

30-Jun-2021

Celanese Corp. (CE)

Acquisition of Santoprene™ TPV Elastomers Business of Exxon Mobil Corp by Celanese Corp Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Celanese Update Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] Please note that this conference is being recorded.

I will now turn the conference over to our host, Brandon Ayache, Senior Director of Investor Relations. Thank you. You may begin.

Brandon Ayache

Head-Investor Relations, Celanese Corp.

Thanks, Diego. Welcome to the Celanese Corporation conference call to discuss the agreement to acquire the Santoprene TPV Elastomers Business from ExxonMobil. My name is Brandon Ayache, Senior Director of Investor Relations. With me today on the call are Lori Ryerkerk, Chairman and Chief Executive Officer; Tom Kelly, Senior Vice President of Engineered Materials; and Scott Richardson, Chief Financial Officer.

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

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

With that, let me turn it over to Lori for some introductory comments.

Lori J. Ryerkerk

Chairman, Chief Executive Officer & President, Celanese Corp.

Thanks, Brandon, and welcome to everyone listening in today. As I'm sure most of you have already read the extensive overview materials we put out earlier this morning, including the slides and the prepared remarks, I will keep my comments brief.

We are very pleased today to announce the agreement to acquire the Santoprene business of ExxonMobil. They are a leading global producer of thermoplastic vulcanizate, or TPV. The Santoprene products are renowned across a variety of end users, including automotive.

Today, we already have a small TPV product line within Engineered Materials, which was part of our acquisition of SO.F.TER. We understand the tailored functionality that TPV brings to different application areas and we are really thrilled by the opportunity to make Santoprene one of our flagship product lines in Engineered Materials.

This transaction is a prime example of the type of M&A opportunities we are targeting. Simply put, this transaction checks virtually all of the boxes we highlighted at our recent Investor Day in terms of M&A priorities. In particular,

we are pleased to be putting our excess cash to use in this way to drive growth and value creation in Engineered Materials.

We really view this as a culmination of the capital optimization strategy that began with the monetization of our passive investment in Polyplastics last year for \$1.575 billion, followed by \$500 million in share repurchases in the second half of last year, and now the acquisition of Santoprene to drive meaningful EPS accretion.

As a result, Engineered Materials not only has greater control over its financial performance and earnings, but also a broader solution set to bring to our customers. We are excited to welcome the Santoprene team to Celanese and committed to working together to drive continued growth in Engineered Materials.

With that, let me turn it back to Brandon for Q&A.

Brandon Ayache

Head-Investor Relations, Celanese Corp.

Thanks, Lori. Diego, let's please go ahead and open the line for Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, at this time, we'll be conducting our question-and-answer session. [Operator Instructions] Our first question comes from Ghansham Panjabi with Baird. Please state your question.

Matthew T. Krueger

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

Q

Hi. Good morning, everyone. This is actually Matt Krueger sitting in for Ghansham. How are you doing today?

Lori J. Ryerkerk

Chairman, Chief Executive Officer & President, Celanese Corp.

A

Hey, Matt.

Matthew T. Krueger

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

Q

Hey. So, understanding that the average EBITDA for the acquired assets over the past four years has been around \$100 million, can you talk a bit about the historical volatility of the earning stream for Santoprene, while also providing some additional details around the current or projected revenue base and the historical or expected organic growth rates of the business? Just any details around those kind of topics would be helpful.

Lori J. Ryerkerk

Chairman, Chief Executive Officer & President, Celanese Corp.

A

Yeah. I think if we look at the last five years, as we stated in the material, Santoprene has averaged around \$100 million EBITDA. Now, that does include the period of 2020, where Santoprene was affected by the shutdown in auto, much as we were in our Engineered Material business. In fact, if you look at their 2019 to 2020 decline in earnings, it was pretty consistent with what we saw in our own businesses that are heavily weighted towards automotive. And then I think further in 2021, Santoprene business has been further challenged by pretty extreme

raw material volatility kind of well beyond what is normally expected. So, we feel really confident going forward that the kind of base level of earnings before synergies in this business is around that \$115 million per year.

And we don't really see the normal raw material volatility as being something much different than we experience in our other lines of Engineered Material businesses. We feel we'll be able to apply the same pricing models, the same go-forward, the same project management model to the Santoprene business that we've been able to apply to our other Engineered Material business to deliver consistently strong margins.

Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.

A

Yeah, Matt. And the revenue of the business is right around \$500 million.

Matthew T. Krueger

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

Q

Great, great. That's helpful. And then, just if I can kind of follow up on the synergy topic, I believe there was a reference to synergy estimates potentially being on the conservative end of the spectrum. I was just hoping that you could talk a bit about what the typical synergy capture looks like for Celanese on a percentage of sales basis or percentage of EBITDA basis, however you prefer to talk about it. And then maybe touch on why the synergy capture timeline seems somewhat lengthy for the announced deal at a kind of a four-year time horizon. Just any thoughts there would be great.

Lori J. Ryerkerk

Chairman, Chief Executive Officer & President, Celanese Corp.

A

Yeah. Let me talk about synergies a little bit and I'll turn it over to either Scott or Tom whoever wants to talk about kind of historical levels of synergy capture. If we look at the synergy levels, yes, we agree. We think \$35 million is on the low end. As you know, we're fairly conservative usually as – when we look at synergies.

The largest portion of that is really due to cost savings. We think having a local manufacturing presence in China, which Exxon currently doesn't have, which will really allow us to capture those logistics and raw material savings by having a local strategy in China. There's other cost savings by leveraging our existing compounding lines in some of the various regions to replace tolling that Exxon was doing. So, there are real savings there associated with the manufacture and movement of the Santoprene project that we've already been able to identify through this evaluation process.

And then, of course, consistent with Celanese, we do see significant revenue synergies as well, really capturing some of the opportunities in electric vehicles, which we've already shown our strength in this past year, growing their medical business from what is now a very small business, but with what we think is a lot more application. Using our strong relationships we already have with the European OEM to really expand the European presence there and then really leveraging the Santoprene commercial team to sell the full Celanese elastomer portfolio, as well as leveraging our Celanese team to be able to incorporate the full portfolio of Santoprene.

So, we feel really strongly about the cost synergies, the revenue synergy and, as we said, we do anticipate greater than \$35 million a year in terms of synergies. I think on the timeline, we've probably been a little more conservative than we've been in the past. And it's really based on our experience with SO.F.TER and Nilit and Omni and some of the other acquisitions we had a few years ago, where we've really seen it takes almost three years to realize the full value of the synergies we've set for here because it's a larger acquisition. So, that's a larger scale of integration. But having said that, we'll achieve 80%, we think of the synergies by year three.

Thomas F. Kelly

Senior Vice President-Engineered Materials, Celanese Corporation

A

Yeah. Maybe just to follow on, the – I would think about the cost synergies coming earlier and the revenue synergies, which if you look at it, they're predominantly in highly specified markets like auto and medical, and the time to achieve those revenue synergies is typically a little bit longer.

Matthew T. Krueger

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

Q

Great. That's helpful. That's it for me. Thanks.

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

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Q

What are the EBIT margins of the company? And can you describe the raw material slate? How do you make the stuff? And do you have ongoing agreements with ExxonMobil?

Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.

A

Yeah. So, Jeff, the EBITDA margins are right around 20%, which is a little bit higher than the EBITDA margins that we've seen from past acquisitions that we've done. So, we feel like being able to kind of very quickly, with the synergy plan that we have, lift the margins to our normalized EM margins will happen pretty quickly. Tom, can you take...

Thomas F. Kelly

Senior Vice President-Engineered Materials, Celanese Corporation

A

Yeah. And on raw materials, the key raw materials are EPDM and polypropylene. And we've entered into long-term agreements with ExxonMobil for supply of those materials. But there is flexibility in those agreements as we move along. And just like we do in our current business, we'll plan on optimizing sourcing over the next two to three years.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Q

Thank you for that. I asked what the EBIT margin was, not what they EBITDA margin was.

Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.

A

Yeah. So, Jeff, if you – the depreciation and amortization of this business is pretty small, right? I would use a number right around \$10 million.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Q

Great. Thank you so much.

Operator: Thank you. Our next question comes from John Roberts with UBS. Please state your question.

John Roberts

Analyst, UBS Securities LLC

Q

Thank you and congratulations on the deal. If you look at slide 5 with the capacity of the competitors, that's a narrow definition, I guess, of TPVs. Should we consider TPOs like Lyondell and Dow and DuPont and styrene block copolymers like Kraton Corp.? Is that a better way to define the market?

