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Celanese Corp. (CE)

Q3 2019 Earnings Call

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President, Chief Executive Officer & Director, Celanese Corp.

Scott Richardson

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Todd Elliott

Senior Vice President-Acetyls, Celanese Corp.

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Analyst, Morgan Stanley & Co. LLC

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Michael J. Sison

Analyst, Wells Fargo

Robert Koort

Analyst, Goldman Sachs & Co. LLC

John Roberts

Analyst, UBS Securities LLC

P.J. Juvekar

Analyst, Citigroup Global Markets, Inc.

Duffy Fischer

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Analyst, Bank of America Merrill Lynch

MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to Celanese Corporation Third Quarter 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Chuck Kyrish, Vice President, Treasurer and Investor Relations. Thank you, sir. You may begin.

Chuck Kyrish

Vice President, Investor Relations and Treasurer, Celanese Corp.

Thank you, Christine. Good morning and welcome to the Celanese Corporation third quarter 2019 earnings conference call. My name is Chuck Kyrish, Vice President, Investor Relations and Treasurer. With me today are Lori Ryerkerk, Chief Executive Officer; Scott Richardson, Chief Financial Officer; and Todd Elliott, Senior Vice President, Acetyl Chain.

Celanese Corporation distributed its third quarter earnings release via Business Wire and posted prepared remarks about the quarter on our Investor Relations website yesterday after market close.

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 include forward-looking statements. Please review the cautionary language regarding forward-looking statements, which can be found at the end of the press release as well as the prepared comments document. Form 8-K reports containing all these materials have also been submitted to the SEC.

Since we published our prepared comments yesterday, we will now open the line directly for your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Thank you. Our first question comes from the line of Vincent Andrews with Morgan Stanley. Please proceed with your question.

Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

Q

Sorry, I had you on mute. Could you give us a bridge of – I'm just looking at the guidance for 2020 versus your midpoint for the full year of 2019. The low end would be 13.4% growth and the high end would be about – over 20%. So, if you could just help us bridge to the low end? I understand the high end would require some economic improvement we all understand what that would be.

Lori J. Ryerkerk

President, Chief Executive Officer & Director, Celanese Corp.

A

Vincent, thank you. Let me start with what we said last quarter where we bridged kind of from the \$10.50 to the \$12 because I'm going to use the same factors. If you remember when we were going from \$10.50 to \$12, we kind of said it was a third – market demand, business growth, a third – sorry, a third productivity and a third from our cash deployment, whether that would be M&A or share buyback.

So, if we look at this year, excluding the impact of Clear Lake, we feel like the year would end around \$10. And so, if we add productivity to that, that's \$0.50, if we add the cash deployment to that, again, that can be either M&A or share buyback, that's another \$0.50. That gets us to the \$11.

So, the \$11 that we reflected in that outlook for 2020 is assuming, basically, current market conditions. Obviously, if we get any upside going forward from an improved demand environment or price that can move it towards the \$12.

Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

Q

Okay. And as a follow-up, when we think about Engineered Materials into next year, the volume has been trending lower and you talked about destocking last quarter, and maybe this quarter there's a bit of residual destocking. But as we enter into 4Q, should we start to see volume turn positive again and what type of volume growth do you think you can expect for 2020?

Lori J. Ryerkerk

President, Chief Executive Officer & Director, Celanese Corp.

A

Yeah. So for Engineered Materials, I mean, we are up sequentially on volume, second quarter to third quarter. We saw the volume up about 3%. So the residual destocking that we referred to was really pretty specific to Europe where we saw autos declined another 15% quarter-on-quarter. So that's really specific. I would say, consistent with what we said last quarter, we really didn't see signs of destocking in China. In fact, we saw a volume growth in China and the US stayed flattish so we think we were at the bottom of the destocking last quarter.

So, really, the residual destocking was just in Europe. So for Engineered Materials, volume up second quarter to third quarter by about 3%. Going into the fourth quarter, I don't know that we'll see volume growth. We see some

seasonality typically in the fourth quarter. We see China continue to grow in advance of their first quarter holiday. But typically in the US and Europe, we continue to see slowdown. So I don't expect volume growth third quarter to fourth quarter. But certainly, we expect volume growth based on the project wins that we've had this year, as well as just normal seasonality into the first quarter next year.

Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thank you very much.

Operator: Our next question comes from the line of Jeff Zekauskas with JPMorgan. Please proceed with your question.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Q

Thanks very much. How many shares did you buy back in the third quarter?

Scott Richardson

Chief Financial Officer & Senior Vice President, Celanese Corp.

A

Yeah, Jeff. So we bought about \$275 million worth of shares, and that was at roughly a price a little over – between \$105 and \$106 a share. So that's kind of where we finished, and we expect to finish the year at about \$1 billion of repurchases for calendar year 2019.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Q

So I assume that means that you bought no share since September. Is that right?

Lori J. Ryerkerk

President, Chief Executive Officer & Director, Celanese Corp.

A

No, we've been steadily buying shares since September. Prior to that, we were more opportunistically buying them, but since then we've just had a steady pattern of repurchase.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Q

Okay. Great. Thank you very much.

Operator: Our next question comes from the line of Mike Sison with Wells Fargo. Please proceed with your question.

Michael J. Sison

Analyst, Wells Fargo

Q

Hey. Good morning. Lori, when you think about leverage to maybe better times and the extra dollars, is that \$1 to \$12 – I'm sorry. Is the extra \$1 per share to \$12 kind of evenly split between the Acetyl Chain and EM, and what do you think needs to happen in terms of those segments to sort of get that extra push?

