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Celanese Corp. (CE)

Q2 2024 Earnings Call

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Michael Sison
Analyst, Wells Fargo Securities LLC

Michael Leithead
Analyst, Barclays Capital, Inc.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to Celanese's Second Quarter 2024 Earnings Call and Webcast. 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, Bill Cunningham, Vice President of Investor Relations. Thank you. You may begin.

Bill Cunningham

Vice President-Investor Relations, Celanese Corp.

Thanks, Diego. Welcome to the Celanese Corporation second quarter 2024 earnings conference call. My name is Bill Cunningham, Vice President of Investor Relations. With me on the call are Lori Ryerkerk, Chairman of the Board and Chief Executive Officer; Scott Richardson, Chief Operating Officer; and Chuck Kyrish, Chief Financial Officer.

Celanese distributed its second quarter earnings release via BUSINESS WIRE and posted prepared comments on our Investor Relations website yesterday afternoon. As a reminder, we'll discuss non-GAAP financial measures today. You can find definitions of these measures as well as reconciliations to the comparable GAAP measures on our website.

Today's presentation will also include forward-looking statements. Please review the cautionary language regarding forward-looking statements, which can be found at the end of both the press release and prepared comments. Form 8-K reports containing all of these materials have also been submitted to the SEC.

With that, Diego, let's please go ahead and open it up for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We'll now conduct our question-and-answer session. [Operator Instructions] Our first question comes from Josh Spector with UBS. Please state your question.

Joshua Spector
Analyst, UBS Securities LLC

Q

Yeah, good morning. So, I wanted to ask on some of the moving pieces within Engineered Materials. I mean, obviously nice to see a good step up here in the second quarter, but I think there's been a constant debate around, where the market is, and what's stable and in your control versus what needs to have a market improvement. So, I guess, when you look at your expectations about the improvement into 2Q – I'm sorry, into 3Q and maybe a stable second half, what are you assuming behind the markets to get there, versus cost savings in your control?

And given all the cuts we've made to expectations, is this kind of the point where you feel like you're now conservative enough, or are there other things that you would have us watch out for? Thanks.

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

A

Good morning, Josh, thanks for the question. If we look at our Q3 guidance, I would say we're generally expecting things to be unchanged in terms of overall market conditions. We do expect a little bit of growth in auto builds in the second half, particularly in China, which I think it's consistent with what others in the industry are saying. But generally, everything else is pretty stable. We're not expecting a lot of down turn.

That said, we do continue to expect some moderate growth in our volumes based on the strength of our product pipeline. We also expect some continued growth in margin, based on synergy pull through and also pull through of lower cost raw materials in inventory. So, I would say, we don't need market improvement. I guess maybe other than that little bit in auto in order to achieve our second half outlook from an Engineered Materials standpoint.

Joshua Spector
Analyst, UBS Securities LLC

Q

And I guess within the auto side specifically, considering that's been an area of kind of weakening demand, is it specific new platforms on certain cars that has driven it? Is it regional with Asia? I guess, what gives you the confidence there specifically?

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

A

I think a lot of it is the work around the integration. We now have access to customers with Celanese materials that we previously didn't have, because of the contacts that our heritage DuPont had, particularly in non-China parts of Asia. And similarly, we have some outlets for some of the heritage M&M materials that we didn't have before.

And I think it's really, again, the project pipeline. I mean, we've been working now for, well, for a long time, but with the entire portfolio for 18 months to really identify those new customers, those new orders, those new areas within existing customers, and make sure that we're strong across all the platforms in auto, ICE, Engineered

Materials and hybrids. And we called out last quarter earnings, in fact, some of the applications we're getting on EVs with nylon, which is an area where DuPont doesn't necessary play.

Joshua Spector
Analyst, UBS Securities LLC

Q

Understood. Thanks, Lori.

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

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

Hey, good morning. In terms of the fourth quarter versus the third, it does look like you'll need some improvement sequentially at the midpoint, is a lot of that within your control, some of the factors that you've talked about in the past?

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

A

Yeah. If you do the math, you would expect that we need some additional lift in the fourth quarter. I would put it down to a few things. It should be our largest quarter of synergy capture. For the Engineered Materials, we should start seeing more of a full year run rate on Clear Lake as well have gotten through all the effects of the supplier outages, and a little bit from Hurricane Beryl in the third quarter. So that will be an uplift there.

I would also say our mix has changed. So, with the acquisition of M&M, we now have a higher presence in China. And so, we wouldn't expect as much seasonality now in the fourth quarter as we've typically seen with the heritage Celanese portfolio. So, all of those things come together. Again, we're not – other than this little bit of uptick that's being predicted in auto, we're not really expecting material conditions to change. So, it really will be the results of kind of the self-help, the activities that we've undertaken over the last 18 months.