Thomas F. Kelly

Senior Vice President-Engineered Materials, Celanese Corporation

A

Probably not, John. I would think about – so, first of all, yeah, that's why it does represent TPV capacities. That the materials that we would then go and try to substitute our EPDM predominantly, that's kind of the closest competitor to TPV. But also, we have opportunities to replace PVC and silicones. TPO, probably not as much.

John Roberts

Analyst, UBS Securities LLC

Q

And then the text talks about it enhances recyclability and flame retardant. How does that work?

Thomas F. Kelly

Senior Vice President-Engineered Materials, Celanese Corporation

A

Yeah. So, from a recyclability standpoint, the really cool thing about TPVs versus materials like EPDM, for example, is that when you're actually molding the finished part with the TPV, if there's any scrap, that scrap can then be recycled in the process to drive efficiencies. If you think about EPDM, that scrap cannot be reused. So, that's an example of what we have around the benefits of the recyclability. It's more in the actual processing of the material, although there are opportunities, if we can secure finished products that are used, you could also recycle those as well.

As it relates to the flame retardant opportunities, this is an area where we really feel like we can leverage the work that we've done in other parts of our business to bring in some of our flame retardant technologies, to open up new opportunities for Santoprene with the portfolio that they're bringing in.

John Roberts

Analyst, UBS Securities LLC

Q

Great. Thank you.

Lori J. Ryerkerk

Chairman, Chief Executive Officer & President, Celanese Corp.

A

I think the other comment on kind of the ESG aspect is you also have the opportunity to use recycled material. So, whether it's internal recycle or like recycled PP, you can use recycled materials in making Santoprene as well.

John Roberts

Analyst, UBS Securities LLC

Q

And that's because it's a mechanical compounding that you're...

Thomas F. Kelly

Senior Vice President-Engineered Materials, Celanese Corporation

Yeah, it's like...

A

John Roberts

Analyst, UBS Securities LLC

...that not really [ph] blends (00:13:44)?

Q

Thomas F. Kelly

Senior Vice President-Engineered Materials, Celanese Corporation

Yeah, that's right, John. The term is reactive extrusion. So, there is a reaction that takes place, but you can certainly use to recycle polypropylene to manufacture the product.

A

John Roberts

Analyst, UBS Securities LLC

Great. Thank you.

Q

Operator: Our next question comes from Mike Sison with Wells Fargo. Please state your question.

Q

Hi. This is Richard on for Mike. My question is on capacity. Looks like you're getting 190,000 tons capacity. Can you talk about what's the current utilization rates expected there? And then your existing elastomer capacity, can you remind us how much you have there?

And then third part is, in terms of going forward, as demand grows, how scalable do you expect those plants to be and what's the investing going to be required to keep up with the growth in the industry? Thank you.

Thomas F. Kelly

Senior Vice President-Engineered Materials, Celanese Corporation

So, ExxonMobil completed an expansion of the Newport, Wales, facility, I believe, in the 2017 timeframe. And there's still room in that expansion to grow. So, we feel really good about our ability to grow the business with the capacity that's already in place. But we do see an opportunity to leverage our current footprint of compounding assets around the world whether it's in Forli, Italy, Silao, Mexico, Brazil or Nanjing to further expand and supply our products on more of a local basis. So, we're going to be looking for opportunities there.

The investments to do that are relatively low. These are – these assets are highly capital-efficient, and so, I wouldn't think about them in terms of large investments in CapEx.

A

Q

Okay. And then just maybe on your current elastomer capacity, how do you – you said you'd probably utilize those to potentially service the TPE market as well.

Thomas F. Kelly

Senior Vice President-Engineered Materials, Celanese Corporation

A

Yeah, we can certainly leverage our current assets to expand as well.

Q

Okay. And then just on buybacks, I know – looks like you completed the proceeds from the PPC divestment. But how do you – how should we think about buybacks going forward for the rest of this year and then into 2022?

Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.

A

Yeah. So, we increased our buyback plan in the April call and that is still on track. So, no change to the buyback strategy that we previously outlined. This deal doesn't impact that at all.

Q

Great. Thank you.

Operator: Our next question comes from Bob Koort with Goldman Sachs. Please state your question.