Lori J. Ryerkerk

President, Chief Executive Officer & Director, Celanese Corp.

A

Yeah. Mike, I think that's right. I would say it's pretty much evenly split between Acetyls and EM. We don't expect any year-on-year growth, obviously, in Acetate Tow. I think in Acetyls, that growth – of course we're already assuming no impact from Clear Lake, but that growth really probably comes from tightness in the market and improved pricing into next year.

In EM, I would say it comes from volume with no destocking and starting to move closer to a return to normalcy in terms of market conditions and demand.

Michael J. Sison

Analyst, Wells Fargo

Q

Right. And then in terms of acquisitions, given that it is an area that could boost earnings next year, any thoughts on the environment size, where do you think the opportunities are focused on going forward?

Lori J. Ryerkerk

President, Chief Executive Officer & Director, Celanese Corp.

A

Yeah. So if you look at our use of cash, our first priority is really organic investment. And if you look, of course, this year we are up against \$400 million for CapEx, next year that goes up to \$500 million, and that's really investment organically in ourselves in growth projects and productivity projects. So that's kind of a first use of cash next year.

M&A, we continue to look at everything, bolt-on acquisitions to transformational. Look, we haven't found anything yet this year we wanted to invest in, quite frankly, because we have a lot of people wanting to get [ph] 18 kind of multiples when we're in a 19 price (00:08:57) environment. So we're only going to do an M&A if it makes sense and it's the right price and it adds value to the shareholder, and we just haven't found that.

So if we look forward into next year, we're going to continue to look for opportunities. Clearly, our main focus is on the EM side, trying to acquire additional molecules or different technologies or additional geographies that we want to be in. But, quite frankly, we don't have anything lined up at this point, we just continue to look to see what's out there and talk to various companies that we think would be attractive.

Michael J. Sison

Analyst, Wells Fargo

Q

Got it. Thank you.

Operator: Our next question comes from the line of Bob Koort with Goldman Sachs. Please proceed with your question.

Robert Koort

Analyst, Goldman Sachs & Co. LLC

Q

Thank you. Good morning. Lori, could you talk a little bit about...

Lori J. Ryerkerk

President, Chief Executive Officer & Director, Celanese Corp.

A

Good morning, Bob.

Robert Koort

Analyst, Goldman Sachs & Co. LLC

Q

...maybe some specifics, on the supply chain improvements you've got teed up in Engineering Materials (sic) [Engineered Materials] (00:09:50), what sort of efforts are you making – or could you give some granularity on exactly what you're doing there.

Lori J. Ryerkerk

President, Chief Executive Officer & Director, Celanese Corp.

A

Yeah. So, Bob, really as we've grown our EM volumes and particularly after we had the acquisitions over the last couple of years in nylon and TPE and a few other product lines, we've really found we were straining our supply chain system because we've added a lot of SKUs. We've added a lot of small volume materials, and while this is good for earnings, it has been a strain on our supply chain system as it exists today which is largely manual or Excel spreadsheet based.

And so really let's step back and say, okay, what do we need to do right now to make sure we continue to deliver high-quality product to our customers on time. And so we've taken efforts over the last six to nine months really to strengthen our existing system, so we've added some people, we've added some processes to really continue to do it manually but to do it more effectively and more efficiently. Our next phase is really – and that kept us running well and kept us in good shape with our customers, but our next phase is really to try to automate that, so we're looking at more IT overlay, more use of, for example, better forecasting using statistics versus the very manual process we have, an IT system that handle SKU better, add a bar coding at our sites where we don't have it to – make this all more automated. And so that effort is going on now, phase two, we're working with the consultant to really identify the systems and the pathway to do that and that should be completed over the next 12 to 18 months.

Robert Koort

Analyst, Goldman Sachs & Co. LLC

Q

Got you. And could you give us on the acetic acid side maybe a look around the world in terms of operating rates. And I'm particularly curious in China. I know you guys had talked in the past about maybe seeing a few more plants there might come out of the market and help tighten things. Where does that stand these days? And I guess, I saw your main rival there is thinking about adding a million-ton plant in China. So, what's sort of the outlook you guys see there?

Lori J. Ryerkerk

President, Chief Executive Officer & Director, Celanese Corp.

A

No, I think, Bob, if you look over the last few years, we've seen a few plants come out for environmental and other reasons in China. We haven't really seen any build. As we have, we've seen a few people maybe [indiscernible] (00:12:23) capacity a bit. But I'd say volume supply has been flat to maybe slightly declining in Asia and really around the world. We also saw the announcement. Obviously, that would take some time to get built, and maybe I'll ask Todd to comment more specifically. But generally, I'd say we think we've seen supply be fairly stable.

Now, in 2018, there was a lot of outages in the industry which helped tighten supply a bit. This year, we've not seen as many outages. So, going forward, other than our expansion in Clear Lake, now, the one that's just been announced, we haven't seen any other build going on. And quite frankly, the economics for most people haven't supported bills other than the kinds of things we've been able to do with capacity creep and very economical builds versus greenfield build.

So, Todd, do you want to [indiscernible] (00:13:22)?

Todd Elliott

Senior Vice President-Acetyls, Celanese Corp.

A

Yeah. Bob, hey, it's Todd Elliott. We're tracking with our reconfiguration project in Clear Lake. Of course, we're adding about 800,000 tons there in Clear Lake by 2022. So, permits in place, both, for that as well as the methanol expansion plant for Clear Lake. So, that tracks. That will, we think, be the first world-scale best technology unit that hits the marketplace in the near term. So, we're tracking towards that date.

