our value really comes from differentiation.

Maybe if I can give you some examples because we've often gotten this question around nylon relative to EVs. We've recently actually just completed two new contracts for EV parts made from nylon. One is for a major OEM. We have a part now going into EV motor mounts, which will use Zytel. And then we have a second application we just finished for the AC compressor bracket, which is made from Zytel, which is going into EVs. And why this is important is we talked about the time of the deal but may have gone unnoticed is there are a lot of applications for nylon into EVs, especially as you think about EVs being quiet. People want less noise. You need less vibration. And polymer parts, and in particular nylon for those that require strength, are great parts to replace metal and other things not just for lightweighting but also to give consumers the experience they want from an EV. And so we're already starting to see some successes using the Celanese knowledge of the EV market and our contact with those customers and applying Zytel to those and winning some new businesses there.

Matthew DeYoe
Analyst, BofA Securities, Inc.
Q

I appreciate that, Lori. I guess I wasn't necessarily worried about the $9 to $10 number this year in the recovery more just in general with repairing some of these markets like – particularly I guess POM because it's not one that we have a ton of line of sight into from a supply-demand basis. Is it really just trade flows from China and China is kind of sitting on the cost curve into Europe? And if that's the case, I guess what reverses that?

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

Matthew, I think it's important. We have a lot of history here in the POM. And these situations tend to be temporary where co-producers in the market have made too much material and they move it into other regions even if they just have to get rid of that material. Our cost to serve in Europe, in the US is really unparalleled with our facilities in Bishop, Texas, as well as there in Frankfurt, Germany. And with that, our ability to win sustainably has been proven out over time. These do tend to be temporary fluctuations. So we do not expect that this is something that is going to continue for the foreseeable future.

Matthew DeYoe
Analyst, BofA Securities, Inc.
Q

Thanks for that.

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. Just going back to the guidance, so now the new midpoint is around $9.50. And if you just go through the Q3, that $2.10 to $2.50 with $2.30 at the midpoint; it kind of implies around $3 for Q4. So you noted that Q4 is going to be your strongest quarter. Could you just maybe bucket out that bridge between $2.30 and $3 from Q3 to Q4? We can do the math, but I just wanted to hear it from you as well as to how the two segments kind of play out. Thanks.

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

A

Yeah, look, I would say I would expect for the year, we've called out Acetyl Chain will be at foundational level of earnings so you can pencil in $1.3 billion for the Acetyl Chain, so essentially a second half very similar to the first half.

And then in Engineered Materials is where we'll see the lift. And again, about half of that coming from or maybe even a little – but probably about half of that coming from M&M really as we continue to regain share, as we continue to move pricing on differentiated grade. And then you also have the other half coming from EM as we see the end of destocking really here in the Americas and a little bit of recovery in other – well, not really recovery but end of destocking in other markets.

We also get a little bit of – the bigger piece of this though in a lot of this will be in EM is the $60 million to $80 million of additional cost and productivity activities that we've undertaken, most of which will show up in the fourth quarter. And again, you'll also have the help in M&M from the additional uplift of synergies in the fourth quarter versus the third quarter and a little bit of help from lower interest expense on debt paydowns. So all of those together accumulate to make fourth quarter what should be our best quarter of the year.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

All right. Thanks for that. And just as a follow-up then. So you'll be exiting the year at maybe a $3 run rate, gets you kind of back into that $11 to $12 range for next year. Is that the right way to think about it? Are you seeing the end of this destocking cycle and is there any risk to that view? Would it be maybe an automotive kind of slowdown from the strike or anything like that? What are some of the risks to maybe not achieve that level of earnings power as you look into 2024?

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

A

Again, if I go back to what I went through earlier, if I look at 2024, look, I think that number that you're laying out there is not a bad number from kind of a base. But if you look, there are a lot of things – and that just assumes steady demand with the end of 2024, which again we're not – or with the end of 2023. And again, we're not forecasting any great uptick in demand at the end of 2023. We're just forecasting an end to destocking.

So I don't see a lot of destocking continuing to occur next year. And again, if we look at just those things we can control, we will be in a better position from a variable cost standpoint. As we flushed high cost inventory out of the system this year, we will not have the level of inventory reduction hit next year, which will help next year. We have the additional $150 million of M&M synergies and we have the additional $100 million from Clear Lake acid. So I would say if you take the fourth quarter and annualize it, I would see that more as a floor than as our expected level of performance for next year.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Great, thanks.