Robert Koort

Analyst, Goldman Sachs & Co. LLC

Q

Thanks very much. Just wanted to understand a little bit more about what's going on with the Asian business here. I think you show it's 40% of sales but you don't have manufacturing. I think maybe Tom or Lori, you intimated there is some tooling. So, are these materials that are made locally or do you ship some of those from the UK or Florida? How do you get to that big Asian exposure and then how do you utilize your assets to create some opportunity there?

Thomas F. Kelly

Senior Vice President-Engineered Materials, Celanese Corporation

A

Yeah. So, currently all of the demand in Asia is serviced from either the Newport, Wales or Pensacola, Florida location. And that's where we see a huge opportunity, right? We've already got our compounding footprint in Nanjing. We feel like with a very modest capital investment, we can begin to source those products locally and that will deliver synergies down the road just both in terms of cost, then ultimately in terms of our local supply and responsiveness should enable us to grow our position there as well.

Robert Koort

Analyst, Goldman Sachs & Co. LLC

Q

And then you talked about leveraging the customer overlap. Obviously, you've got an excellent innovation model, commercialization model. Is there a large share of customers that they serve that you don't or vice versa, particularly in the auto chain or is the overlap already pretty high?

Thomas F. Kelly

Senior Vice President-Engineered Materials, Celanese Corporation

A

I would say the overlap in the auto chain is likely very high due to our position and their position there. But I think outside of auto, we are pretty confident that they are calling on a customer base that we currently don't access. So, if I think about building and construction in particular, we've got no position there today. They've got a great position in weatherseal applications. So, we feel like there's opportunities for the salesforce that currently is moving to Santoprene to also pull through many of our elastomer products that we acquired as part of the SO.F.TER acquisition through their channel and also create opportunities for more traditional engineered thermoplastics with those customers as well, Bob.

Robert Koort

Analyst, Goldman Sachs & Co. LLC

Q

And Tom, when I try to think of how these products are positioned in your sort of engineering resin pyramid, I think you mentioned displacing PVC or EPDM, so that doesn't sound as high value. Can you talk about maybe a price per pound that's typical? Or just where do you fit on that sort of spectrum between the most performance demanding, high-dollar, high-value materials and maybe the more commoditized materials from which these are made?

Thomas F. Kelly

Senior Vice President-Engineered Materials, Celanese Corporation

A

Yes. Santoprene, I would say the areas where we play, Bob, with either Santoprene or other parts of our elastomers portfolio are actually priced, in many cases, higher than where we sell our traditional engineered thermoplastics. So, these are really value-added applications that were targeted, generally very highly specified. And so, I would think of [indiscernible] (00:19:27) as very comparable in terms of profitability.

Robert Koort

Analyst, Goldman Sachs & Co. LLC

Q

Got you. Great. Thanks for the help.

Thomas F. Kelly

Senior Vice President-Engineered Materials, Celanese Corporation

A

Yeah.

Operator: Thank you. Our next question comes from Duffy Fischer with Barclays. Please state your question.

Duffy Fischer

Analyst, Barclays Capital, Inc.

Q

Yeah. Good morning. With respect to the upstream integration, when you look at that average \$100 million of EBITDA over the last several years, how was the EPDM and the polypropylene accounted for because Exxon is integrated? And then on your longer-term contract with them, are those at market or are those advantaged contracts going forward?

Lori J. Ryerkerk

Chairman, Chief Executive Officer & President, Celanese Corp.

A

Bob (sic) [Duffy], thanks for the question. Really we see them as being at market. I mean, we think that the valuations we put out there reflect fair market value of the raw materials, and we'll have those agreements as well going forward.

Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.

A

Yeah. And we are – we will be one of the largest buyers of these materials. So, we think the pricing definitely is going to be competitive, Duffy.

Duffy Fischer

Analyst, Barclays Capital, Inc.

Q

Okay. And then just what is the structural growth rate of this business historically? And on the EVs you talked about kind of 3 to 4 kilograms of product versus 2 kilograms on the traditional IC. Is that already there on the existing hybrids and EVs, or is that something that you think will get engineered in over time?