More specifically to your question, today, if you just look at utilization rates, I think you're focused mainly on China. Of course, 2018, we saw utilization rates around the world push up into the 90% range both globally, as well as in China. China fell down to the probably under 70% utilization rates for most of this year. We saw that nudge up towards the end of Q3. We would call utilization in China around 70% and then towards the end of Q3 probably around 75%. So, we actually saw some improvement. Some of that was supply related due to some supply disruptions, as well as improved demand prior to the Chinese national holiday. So a little bit better trading conditions in China at the end of Q3. We also saw pricing move up at the end of the quarter. I think the question now is, is that sustainable. We're watching that, of course, as we're into Q4 and certainly looking for better conditions into the new year, really main focus on demand recovery.

Robert Koort

Analyst, Goldman Sachs & Co. LLC

Q

Got it. Thanks.

Operator: And our next question comes from the line of John Roberts with UBS. Please proceed with your question.

John Roberts

Analyst, UBS Securities LLC

Q

Thank you. In Acetyls, you drove down the inventories of the downstream products to make up for the shortfall. It sounds like you plan on rebuilding those inventories. Why not just continue with low inventories at least into early next year given the economic backdrop here?

Lori J. Ryerkerk

President, Chief Executive Officer & Director, Celanese Corp.

A

So, look, we do have lower working capital this year that is certainly helping us. Typically, we have lower demand for VAM and emulsions in the fourth quarter for seasonality anyway, so that's quite frankly why we felt comfortable driving down our inventory. Look, it's just a choice point. Typically, we see a good pickup in first quarter and there's lower raw material [indiscernible] (00:15:49) right now, so we still think it makes sense to take advantage of that lower raw material costs and rebuild inventories to the extent we can in the fourth quarter.

Todd Elliott

Senior Vice President-Acetyls, Celanese Corp.

A

And maybe, John – it's Todd again. Just to add on, this shift to derivatives has been intentional this year, I mean, we saw opportunities to move about 5% of our acetic acid mix downstream to either vinyl acetate or to emulsions, and I think we mentioned in the prepared remarks, we're up over 15% year-over-year if you just look at our volume patterns downstream to those derivatives. We think that that's been a positive move that's allowed us to

keep earnings up around under \$190 million all year, really since Q1 all the way through, and maintaining margins above 20% on an EBIT as percentage of sales basis. So that intentional shift to derivatives, we think, has been the right call from an activation perspective this year as we saw better opportunities in those trading conditions.

John Roberts

Analyst, UBS Securities LLC

Q

And then as a follow-up, in engineered plastics, you cited both light-weighting of traditional vehicles and EVs as both growth drivers here. Could you just remind us of the relative Celanese content in a typical traditional vehicle versus a, I don't know, if there is one, an average EV? So, is content higher on the EV side?

Lori J. Ryerkerk

President, Chief Executive Officer & Director, Celanese Corp.

A

I would say – so the opportunity for content is higher on the EV side because, obviously, you have the battery which requires film which we provide a lot of. There's also a lot more electrical connections in an EV vehicle than a traditional vehicle. So the opportunity for content is higher on EV. But frankly, EVs are still a very small percentage of the fleet. So we have a – we're happy with the amount of content we currently have in EVs, but it's still a small percentage. So ICE vehicles are still highly important to us now and for the next many years.

The good news there is we continue to have good penetration in auto, we continue to increase the amount of content that we have in vehicles. You might have seen the comment that we've grown more than 11% annual growth rate in the amount of kilograms per vehicle. Now, about two-third that actually comes from our M&A and that's why we did the M&A to acquire nylon and TPE to have that opportunity to penetrate more in vehicles, about one-third from our kind of legacy materials.

Obviously, volume is a metric [indiscernible] (00:18:12) also very important on what is the value of the materials we're putting in vehicles because we want to be contributing high value, high margin, obviously, polymers into vehicles. So, we're looking at both. But again, all of the trends light-weighting, avoidance of paints because of emissions or odor or durability, replacement of other plastic for functionality, these are all important trends both in ICE and EV.

John Roberts

Analyst, UBS Securities LLC

Q

Okay. Thank you.

Operator: Our next question comes from the line of P.J. Juvekar with Citi. Please proceed with your question.

P.J. Juvekar

Analyst, Citigroup Global Markets, Inc.

Q

Yes. Hi. Good morning.

Lori J. Ryerkerk

President, Chief Executive Officer & Director, Celanese Corp.

A

Good morning, P.J.

P.J. Juvekar

Analyst, Citigroup Global Markets, Inc.

Q

A question on Acetyls. Looks like you pushed more acid into China. And then in the Western world you diverted more volumes to VAM and emulsions. Is that a strategy sort of going forward? You had a similar strategy last quarter. And what is the future of Singapore plant? You talked about rationalization in Asia. So what is the future of Singapore plant especially in light of the new capacity announced by BP? Thank you.

Lori J. Ryerkerk

President, Chief Executive Officer & Director, Celanese Corp.

A

Yes. So thanks, P.J. So, really our strategy in Acetyls is to follow the money. So if you look at second quarter, we actually pulled volume out of China into the Western Hemisphere where acetic acid pricing was better. We pulled it into VAM and other derivatives where pricing was better.

As Todd referred to earlier, we've actually seen an increase in pricing in Asia, especially here at the end of the quarter and demand for volume to actually move more volume back into China, we moved volume out of Europe where we saw a real softening in the third quarter. And as we started to see softening in the Americas moved volume out as well. So we're really – that is our business model which is to have the flexibility and capability to move our molecules around between regions and between acetic acid and derivatives in order to maximize our returns and that's how we deliver pretty stable Acetyl Chain returns.