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. Good morning. Lori, do you have an updated forecast for M&M EBITDA for the full year?

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

A

Scott, do you have that number?

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

A

Yeah. David, I think as we put out the Q3 number, it's another lift off of where we were in the second quarter, which was a lift off of the first quarter. As we go into Q4, as Lori mentioned, we would expect another lift up. So that kind of puts you in that range when you add up kind of all of those numbers somewhere in that $500 million to $600 million range. We're going to try to get to the top end of that range or even exceed it depending on where Q4 lands. But that's kind of where we'd be. But you're getting a lot closer on a quarterly basis as you end the year to kind of that quarterly accretion level that we talked about last quarter.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Q

Understood. And Lori, just on the additional $60 million to $80 million of cost reductions, is that permanent? Is it somewhat temporary? And a little more color on that would be helpful. Thank you.

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

A

Yeah. If I look at the $60 million to $80 million, some of it is definitely one-time. So if you look, about half of it is related to production actions. So these are things that are focused on the fact that we have lower demand and so better optimizing when we're taking turnarounds, how we're doing turnarounds. If we don't need the capacity back right away, for example, we can do it without overtime and just take a bit longer to do a turnaround.

We are idling facilities, not so much entire facilities but say lines within a compounding unit. So that allows us not to staff as much, power savings, et cetera. So reduced overtime, reduced use of contractors, again, really in response to demand. So I would say those are one-time. Our temporary actions are not things that – hopefully, demand comes back and then these are things that we can reverse.

And the other half, I would say a lot of them tend to be small and a lot of these are one-time as well. So continuing to really reduce travel across Celanese, which is worth a few million; reduction in promotional and marketing spend, a few million as well. So again, most of these are temporary. Look, there are something there, which is acceleration of the synergies that we had laid out for the acquisition of M&M.

So where we have redundant positions, for example, in the organization going ahead in redundancy now versus maybe having waited till later in the year or even into next year. And so I'd say that this probably – just guessing off the top of my head – kind of two-third things that I'd say are more temporary in nature and related to the reduction in demand that we're seeing and our focus on maximizing cash in this period of time. And then the other third would be kind of acceleration of steps we plan to take later in the year and into next year.

David Begleiter
Analyst, Deutsche Bank Securities, Inc. Q

Thank you.

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

Duffy Fischer
Analyst, Goldman Sachs & Co. LLC Q

Yeah. Good morning. Have you seen any change in behavior in Polyplastics since you sold your half to Daicel? And are they part of the kind of competitive dynamics issues that you called out in those increased imports into Europe?

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

Yeah. I don't think we've really seen any difference in their behavior, nothing different than we were seeing in the rest of the industry in response to kind of the macro conditions that we're all experiencing right now.

Duffy Fischer
Analyst, Goldman Sachs & Co. LLC Q

Fair enough. And then either sequentially or year-over-year, what did Ibn Sina contribute to 2Q? And then what does that do in the back half of the year?

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

Yeah. So year-over-year, Ibn Sina – that's probably the easier way for me to think about it. 2022, with higher crude prices, higher methanol prices, we had a really healthy contribution from Ibn Sina. This year, I believe Ibn Sina is going to be in that $60 million to $70 million less in contribution than last year for the full year. It's because our total for all of the joint ventures is about $100 million less in 2023 versus 2022. And that's the combination of Ibn Sina and KEPCO, moving KEPCO to a manufacturing joint venture.

Duffy Fischer
Analyst, Goldman Sachs & Co. LLC Q

Great. Thank you, guys.

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

Q

Thanks and good morning, everyone. This is [ph] Ryan (00:42:04) on for Aleksey. My first question here is [indiscernible] (00:42:08) the $30 million to $35 million headwind in EM from destocking during 2Q. Based off your commentary in the call, I presume this is something that would continue in 3Q. But it's something that you could get partially back in 4Q as destocking kind of ends here.

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

A

Brian (sic) [Ryan] (00:42:28), I'm sorry, you're breaking up a little bit. I believe your question is the $35 million headwind that we had in the second quarter due to destocking, would we expect to recover that in the third quarter or sometimes later. Was that your question?