Thomas F. Kelly

Senior Vice President-Engineered Materials, Celanese Corporation

A

Yeah. So, maybe I'll answer the second question first. That's something that will grow over time. If you think about electric vehicles, one of the great applications that we have to go after right now is in cooling hoses. Traditionally, in an internal combustion engine vehicle, you could not use TPV because the operating temperatures of the cooling system were much higher. With EVs, it's lower. And now TPV has got a great play. And the advantage here is that in these cooling systems, you can use about half as much TPV. So, even though the price points for TPV are much higher than EPDM, you actually get lower cost and use for the end customer. So, there's a lot of attraction there.

Plus the other advantage is that as they manufacture these cooling hoses, the – any EPDM that's kind of scrapped from the process cannot get reused, whereas with TPV, it can. So, you've also got to benefit for the OEM in terms of just lower cost overall, plus the sustainability benefit of the ability to reuse it. But it'll take time for EVs to grow and pull along, say, for example, this additional growth.

Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.

A

And then the growth rates, Duffy, are in the 4% to 5% range.

Thomas F. Kelly

Senior Vice President-Engineered Materials, Celanese Corporation

A

Yeah.

Duffy Fischer

Analyst, Barclays Capital, Inc.

Q

Great. Thank you, guys. Have a great day.

Lori J. Ryerkerk

Chairman, Chief Executive Officer & President, Celanese Corp.

A

Thank you.

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

Angel O. Castillo

Analyst, Morgan Stanley & Co. LLC

Q

Hi. Thank you for taking our question. This is Angel Castillo on for Vincent. I just wanted to ask in terms of the synergies, it sounds like there's some investments that maybe aren't hugely material in terms of repurposing some of your existing capacity to be able to sell TPV in other regions. Just curious what are the overall costs of the synergies as we think about over the next few years?

Lori J. Ryerkerk

Chairman, Chief Executive Officer & President, Celanese Corp.

A

Yeah. When we looked at synergies, as we said, this is utilizing existing assets, taking advantage of existing networks and all these sorts of things. So, we actually don't see a hike – the cost to achieve the synergies is quite moderate. So, I mean, certainly, we've accounted for that in our numbers. But it's a very moderate level of investment. I would say it fits well within already what we've laid out in terms of capital spend over the next several years.

Angel O. Castillo

Analyst, Morgan Stanley & Co. LLC

Q

Okay. That's helpful. And then as we think about capital allocation going forward, so it sounds like no change to the buybacks. But if I'm not mistaken, you still have flexibility or capacity within your balance sheet to do more. So, how should we think about other allocations or uses of capital going forward in terms of other bolt-ons? I think in the past, you've talked about seeing opportunities in both ACT hose and perhaps other areas of EMs. So, curious what you've seen in there in terms of capital use.

Lori J. Ryerkerk

Chairman, Chief Executive Officer & President, Celanese Corp.

A

Yeah. Maybe to take a step back, I mean we've worked really hard as a company over the last two years to really strengthen the core of our operations, really driving reliability, driving quality, driving improvements in our supply chain and in our business models, which has really given us the confidence to effectively integrate and add substantial value uplift from a deal of this magnitude.

But that said, we have actually significant bandwidth remaining, not just financial as you referred to, but also in our people, in our systems, which we think will allow us to continue to pursue additional M&A activity, be they other bolt-ons of this size or even – or smaller or even still transformational activities.

As an example, recently we also just announced and have worked simultaneously the acquisition of Grupa Azoty, which although it's small is still a good add to our portfolio. And we've also had a number of smaller unannounced acquisitions during this time period. So, our teams have a lot of bandwidth. We have the ability to continue to do acquisitions. And we will not shy away from continuing to look at large acquisitions, including transformational if they become available.

Angel O. Castillo

Analyst, Morgan Stanley & Co. LLC

Q

That's very helpful. Thank you and congrats on the deal.

Operator: Thank you. Our next question comes from Hassan Ahmed with Alembic Global. Please state your question.

Hassan I. Ahmed

Analyst, Alembic Global Advisors LLC

Q

Good morning, Lori. Lori, I just wanted to go back to a question around EBITDA margins. It seems to me that if I were to take a look at the run rate sort of EBITDA that you guys mentioned, call it \$100 million, that the business under ExxonMobil was, call it, 25% EBITDA margins, if I factor in the sort of cost and growth synergies, you guys are talking about, you're probably going to take it from sort of the mid-20% EBITDA margin level to the mid-30s.