And as far as Singapore, I mean we're still working through that. Obviously with the announced expansion in Clear Lake we've said we'll take capacity out of Asia. We are still looking to see how everything develops in terms of pricing in China, pricing in Singapore, obviously IMO 2020 and the impact on pricing for fuel oil could have an impact around that decision. So, we are still preserving our options in both cases until we see where the economics lead us.

P.J. Juvekar

Analyst, Citigroup Global Markets, Inc.

Q

Thank you. And a question for Scott. Scott you did a \$275 million buyback, you're on pace to buy \$1 billion worth of stock. It looks like the tuck-in acquisitions aren't quite there. So can you give us an update on the overall M&A strategy. There is some talk about strategic split or [ph] an RMP (00:21:24) transaction. So can you talk about that and generally sort of the ongoing consolidation in the industry? Thank you.

Scott Richardson

Chief Financial Officer & Senior Vice President, Celanese Corp.

A

Yeah. Let me hit the buyback quarter first P.J. and then I'll let Lori comment broadly on M&A. So, we did \$275 million in the quarter that was at an average price around \$113. We've done \$775 million for the year at an average price between \$105 and \$106. This is kind of where we stood when we finished the quarter. We expect to finish at \$1 billion as I said earlier.

We're going to be opportunistic with that cash flow. We are increasing CapEx. Organic investment is our priority for extra cash, and we're taking CapEx up. We're going to finish around \$400 million this year. We'll take that up to \$500 million next year, possibly even a little more than that, as we have attractive projects. And that's always going to be our first choice.

Then we look at bolt-on M&A. In this environment, we have not seen people really being overly willing to sell in a more depressed economic environment. And so, we've repurposed that cash towards buybacks and will continue to do that opportunistically.

Lori J. Ryerkerk

President, Chief Executive Officer & Director, Celanese Corp.

A

Yeah. And, a transformational M&A, I mean, I know there's been a lot in the press, and many of you have written about it and taking certain positions. I think, correctly, many of you said, you weren't surprised by discussion of transformational M&A. And I think we've been very clear in here, and Mark before me, about we will continue to pursue whatever form of M&A is the most value added to the shareholder.

Look, we regularly use advisors to help us evaluate options. It's an ongoing activity, too, for us. That hasn't changed. And quite frankly, there's really no change in our philosophy around whether or not it's attractive to split the company. If at some point in time it becomes attractive to do a split because we've done other activities, we would consider doing that. But it is still our opinion that to split the company as it is today really wouldn't add value to the shareholder because of the dis-synergies associated with the split. And what we see is not much value uplift just from having a split [ph] short of (00:23:48) some sort of other transformational activity.

P.J. Juvekar

Analyst, Citigroup Global Markets, Inc.

Q

Thank you.

Operator: Our next question comes from line of Duffy Fischer with Barclays. Please proceed with your question.

Duffy Fischer

Analyst, Barclays Capital, Inc.

Q

Yes. Good morning. Just wanted to dig in a little deeper. You called out disappointing joint ventures in the EM segment. Can you kind of walk through Saudi and Korea and Japan and what are you seeing there that's disappointing? Is it structural? Is it just macro? Maybe kind of tease some of that out.

Lori J. Ryerkerk

President, Chief Executive Officer & Director, Celanese Corp.

A

Yeah. So I – look, I think the – let me start with Saudi with our Ibn Sina joint venture. We had indicated last quarter that we expected about a \$10 million uplift from Ibn Sina this quarter versus second quarter coming out of the turnaround in Ibn Sina. We actually only got about \$4 million, so a couple of things there. One is we have a little bit of residual turnaround expense that still hit the books in third quarter, and the other thing is we had a GAAP tax rate adjustment that we booked this quarter. So we didn't get everything we wanted out of Ibn Sina this quarter.

Also, if we moved to the POM joint ventures, what I would say is as we've really worked to move POM and as we've seen challenges in POM pricing with the downturn in auto, our joint ventures have suffered as well and maybe even more so than our own volumes. So we've not seen the returns from those joint ventures that we enjoyed, for example, say in 2018. But I would say it's generally reflective of general market conditions for the products that they make, and the regions that they make it more so than anything specifically around the operations of the joint venture.

Duffy Fischer

Analyst, Barclays Capital, Inc.

Q

Okay. And then in Tow with the shutdown of the Mexican plant happening this quarter, what's the impact of that on earnings? And then what should we see when we come out of that from kind of increased earnings on the

back side? And when will that hit? Will that hit squarely in Q1 or will we have to wait a little bit for that to flow through?

Lori J. Ryerkerk

President, Chief Executive Officer & Director, Celanese Corp.

A

Yes. So Ocotlán will shut down at the end of this month, as we had discussed earlier. There was about \$100 million to \$110 million of cost that came with that shutdown, \$10 million for personnel and another \$95 million of noncash items, so it really accelerated depreciation and impairment. So, we'll see those hit this year. That shutdown and the savings that come with it, going forward, make up a significant portion of the \$50 million of productivity we needed to see to maintain flat earnings in Acetate Tow going forward. So what I would say is, given that and the market dynamics, I would expect Acetate Tow going forward, so next year, to look very similar to it did this year, because these savings are already baked in to that.

Duffy Fischer

Analyst, Barclays Capital, Inc.

Q

Great. Thank you.

Operator: Our next question comes from the line of Ghansham Panjabi with Baird. Please proceed with your question.

Ghansham Panjabi

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

Q

Hey, guys. Good morning.