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

A

Yeah. The one thing I'd add to that, Mike, is, is the work we're doing in the commercial organization in the Engineered Materials business. We integrated commercial teams in the early part of Q2 last year. And, the average length of time that projects sit in our pipeline is about 18 to 24 months. So, we're really coming up on that kind of first 18-month plateau here at the end of this year, in the fourth quarter, and going into next year. And given kind of the trajectory we've seen on the success of the volume lift from Q1 to Q2, we're really starting to see the benefit of that model play out with bringing M&M into that EM business. And so, you do have a little bit of an element of that as well from how we see the pipeline developing at the end of the year.

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

Right. And the quick follow-up, the macro hasn't been very helpful for you in general. So, if things get worse sequentially into the second half, what changes can you make to sort of hit this range? And then, how do you sort of help us think about 2025 and the ramp up potential of the earnings power for Celanese longer term?

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

A

Yeah, look, things can always get worse, right? And we've seen that. But I would also say, things have been certainly very challenging this year. And the results that we're delivering this year are really based on the remarkable efforts of our teams and their ability to innovate. The resilience that they've shown. And really, looking under every rock for sources of value. So, if it gets work that will continue. I would say, Europe, for all practical measures, has been in a near recessionary kind of condition. So, we think it's going to be stable based on what we can see in our order books right now, certainly for Q3.

As we go into 2025, we will continue to have self-help, which will help lift us in 2025. I think if you look at 2025, we can think about the run rate that we'll see in the second half of the year continuing through 2025, then we'll have another tranche of M&M synergies on top of that, as well as full productivity from Clear Lake next year and probably some additional interest rate benefits as well. So, I think, the things that we've seen this year will continue to compound into next year and raise the 2025 results. But frankly, it's just too early to tell what the fundamental economic conditions are going to be in 2025 yet.

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

Thank you.

Operator: Our next question comes from Mike Leithead with Barclays. Please state your question.

Michael Leithead
Analyst, Barclays Capital, Inc.

Q

Great, thanks. Good morning, team. A few questions on the acetyls force majeure. I guess first, are we still in force Majeure and when do you expect to fully resolve these disruptions?

Two, should we think about any insurance proceeds or any sort of restitution for you guys from these disruptions? And then finally, apologies if I missed this, but what is the all-in expected cost impact from this outage?

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

A

Thanks for the question, Mike. We are still in force majeure. The units obviously are restarted, running well, but it is a longish supply chain in the Western Hemisphere. So, we're in force majeure till we can reestablish those supply chains into Europe, which is the work going on currently. But we fully expect that we'll lift the force majeure sometime in this quarter.

In terms of restitution, we're really just focused right now, and have been focused in the second quarter on working with our suppliers to understand what the issues were, how we could get through them more quickly, how to address reliability issues going forward, how to make sure that we maintain really good relationships. That's really been our focus now. And we'll have discussions about any any form of restitution later.

Michael Leithead
Analyst, Barclays Capital, Inc.

Q

Okay. I'm sorry. And then just in terms of all-in cost impact?

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

A

I'm sorry, I just missed it. Yeah. So, we – this, this quarter, second quarter, I would say was about $35 million. And then next quarter, we'll see another $5 million to $10 million.

Michael Leithead
Analyst, Barclays Capital, Inc.

Q

Okay, great. And then I just wanted to follow up on some of the competitive dynamics in your product. I think in the remarks you noted, commodity nylon is below the cost curve. There has been some opportunistic pricing, if you will, in some other areas. I guess, what is your best kind of judgment about where we stand today, are we still atrophying in price in some of these areas? Are we stabilizing or have we started to recover here?

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

A

As you called out, Mike, I mean, we definitely saw price pressure on raw nylon polymer this last quarter. It has definitely gone down, and it's affected some of the margin uplift we expected from pull through. That said, I think this really points out the benefit of the strategy we took though to shut down standard grade polymerization at Uentrop and really be able to give ourselves flexibility in terms of where we choose to source raw nylon, polymer, and compound it for our customers.

So, that's really paid off. We would have seen more of a hit this past quarter if we hadn't done that. I would say on the other products, not as much pricing pressure as margin pressure as we've seen some increase in raw materials, especially think about POM, where we've seen some some increase in ethylene. So, those being the two biggest, I would say again, nylon, its price, but mitigated by the steps that we've taken. POM, we've seen pressure on ethylene pricing.

Michael Leithead
Analyst, Barclays Capital, Inc.

Q

Great. Thank you.

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

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Thanks very much. Were the outages at Clear Lake caused by anything else other than carbon monoxide difficulties, was there some other source of inefficiency in the quarter?

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

A

Yeah, thanks for the question, Jeff. Yeah, with the suppliers that we have and we talked about multiple suppliers, was really around several different raw materials that we source.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Several. So, it's a wider issue than CO.