So, first question is, is that the right way of thinking about it? And part and parcel with that is that you obviously mentioned 2020 was a bit of a quirky year in terms of obviously auto volumes. And then in 2021, I would imagine with sort of what's happening in polypropylene, we've seen some volatility as well. So, could you actually address in terms of EBITDA margins, what that volatility look like?

Lori J. Ryerkerk

Chairman, Chief Executive Officer & President, Celanese Corp.

A

Yeah. So, let's start with your first question, I mean, I think if you look at the simple math, I mean, Exxon's been delivering over the last five years \$100 million EBITDA on approximately \$0.5 billion sales base. So, they're probably around a 20% EBITDA margin historically. And we believe there's synergies and other uplift. We will get that to margins consistent with the rest of our EM portfolio, which is in the high 20s, high 20% to 30%. So, I would think of the business that way.

And again around raw material volatility, what we're seeing in 2021, we do think is a bit abnormal with EPDM and it has to do with the [ph] freeze (00:27:04) and all the other things that we've seen impact a lot of our other businesses in a very unusual way. Going forward, we would expect the same level of volatility in raw materials for this, for Santoprene as we do for our other Engineer Materials.

And I would say once we have the ability to apply the same kind of business model, look forward pricing models that we use, we would expect to see a good dampening of it. Santoprene, like our other businesses, is really value and use based for kind of two-thirds of the materials. So, again, it's very similar to our Engineered Materials portfolio. And so, we think we will be able to moderate that volatility much as we have with our Engineered Materials over the past many years.

Hassan I. Ahmed

Analyst, Alembic Global Advisors LLC

Q

Understood. Very helpful. And as a follow-up, could you just broadly talk about what you guys are seeing in the M&A market? And where I'm sort of coming with that question from is that it just seems that coming out of the pandemic or during the pandemic, there was a hesitation certainly on the part of sellers to sell at what they considered to be sort of depressed or trough sort of profitability levels.

So, have you begun to see the M&A market open up? Are you seeing more opportunities than normal? I just want to sort of get your views on what we should expect in terms of bolt-ons from you guys going forward. Is it a point in time where we should expect above trend bolt-ons, below trend, and just broadly on M&A in general?

Lori J. Ryerkerk

Chairman, Chief Executive Officer & President, Celanese Corp.

A

Yeah. I think overall in the M&A market, both bolt-on and transformational, I mean, you can see there are more deals getting done. It has started to open up especially as we get into 2021. And people can start looking at 2021 earnings, as well as having a better outlook into what 2022 will look like. So, I think we're still opening up. But that said, there's a lot of cash out there and there's a lot of competition for products – projects.

So, it is a very competitive M&A market as we saw with the bid process for Santoprene. But we do think still a lot of opportunities for us as we go forward over the next year or two.

Hassan I. Ahmed

Analyst, Alembic Global Advisors LLC

Q

Very helpful, Lori. Thanks so much.

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

David Begleiter

Analyst, Deutsche Bank Securities, Inc.

Q

Hi. Thank you. Lori, just looking back at the EBITDA, how does the 2022 EBITDA forecast of \$115 million compare to pre-pandemic 2019? Is it similar, higher or lower?

Lori J. Ryerkerk

Chairman, Chief Executive Officer & President, Celanese Corp.

A

No, I mean, 2022 will still be higher than 2019. I mean, there's some other dynamics going on there at that time. But again, if you look at as we already start to see raw materials starting to moderate a bit for EPDM, for PP, for other components, we should get the benefit of that as we move into 2022. And then, as we apply our models and business practices, we think that will be a sustainable level of earnings, which will only grow as we apply benefits from the synergies we'll get.

David Begleiter

Analyst, Deutsche Bank Securities, Inc.

Q

Very good. And just this is the last day of the quarter, can you give us an update on how trends progressed throughout the quarter here?

Lori J. Ryerkerk

Chairman, Chief Executive Officer & President, Celanese Corp.

A

Yeah. I think clearly everybody can follow what's publicly available for the acetyl industry pricing levels in China and elsewhere. And as you've seen, these have really held up at elevated levels. We see demand for acetyl continuing to be very strong globally. And with the pent-up demand and typical outage activities, supply levels have continued to be strong but still short. And so, we've not yet seen a return to normalized pricing as we had anticipated back in April.