Q

Yes, that was it.

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

A

Okay, great. Well, I wouldn't necessarily say we expect to recover it. It's a one-time thing. Now, sometime in the future, do you get some benefit from restocking as we see demand come back strongly and people want to return to inventory levels? Certainly. But I don't have any idea when that would be and that's kind of a hard thing to track. I would expect third quarter destocking will be at similar level to second quarter in terms of the financial implications. So I wouldn't expect big [indiscernible] (00:43:21), big pluses or minus, maybe a little bit more down in the third quarter because we'll have more finished goods destocking and less raw material and intermediate destocking but not hugely significant. So I wouldn't expect a second to third quarter big change relative to destocking.

Q

Understood, got it. Thank you. And then just my second question is – you flagged the delayed startup at Clear Lake due to some component defects. I understand the financial impact is at $25 million. But are there any material costs that go along with this? Thanks.

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

A

No. It's really the impact of not being able to get our synergies. Obviously, with the lower demand profile, there is capacity in the world. So we don't anticipate a big impact there. And the cost of the site itself is covered by the manufacturer since the manufacturer is responsible for the defect.

Operator: Thank you. Our next questions 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 questions. So [Technical Difficulty] (00:44:36-00:44:43) hold down CapEx for next year. Are [Technical Difficulty] (00:44:44) levers as we look to 2024 that you still feel like you can pull? Is there more kind of to wring out of the working capital side of things? Are there other integration costs that can maybe be pushed off? I guess how should we be thinking about some of the puts and takes for free cash flow coming in next year?

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

A

Yeah. I think we've been very open about our priority to free cash flow here in 2023, John. And that doesn't change going into 2024. We put the $400 million CapEx number out for next year. That's the first step. On the inventory side of things, $400 million to $450 million reduction this year. There will likely be more opportunity going into next year just given how much raw materials have come up over the course of the last several years, which we expect kind of volumes to be at good levels as we finish this year from an inventory standpoint.

But there will likely be more value opportunity as we work our way into next year to convert more working capital there. And then continuing to focus aggressively on terms and looking for other working capital opportunities. The teams are really focused heavily on that cash side. And then when you kind of then layer in the element of controllable EBITDA growth that Lori has mentioned several times on the call, we feel very good about the opportunity to continue to drive free cash flow going next year.

John McNulty
Analyst, BMO Capital Markets Corp.

Q

Got it, okay. Fair enough. And then just a question on EM's differentiated products. It sounds like so far you haven't seen much in the way of pricing pressure there. Do you expect to see any as you kind of look out over the next whatever, call it, 12 months just given the level of deflation that we've seen across so many industries so far?

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

A

No, John, not really. Like I said, we've seen some demand softness just based on our customers demand softness for their products. But again, we would expect that this is temporary and that will come back. And we've not seen, as we typically don't see, a lot of pressure on pricing for our differentiated products.

Brandon Ayache
Vice President-Investor Relations, Celanese Corp.

A

Darryl, let's take one more question, please.

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

John Roberts
Analyst, Credit Suisse Securities (USA) LLC

Q

Thank you. How is the Food Ingredients business performing into the deal closing? We've got some pretty broad weakness in the food ingredients overall market.

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

A

Yeah. I think our Food Ingredients is performing as expected and as we laid out at the beginning of the year. We really haven't had any issues there.

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

A

Yeah, John, that business tend to be pretty resilient through most economic conditions.

John Roberts
Analyst, Credit Suisse Securities (USA) LLC

Q

And then with the recent rise in oil prices, is there any risk to the Singapore unit being curtailed later in the year if oil continues up?

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

A

Look, I would say no more than it ever is. We constantly flex our Singapore and our Nanjing units depending on economics, depending on regional demand and the cost to supply those regional demands. At this level of crude pricing and coal pricing in China, I don't see that dynamic changing significantly.

John Roberts
Analyst, Credit Suisse Securities (USA) LLC

Q

Thank you.

Operator: Thank you. We have reached the end of our question-and-answer session. I would now like to turn the floor back over to Brandon Ayache for closing comments.

Brandon Ayache
Vice President-Investor Relations, Celanese Corp.

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

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