Lori J. Ryerkerk

President, Chief Executive Officer & Director, Celanese Corp.

A

Good morning.

Ghansham Panjabi

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

Q

I guess first off back to the 2020 guidance, Lori. How would you have us think about quarterly phasing as we think about 2020? And related to that, how are you thinking about volumes at the low end of guidance? How would that shake out by the two core segment, EM and AT?

Lori J. Ryerkerk

President, Chief Executive Officer & Director, Celanese Corp.

A

Yeah. So look, I wouldn't – we haven't really looked at it by quarter So I would assume quarterly volumes tend to follow what had been our historical patterns for quarterly earnings. I wouldn't think that's much different. We see some fourth quarter seasonality. We usually see some down in the first quarter for China. I mean I would just look to the past really for how the quarters tend to break out. We don't see that being very different this year.

I mean obviously we start to – we see this full-year impact of some of the expansion projects we've done, so that has some volume uptick in the Acetyl Chain, but we should also start seeing some volume impacts as well some productivity impacts from some of the new projects we've done in EM. So the new compounding lines that we've just completed in Nanjing and Suzhou.

So, I would – typically, we see increases in EM of kind of mid- to high-single digit, Acetate a little bit lower than that, a couple percent. I wouldn't say that a lot different next year. A lot of what we're seeing in terms of what's baked into the 2020 outlook is just similar markets to this year, the absence of Clear Lake and really productivity and cash deployment, so the things within our control.

Ghansham Panjabi

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

Q

Okay. And then in terms of the destocking comments you made specific to EM and Europe, do you see that sort of phasing through as we enter 4Q, or do you still think that there is going to be some residual destocking specific to autos for fourth quarter in EM? Thanks so much.

Lori J. Ryerkerk

President, Chief Executive Officer & Director, Celanese Corp.

A

No. Look, I really think if we look at fourth quarter, what we're seeing is pretty typical of the seasonality we see. I mean China, as an example, if we look at our order book in October versus July, China is up about 2%. That's pretty typical that we see China come up in the fourth quarter and have good demand in advance of Chinese New Years in the first quarter. On the other hand, the US and Europe were flat to slightly down across the sectors, which again is also fairly typical from a seasonal basis.

So I don't really see a lot more destocking occurring. Like we said, we saw it really in Europe as a result of the really severe decline in auto in the last quarter. But we really – every other signal is that we're really – we've really seen a destocking occur in all the other sectors, and so we don't expect destocking to occur in the fourth quarter. But again, we will see some lower volumes outside of China associated with just seasonality, both in Acetyls and EM.

Ghansham Panjabi

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

Q

Okay. Understood. Thanks so much, Lori.

Lori J. Ryerkerk

President, Chief Executive Officer & Director, Celanese Corp.

A

Thanks.

Operator: Our next question comes from line of Laurence Alexander with Jefferies. Please proceed with your question.

Laurence Alexander

Analyst, Jefferies LLC

Q

Good morning. Could you flush out some a little bit more detail what you're thinking about the longer term optionality for Acetate Tow, or what – to what degree the degrees of freedom there are more limited than you might have thought initially?

And secondly, can you update your thinking about opportunities to pull forward productivity in working capital efficiency gains in 2020-2021?

Lori J. Ryerkerk

President, Chief Executive Officer & Director, Celanese Corp.

A

Yeah. So, look, on the Acetate Tow, I think we feel confident going into 2020 of our ability to maintain relatively flat earnings. We do see pressure on volumes as we think, quite frankly, that's slowing down a little bit especially in China where, in fact, China recently we've actually seen growth in cigarette demand. So we do expect continuing volume and price declines in Acetate Tow. But with the Ocotlán's closure, with other productivity we still see and expect that to be able to maintain flat certainly through 2020.

Scott Richardson

Chief Financial Officer & Senior Vice President, Celanese Corp.

A

Yeah. And then on productivity in working capital, Laurence, I think a lot of the investments that we're making as we increase organic investment, a lot of those are tied to revenue generation, but it's also tied to productivity in working capital. So, for example, we've talked about the need to invest more in Engineered Materials in Asia. That improves our supply chain. It also lowers our overall inventory level. So a lot of this is very consistent with the investments that we're making. We've aggressively been working working capital now for a while. You've seen that reflected in the improvement of free cash flow. Productivity is – we've seen an uptick in productivity this year. We expect that cost reduction productivity to continue into 2020 because we're really focused on what we can control, what are the controllable actions that are unique to Celanese that are going to drive the earnings growth from 2019 to 2020 because as we said earlier we're just not expecting fundamental improvements in our end markets.

Laurence Alexander

Analyst, Jefferies LLC

Q

Okay. Thank you.

Operator: Our next question comes from the line of Kevin McCarthy with Vertical Research Partners. Please proceed with your question.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Q

Good morning. You've indicated about a \$500 million capital expenditure budget for 2020. I guess, two parts. Could you talk through how much of that is growth versus cost reduction projects and maintenance? And then more broadly, that's about double what the company was spending from 2014 through 2017. Should we think of \$500 million as a new normal level for the company, or would you expect that level to come back down in the out years as you complete your expansions in Texas, for example?

Lori J. Ryerkerk

President, Chief Executive Officer & Director, Celanese Corp.

A

Yes. Thanks, Kevin. Yeah. So it is about double. Let me characterize it for you. So if I look at historically where we spend, we spend roughly \$200 million a year for EHS and what I call maintain margin project, so reliability, [indiscernible] (00:33:59) of equipment, things we need to do just to keep the current assets running and running consistent with good safety standards and environmental compliance. So that's \$200 million a year.