So, given that strength, we do expect to be above our previously published Q2 guidance. And again, there's no question we think these pricing models will moderate. The question is when and how quickly.

Obviously, we're just wrapping up Q2 now. Once we close the books and report earnings, we'll be in a position to give more detail on our drivers for – based on Q2 and what we expect to see as we flow into Q3 and overall what that means for the second half of the year. But overall I would say, clearly, [ph] ACT dynamics (00:31:40) remain very strong, Engineered Materials remain strong as well and in line with what we had previously put out in terms of guidance.

David Begleiter

Analyst, Deutsche Bank Securities, Inc.

Q

Thank you.

Operator: Our next question comes from Matthew Blair with Tudor, Pickering, Holt & Company. Please state your question.

Matthew Blair

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

Q

Thank you. Lori, I think there was a comment that the expansion CapEx figure is pretty low. Is there a maintenance CapEx number you could share? And really what I'm hoping is that we could translate that \$115 million EBITDA figure into a free cash flow number.

Lori J. Ryerkerk

Chairman, Chief Executive Officer & President, Celanese Corp.

A

Yeah. Look, I don't have an exact number to share with you but what I will say is this is a high free cash flow business. It is a pretty low maintenance cost business and certainly maintenance CapEx. I mean this is actually a pretty small footprint and a pretty low capital investment for these facilities given the nature of the process itself. And Exxon has a highly efficient process maybe compared to some competing technologies out there. So, we really don't see this – again, I wouldn't think of this adding any significant CapEx spend to what we've previously shared with you in terms of our CapEx numbers going forward.

Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.

A

Matthew, as we look at M&A targets, we do look at are the business models in the way businesses operate, does it fit with how we operate? And as you know, we like a concentrated manufacturing footprint. So, the fact that we're getting two assets and we can then add capacity at our existing assets in Asia, we think fits very much in line with our base business, which is really high generation of free cash flow. And that was one of the things that really attracted us to this business in addition to what we think is a really attractive synergy environment.

Matthew Blair

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

Q

Absolutely. And then can you comment in terms of the sales process? Was this an auction or was it directly negotiated?

Lori J. Ryerkerk

Chairman, Chief Executive Officer & President, Celanese Corp.

A

No. This was – we did go through an auction process and so, we went through several rounds in the auction and got to exclusivity with Exxon just a few months ago as we worked through that process.

Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.

A

Yeah. And Matthew, with any auction process, there's a lot of work, and so we really thank our internal team who spent many, many hours working through this in partnership with ExxonMobil, the seller here on this deal, and thank them for all their efforts.

Matthew Blair

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

Q

Great. Thank you.

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

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Q

Yes. Good morning. Lori, if we look back to the 2017 through 2019 timeframe, Celanese did a number of deals in EM, including SO.F.TER. and Nilit and some smaller ones as well. The last two years or shall I say the first couple of years of your tenure have been more quiet. Does today's announcement mark a change? Do you see significant potential for acceleration for external growth in Engineered Materials over the next three to five years?

Lori J. Ryerkerk

Chairman, Chief Executive Officer & President, Celanese Corp.

A

Yeah. I wouldn't say it marks a change. I mean, we've certainly spent the last two years, including the time during COVID when it was not a good environment, which accounts for over one of those years, really working on strengthening our core, adding organic capital investment, which we hadn't been doing aggressively in a long time and really putting our money to use in what we thought would be the most value-adding applications. Obviously, we have continued to look at M&A and we've done a – like we did Elotex, we did Grupa as I said, a number of other smaller M&A that were not significant enough to actually publish.

So, I would say we've remained active in the M&A market. It's just the environment for M&A in late 2019, 2020 was not great. But we've continued to be active and continued to make deals where it was possible, where it was value-added. We are extremely disciplined in what we go after and what we ultimately agree to do and, frankly, walked away from several potential M&As because they didn't meet our value criteria. So, I wouldn't say it's a marked change. I would say that the market is starting to open up. And so, there may be more opportunities now as we go forward as compared to the last two years.

Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.

A

Yeah. Kevin, we've done with what I would say is really a purposeful push here to drive value. Over the last year, we've done two of the largest deals in company history with, first, the divestiture of the Polyplastics business and then putting that cash to work first in share buybacks to make it initially accretive, and now taking the balance of that cash and deploying it here for this deal, which post-synergies, we think, will add at least \$0.90 of earnings. That's about \$1 of value creation that has come from these two deals.