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

A

Yeah, we're not talking about the specific materials, Jeff. I mean, at the end of the day, we talk about acetic acid and we buy several different raw materials for that.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Okay. And then secondly, can you talk about your preference as to whether you would sell acetic acid or you would sell VAM in the current environment? How are the – can you compare the profitability of those to chemical outputs?

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

A

Yeah, honestly, Jeff, it really does fluctuate week-to-week, region-to-region. And you know, we are looking at kind of where the different markets are at and kind of where they're trending based upon where the fundamental supply demand dynamics are. And, that is going to be kind of one way in one geography for the first part of the quarter. And maybe a little different.

I would say in general, we tend to be pivoting more, as we talked about last quarter in Asia more further downstream. We see more opportunities in our emulsions as well as our redispersible powders business to be able to grow in some of those areas. We talked in the prepared comments about some of the out-of-time substitution that we've been successful driving there, with the expanded capacities that we have.

In addition, with those expanded capacities, we've been able to really work with our customers in India, specifically to kind of help develop that market and really start to drive there. So, that has been a nice growth area for us more in the Asia side. And I would say it's a little more balanced than where we're selling in the Western Hemisphere.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Great. Thank you.

Operator: Our next question comes from Ghansham Panjabi with Baird. Please state your question.

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

Q

Hey, guys. Good morning. Lori, I just want to go back to my usual question on the sort of the macro pulse. Obviously, your volumes have been weak for several quarters, but just based on your sense as we spin around the world, do you feel like the macro is relatively stable on a consolidated basis, or is it just your own initiatives that are masking what is otherwise a sequential deceleration? And I'm just asking because obviously the data in China is very poor. Commodity prices have pulled back, including oil, et cetera, more recently. So, on a real-time basis, what are you seeing?

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

A

On a real time basis, Ghansham, I would say stable is the right word. Again, I go back to auto, auto actually has been a little stronger in the US and Asia. Europe has weakened year-on-year, but globally auto has been pretty stable. And, we do see, especially in China, some further strengthening in the second half.

Consumer and electronics, again, pretty stable globally, but in our own portfolio, because of what we've been able to do through the project pipeline and, the good work by our teams on the ground, we are starting to see some growth in consumer and electronics. We've had strong Q-on-Q growth in medical implants, which is a little bit unique to us and as expected. And we really are not seeing destocking, the cadence and consistency of orders. It continues to improve. We got a few percent growth from that.

And, really, I would say overall, I called the market stable, but we're starting to see a little bit of volume growth in Engineered Materials, anyway just because of the project pipeline and the revenue synergies, et cetera. I think in acetyls, again, stable is the right word. It is stable for construction, paints and coatings, specifically that sector at a very low rate. And we thought we'd start to see some seasonal uptick there. We have not seen that in the second quarter, and we're not anticipating it now for the third quarter as well. And I think that's true for all regions.

But to put it in perspective, for the company as a whole, I'd remind you that, 25% of what we make is auto. And auto has been stable to slightly up this year. Everything else is less than that. So, we're really seeing the value, I think, in our portfolio, of the diversity of our portfolio and the ability that has to help us stabilize earnings and find pockets of improvement.

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

Q

Yeah, fantastic. And then, for my second question, in terms of free cash flow, I mean, you guys have been very efficient in pulling levers to kind of protect free cash flow throughout the challenging volume environment. Is there anything for 2025 that we need to keep in mind as it relates to the bridge, 2024 versus 2025 that you're benefiting from this year that may not repeat next year?

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

A

Scott (sic) [Chuck], you want to take that?

Chuck B. Kyrish
Chief Financial Officer & Senior Vice President, Celanese Corp.

A

Yeah, Ghansham, I would say, actually, there are a couple of things in our components of our free cash flow in 2025, which will get better. It was a very heavy year for cash taxes. I've tried to talk about it a lot and explain, cash tax will be significantly lower next year, but cash interest will continue to drive lower next year as we pay off our debt. I don't see our CapEx changing materially while we're here in our deleveraging phase, right? So we've done a lot of work on our inventories as well. So, there's actually a few things next year that we built in cash positives versus 2024.

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

Q

Okay. Thanks so much.

Operator: Thank you. And our next question comes from Arun Viswanathan with RBC Capital Markets. Please state your question.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Great. Thanks for taking my question. So, just going back to that force majeure comment, so sounds like $30 million, maybe $40 million to $45 million for the full year, which is maybe around $0.35 or so on the EPS line. So, if you think about the reduction, the remaining reduction, maybe $0.65 at the midpoint, as you think about that, between price and volume and many – any other factors, I guess, driving that reduction?