We spend another \$200 million a year, like this year, \$200 million a year in productivity and revenue generation projects, so things like the Clear Lake expansion, things like improving energy efficiency of boilers, things that give us a high-quality, greater than 20%, return.

As we go up to \$500 million, all of that growth is really in productivity and rev gen, so it's the Clear Lake expansion projects. So I would just say \$200 million is kind of our base level run-and-maintain capital, and then everything you see above \$200 million is really towards productivity and revenue generation.

Just to put that in that perspective, our return on our total portfolio, including kind of those non-return-based projects, is greater than 20%. So we still have great opportunity to invest in ourselves, in value-added projects that will be a great return for the shareholder.

If I go past 2020, so 2020, \$500 million, if we go into 2021, 2023, we actually may see levels above \$500 million as we look at our Chinese localization projects, building additional EM capacity in China, other productivity and rev gen products around the globe. But I would say, kind of post that period of growth that we've outlined, we would return to the approximately less – the less than \$400 million level of ongoing capital.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Q

Great. That's very helpful. And secondly, if I may, I wanted to ask you to just talk through the outages in a little bit more detail. I saw in your management remarks last night that you had brought Singapore down for maintenance, I think, just prior to the incident at Clear Lake. Did you have other outages, and what's your latest thinking on when the CO unit might restart at Clear Lake?

Lori J. Ryerkerk

President, Chief Executive Officer & Director, Celanese Corp.

A

Yeah. So let me address Singapore first. So Singapore was a planned turnaround. The timing for the Singapore turnaround and the duration of the Singapore turnaround is tied to our CO producers' turnaround in Singapore. So we only have one source of CO in Singapore, and they had to take that unit on turnaround on a planned basis, and that really accounts for the duration of the outage in Singapore. So I would put that into the kind of normal operational bucket of events.

Clearly, Clear Lake was an unplanned downtime. We've been working through the impacts of that outage. As of today, methanol is back at full rate, [ph] acid has (00:36:59) restarted. And really at partial rates, and we'll be at partial rates until we get the CO plant up. VAM will be up before the end of the week. And we continue on our CO repairs which will put us back at full rate sometime within the fourth quarter.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Q

Fantastic. Thank you.

Operator: Our next question comes from the line of David Begleiter with Deutsche Bank. Please proceed with your question.

David I. Begleiter

Analyst, Deutsche Bank Securities, Inc.

Q

Thank you. Good morning.

Lori J. Ryerkerk

President, Chief Executive Officer & Director, Celanese Corp.

A

Good morning.

David I. Begleiter

Analyst, Deutsche Bank Securities, Inc.

Q

Lori, going back to BP's million-ton JV announcement, what do you think they're seeing in China that you're not as you might rationalize some of your capacity in that region?

Lori J. Ryerkerk

President, Chief Executive Officer & Director, Celanese Corp.

A

So, it's hard to comment. But as we've looked at that, I don't know that they're seeing anything we're not. What we do know is they have the demand for that much acetic acid in their own derivative system. And apparently, as we have done with methanol and others, they have decided that being more integrated along their value chain will give them greater value. So we wouldn't actually expect any of that acetic acid to show up on the market. We expect that to be consumed in their own derivatives, again, based on our view, but Todd may have more color on that.

Todd Elliott

Senior Vice President-Acetyls, Celanese Corp.

A

Yeah, David. It's Todd. We're just studying the news and trying to understand it better. I mean, this was, at least as far as we can tell, an MoU announcement at this point. So it's early days in the project. It will take some time to work through the details, I'm sure, and all the work that would follow in terms of engineering, ultimately timeline of project. As I said before, we're pleased that we're on track with our expansion in Clear Lake by 2022. So we think we'll be first with this capability.

I think Lori is right, I think this is largely an integration move upstream PX down through PTA and ultimately to polyester to service the Chinese localized demand for polyester in the region. So we think it's largely an integrated announcement. It will have little effect on the merchant market.

David I. Begleiter

Analyst, Deutsche Bank Securities, Inc.

Q

Got it. And just lastly on Acetate Tow, any potential for a price increase given perhaps higher supply/demand post closing of your Mexico facility?

Lori J. Ryerkerk

President, Chief Executive Officer & Director, Celanese Corp.

A

Yeah. So, we do believe in time as we rationalize, others rationalize, in the industry that there will be potential for price increase. I mean, quite frankly, what we see is for more transactional short-term contracts. We have been able to push through price increases for some of our longer term contracts, we've seen price decline. So it's about imbalance at the moment, but we certainly project, going forward, while there continue to be tension around price, we actually think the price environment will be fairly stable and, at some point in the future, some opportunity push price up.

David I. Begleiter

Analyst, Deutsche Bank Securities, Inc.

Q

Thank you.

Operator: Our next question comes from the line of Arun Viswanathan with RBC Capital Markets. Please proceed with your question.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Great. Thanks. Good morning. I just wanted to go back to the portfolio questions. In the past, I guess you had noted that the dis-synergies had kind of come down to around \$50 million a year from your prior estimate of \$100 million. Have you continued to make progress on bringing those down? And if so, how would you characterize that now at this point?

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

A

Yeah. So, look, we continue to always look at how we can do this, but there's a certain amount of dis-synergies which is always going to exist if you're splitting into two companies. You have to have standup two management team, you have to have two back offices. I mean, there is always going to be a certain amount of dis-synergies associated with that.

So maybe let me ask Scott if he has any more specific comments.