So, we definitely – even though the market hasn't been great, we have done everything we can to continue to push and take advantage of the opportunities that are in front of us.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Q

Understood. I appreciate the color there. And then, secondly, if I may, I wanted to ask you about the end-use market exposure. If I look at slide 5, it appears as though about 65% of sales are derived from the combination of weatherseal and non-weatherseal applications in autos. Generally, your exposure to autos, in my mind anyways, has been dwindling for more than a decade. So, how do you weigh the concentration in a cyclical end use market with the benefits associated from more substrates cross-selling opportunities and growth in general? How are you thinking about that balance?

Lori J. Ryerkerk

Chairman, Chief Executive Officer & President, Celanese Corp.

A

Yeah. So, I'll make a few comments and then Tom may want to add in. I mean, if you look – our current portfolio in EM, as we've said many times, currently makes up, say, about a third of EM. And so, on a pro forma basis, when you combine this with Santoprene, that's only growing to 40%. So, that is not a huge change, substantially increasing our exposure to a single end use market. And we do think there are great opportunities in auto, not just the recovery, not just the pent-up demand, but also future mobility. And we see, as Tom laid out in his example, we see great opportunities for Santoprene into electric vehicle, consistent with our push into electric vehicles for some of our other models. So, we don't see this as – this is not – that is an ICE engine end use. This is about also pushing this into other high-end applications, specifically in EV.

And then we do think Santoprene will be highly additive to other high-value applications like medical, like consumer appliances and some other markets like construction, which Tom pointed out which we're currently not in. So, yes, it is currently heavily weighted towards auto. We don't think that skews us too heavily that way, but we really see the opportunities to grow other end uses that will eventually probably bring us more back in balance against – across end uses.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Q

Perfect. Thanks very much.

Brandon Ayache

Head-Investor Relations, Celanese Corp.

A

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

Operator: Thank you. Our final question comes from Matthew DeYoe with Bank of America. Please state your question.

Matthew DeYoe

Analyst, Bank of America Merrill Lynch

Q

Thanks. So, if we look at growth going forward in Santoprene, from a high level, is this going to be kind of like an OEM vehicle and industrial production play? I know you talked about the EV opportunity for content increase. But are there other substitution opportunities to drive growth in excess of market just as we think about the profile for the business?

And then somewhat related, if I think about Celanese's EM business as highly solutions-based and utilizing the technology to penetrate new markets, I mean is this an opportunity for Santoprene as well or do you see this particular product is kind of best fit for where it is as far as [indiscernible] (00:40:18)?

Lori J. Ryerkerk

Chairman, Chief Executive Officer & President, Celanese Corp.

A

Go ahead, Tom.

Thomas F. Kelly

Senior Vice President-Engineered Materials, Celanese Corporation

A

Yeah, so couple of comments I would make. Certainly Lori laid out the case for automotive pretty well, right? You've got recovery in auto and strong growth in auto expected for the next several years, plus increasing content being certainly a major reason why this makes a lot of sense and really we see this as a homerun.

But you think about medical, right, there are a diverse range of applications that they're in today but at a very low level and some that are very highly demanding, right? You think about the tubing for peristaltic pumps that are used in hospitals, where you need really tight control of delivery of these solutions, a perfect example where Santoprene plays today, but could grow pretty substantially.

And we haven't even talked about how we leverage our current medical channel, which has been built up to move our products and use that to move Santoprene through, say, for example areas of drug device delivery. So, we see huge potential ahead in medical, and as Lori mentioned, building and construction and other applications.

I think in terms of technology, one of the things that we've learned through due diligence and having a clean team setup to do that is, there's a lot of intellectual property at ExxonMobil both in terms of patents and trade secret that we feel like is really untapped. And it's something that we can leverage with the functionality that we've developed over time in our broader portfolio to maximize the value in some new and emerging applications as well. So, we just see huge potential in front of us.

Matthew DeYoe

Analyst, Bank of America Merrill Lynch

Q

Thank you.

Operator: Thank you. I'll now turn it back to Brandon Ayache for closing comments.

Brandon Ayache

Head-Investor Relations, Celanese Corp.

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

Operator: Thank you. This concludes today's conference. All parties may disconnect. Have a great day.

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