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

A

Yeah. I mean, you're right with that trajectory of statements that we've made in the past, \$100 million down to \$50 million. We continue to work it, work on the tax side of things, leakage, et cetera. So we have brought it down below \$50 million, but I would say it's closer to \$50 million than it is to zero.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Great. Thanks. And just kind of understanding when you think about China, what's it going to take for – what are some of the markers you're looking for to see that there is an improvement in primary demand or at least stabilization? Would it be inventory levels, or anything else that we should be watching? Thanks.

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

A

Yeah. Look, I think as much as anything, we look at price volatility. I mean, we're anxious to get further past this national holiday to see if demand returns prior to Chinese New Years. Obviously, the same factors affecting the rest of the globe, concern about tariff, concerns about global recession, these also impact China. But we're just looking for those signs of sustainable – kind of sustainable demand lift to occur. I mean, again, we saw an increase in Asia in the third quarter in volumes and price. It seems it's not greatly improving at the moment, but it's also not greatly declining. So we see that as somewhat favorable, but we need some sustainability in the response, which is probably what we haven't seen yet.

Todd, anything you want to add?

Todd Elliott

Senior Vice President-Acetyls, Celanese Corp.

A

No, I think that's right. In Acetyls, we – just like Lori said, we look at order books on a daily/weekly basis. Supply/demand, utilization trends are critical as it affects the pricing environment. Raw materials, of course, be it methanol or olefins, MTO rates.

Your point on, on inventory levels, I'm sure that's the same across the whole of the company, both finished good inventories on the customer side, particularly. I mean, so all of those classical markers is fundamental to what we track and watch all the time.

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Q

Thanks.

Operator: Our next question comes from the line of Matthew Blair with Tudor, Pickering. Please proceed with your question.

Matthew Blair

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

Q

Hey. Good morning. The prepared comments mentioned Nanjing was running at lower rates due to a request from local authorities. Was this around air quality and would you expect it to persist into the fourth quarter and 2020 as well?

Lori J. Ryerkerk

President, Chief Executive Officer & Director, Celanese Corp.

A

Yeah. No, you're exactly right Matthew. So what we had and when all of the industry had was a request by the Chinese government to reduce rates for air quality purposes in advance of the national holiday. Since then, they – when we went back and asked to have that lifted they were willing to do so, I think reflecting our long relationship with them and their understanding of our business need.

Since then, I think, that's mostly been lifted for most of industry in the fourth quarter. So, look, I expect it's going to continue from time to time in China. I would expect maybe it will happen again right before the Chinese New Year. That tends to be a pattern. So I think it will happen again. Right now, we're not seeing that being an impact on fourth quarter.

Todd Elliott

Senior Vice President-Acetyls, Celanese Corp.

A

I mean the good news is we were able to ramp rates back up as needed following the Clear Lake incident. So, we worked with a team there and certainly with the local government and we're allowed to run a full rate as we expected and that was helpful to cover the – from a network perspective the loss of the of the Clear Lake capacity.

The only other thing to watch maybe late in the years, the winter season, heating season, I mean, typically depending on the energy profile and sources for energy production and as well as industrial activity, there can be curtailment activity towards the kind of late November/December timeframe depending on various conditions. So, we'll watch that.

Matthew Blair

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

Q

Sounds good. Thanks. And then your EM project wins last year rose about 47%. You're on a similar pace this year, but EM volumes are down about 5% this year. Could you just help me reconcile those two numbers? I mean, I guess that implies your base business has seen some pretty significant volume declines. Is there anything changing in terms of the size of the profitability of the average project?

Lori J. Ryerkerk

President, Chief Executive Officer & Director, Celanese Corp.

A

Yeah. So, look, I would say the size of the average project, if you talk about volume, is less than it was, and it reflects the fact that we're doing more projects and more different types of projects. I think it's also important to realize that – look – these projects come in [indiscernible] (00:45:41) buckets, I mean, you have some that are very long-term-return projects. So, for example, in the medical field and some of the auto, some of these are projects that continue to pay out for five-plus years. And then, you probably have another bucket that maybe you get one year from that or maybe two years. And then, you have a number of them that are actually very transactional. So, it's a project that moves volume but it's a one-time move.

So, not all of these projects are things that pay out for five years. And so, what you see is while we can have up to 15% growth from EM projects in a year's timeframe, it could very well be that only 5% or something of those continue, and then, of course, you have attrition normally from other projects rolling off as well as just other attrition.

So, I mean, project wins is an important metric for us because it's just as how good are we generating materials. But they are smaller this year because of the economic conditions, and we are seeing kind of more attrition in the base with slower GDP and slower demand around the world. So, that all comes into play, but we still think it's important because this is what's allowing us to show the sequential quarter-on-quarter growth that we've shown in the last quarter is continuing to deliver these projects.

And as we referenced in our in our notes, we had a lot of great projects win this quarter. Now, not all that – that volume doesn't show up this quarter, it shows up many of those were long term, we'd some medical project wins, we had some auto project wins, we have some 5G project wins. A lot of those will show up over the next two to five years, not necessarily next quarter.

Matthew Blair

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

Q

Very helpful. Thank you.

Operator: Our next question comes from the line of Jim Sheehan with SunTrust Robinson Humphrey. Please proceed with your question.

James Sheehan

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Good morning. Thank you. How should we think about plant turnaround costs in 2020 versus 2019?

Lori J. Ryerkerk

President, Chief Executive Officer & Director, Celanese Corp.

A

Yeah. Great question. So turnarounds in 2020, we actually expect to be up about \$50 million. Overall, we have a number of big turnarounds next year including our joint venture methanol plant in Clear Lake, some of our POM units. So these are big units that only come up for turnaround every three to four years. So we do have a significant turnaround workload next year. But that's baked into our numbers. The additional productivity that we're delivering will help offset that, and that's already anticipated in the 2020 outlook that I gave you.

James Sheehan

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thanks. And regarding the General Motors labor union strike, how are you thinking about automotive shutdowns and whether the impact this year will be normal or above normal?

Lori J. Ryerkerk

President, Chief Executive Officer & Director, Celanese Corp.

A

Yeah. So, for the GM specifically, that's not a big customer of ours. We didn't have a lot of exposure to GM, so we haven't seen much impact from that. Clearly, there are other autos that would have had a bigger impact. I don't know that we've seen that as a major impact going forward for us. I mean, we tend to be spread across quite a lot. Obviously, we have a lot of auto in Europe that may be a bigger exposure. China, as we said, auto actually has picked up recently. Now, I expect some consolidation of auto in China. But again, I think we're well positioned for that.

James Sheehan

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thank you.

Chuck Kyrish

Vice President, Investor Relations and Treasurer, Celanese Corp.

A

Christine, we'll make the next question our last question.

Operator: Thank you. Our final question comes from the line of Matthew DeYoe with Bank of America Merrill Lynch. Please proceed with your question.

Matthew DeYoe

Analyst, Bank of America Merrill Lynch

Q

Thank you for squeezing me in. Can you just walk a little bit through the buckets on the productivity gains, the \$0.50 then, because if I recall from Duffy's question you had mentioned part of that savings is going to go to the savings from the closure in Mexico and then you just mentioned part of that will go to offsetting the maintenance expense next year which is already looking to maybe be offset by the \$45 million losses you're taking this year on Clear Lake. So, kind of where are those \$0.50 bucketing out and then does that mean the net gains from productivity are less than \$0.50?

Lori J. Ryerkerk

President, Chief Executive Officer & Director, Celanese Corp.

A

Yeah. So, well, no, no. I'd say – well, no, the net gain – this is net gain – is \$0.50. So, this actually because of turnarounds and everything else obviously requires a much higher level of productivity than that. So this is net what we get of plus turnaround, plus productivity et cetera, et cetera.

So, where does it come from? So Ocotlán as well as Lebanon as well as other shutdowns that we've had and footprint management reduction that goes into the productivity bucket.

There's a bucket in there which is we work very hard on energy and cost saving. In energy, like I said, boiler configuration, things to help lower energy usage. That goes into productivity. There's also raw material contracts and things we've done to buy forward or do things with [ph] raws (00:50:52) to manage our raw material cost versus the stock market, those, for example, going to productivity.

So, I'd say, those are the major buckets, as well as just normal optimization and maintenance spend, optimization of personnel. We've done a lot which you've seen show up in terms of rightsizing our organization and reorganizing for the most productive organization, you've seen some of the severance costs associated with that. So those are all buckets within productivity.

Matthew DeYoe

Analyst, Bank of America Merrill Lynch

Q

Thanks. That's helpful.

Lori J. Ryerkerk

President, Chief Executive Officer & Director, Celanese Corp.

A

Scott, do you have any other perspective on that? Okay.

Scott Richardson

Chief Financial Officer & Senior Vice President, Celanese Corp.

A

No, I think that hits it.

Matthew DeYoe

Analyst, Bank of America Merrill Lynch

Q

Okay. And then – so my last one, I guess, price was down about 2% sequentially and year-over-year in EM. I think you had mentioned POM – POM as being one part of weakness, but what are the other primary markets responsible for the softness? Is this competition or deflation in raws? And then on the latter comment, where are you seeing the primary savings in EM as your spread to raws has improved?

Lori J. Ryerkerk

President, Chief Executive Officer & Director, Celanese Corp.

A

Yeah. A good bit of it, I would say, is mix. I mean, in general, we've been able to hold our price in a declining raw material market, so that has helped us. But there – in a few of our materials, we've seen some mix impact, for example, less medical, more [ph] LIBS or less LIBS, more general GUR (00:52:17). I mean, so there's a few areas where that's happened. But I'd say it's kind of more the mix this year because, in general, we've been able to hold pricing despite a decline in raw materials across EM.

Matthew DeYoe

Analyst, Bank of America Merrill Lynch

Q

And then I guess with organic volume growth in EM, what would you say – or I guess the better question is how much did acquisitions contribute to EM volume growth on the quarter? Is that about 2% or something?

Lori J. Ryerkerk

President, Chief Executive Officer & Director, Celanese Corp.

A

No. So volume growth on EM was up about 3%. I would say most – all of that is organic. There wasn't a notable difference in terms of acquisition growth.

Matthew DeYoe

Analyst, Bank of America Merrill Lynch

Q

I was thinking year-over-year, sorry.

Lori J. Ryerkerk

President, Chief Executive Officer & Director, Celanese Corp.

A

And some of the acquisitions were the acquisitions which happened a while ago, so.

Matthew DeYoe

Analyst, Bank of America Merrill Lynch

Q

Yeah. I was just thinking year-over-year, but I can square that. Thank you.

Lori J. Ryerkerk

President, Chief Executive Officer & Director, Celanese Corp.

A

Yeah.

Operator: Mr. Kyrish, I would now like to turn the floor back over to you for closing comments.

Chuck Kyrish

Vice President, Investor Relations and Treasurer, Celanese Corp.

Thank you, Christine. We would like to everybody for listening in today and thank you to those who participated. As usual, we're around after the call for other questions. And, Christine, you can close the call right after that.

Operator: Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.

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