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

A

Yeah, I would think about it really in four buckets. So, the first bucket is, what you called out, the $45 million or so associated with our supplier issues this year. There's probably another $40 million on top of that of Clear Lake productivity because of the timing of when all this happened relative to our startup, et cetera, of that $100 million of productivity we won't get, there's about $40 million more of that. So, that's about half of that step up that we would have expected to get to foundational earnings, to put in that dollar.

And then the other part of that – sorry, I'm thinking about 2025, let me back up. So, for your question, which is really about the dollar, we went down – again, it's the same. So, we have about nearly half of it is coming from that. Then, we have, I'd say, the issues we're having around construction, paints and coatings, and it's really more there a question of margins in the acetyl business.

And then on the EM side, which is the third bucket, it is really the question of what are we able to pull through on raw materials, because as we've talked about with Tom, margins being compressed and nylon margins being compressed, one, because of raw materials, one because of pricing. We had said we may get as much as $150 million pull through of lower raw materials. We're probably only going to get about half of that this year. So, I would think about it that way.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Okay. That's very helpful. And I guess you're, answering my other question there a little bit as well. So just as you think about 2025 then, which of those factors kind of come back to you? It sounds like maybe half of that. And then on top of that, how much do you expect from synergies and deleveraging as you look into 2025? Thanks.

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

A

Yeah. So, when you think about 2025, as I said, the run rate we see in the second half I think is a good indicator as a base for 2025. And then you think about, we also – of course, in the second half , we will get the majority of that, a Clear Lake supplier issues will have been cleared off; we'll start getting some more productivity. So, if you look forward, I would think about synergies, we will definitely have a good tranche of synergies next year similar to what we've had this year and last year. And then, we should have a little bit of additional help from turnarounds as well. And then, of course, we have some additional help from interest rates.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Thanks.

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

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Thank you, Lori, if I ask you on the acetyl chain, you noted that the Clear Lake outage, I think you said, was the biggest one you've had in 15 years. And obviously, it didn't lead to the market improving. So, as you bring Clear Lake back up, are you making any adjustments to production anywhere else or do you think that the market's going to be able to absorb the resumption of production even as we kind of come out of what usually is a seasonally stronger period of the year?

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

A

Vinent, it's hard to say. I mean, we make adjustments all the time to our production. And, so we'll continue to look at that. I mean, it's a call that happens daily, just about in the acetyl teams, what we should be making where based on where the markets are going. So, I don't see this necessarily changing it. You're right, we didn't see much price response with the shutdown or with the loss of production during that time. But I think that just reflects how really weak the demand environment is for constructions and coatings. Scott, you have something...

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

A

Yeah, I mean, how I would add to that, Vincent, is, it's kind of going back to what we talked about earlier is we're constantly looking at matching rates with where that demand is, and where we can maximize that really on a weekly and monthly basis.

And, assuming that we are able to get back the key raw materials where we had multiple suppliers that had issues on that, then it's going to give us the ability to have that optionality to kind of operate the chain as we normally do. And so, we're rebuilding our inventories now and getting that flexibility back and to be able to get that flex, which is just going to kind of depend where things are from month to month.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

And then if I could just follow up, also in the prepared remarks, you made some comments, Lori, about the new assets in China that have started up and obviously that's incremental supply that hasn't been absorbed. But what I was trying to square was, you said that that supply seems to have stayed largely in Asia and then European export or exports to Europe are down 40% over the last 12 months.

So, I just wanted to understand, is that saying that excess product that's coming out of the Chinese facilities is just sort of weighing on only on the Asian market, but they've also actually taken product out of Europe or I just didn't understand why the European exports had come down.

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

A

Yeah, I think if you just look at the low margins that are associated right now, I mean, China has been basically at the cost curve. So, although these new units have started up and they may be slightly advantage, that given the low demand in China, especially in some of the areas like construction but also EVA, where we've seen quite a downturn here recently.

That material, quite frankly, it's more affordable for them to ship it and put it in other parts of Asia than necessarily to get it to China. So, I think it's the economics of taking that demand into Asia, which has left the channel to Europe more to the US.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Okay, that makes sense. Thanks very much for the clarity.

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

Matthew Hettwer
Analyst, Vertical Research Partners LLC

Q

Hi, this is Matt Hettwer on for Kevin McCarthy. In the prepared remarks, you mentioned the potential for targeted divestiture opportunities on the same scale as food ingredients. Would you consider looking at your other JVs there, and maybe something along the lines of the Fairway Methanol JV?

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

A

Yeah. Look, Matt, I would just say, we really never comment on what specific assets or processes that we're in. We are actively working multiple opportunities now on various assets. We've always been very clear that if our assets are worth more to someone else than they are to us, we are open to look at divestment. And, of course, the timing of that is unpredictable. So, I can't comment on any specifics.

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

A

Yeah. The only thing I'd add is we have stated that we do like having an integration in methanol, somewhere between about 40% and 50% of our total needs. And we think that gives us kind of a nice balance from being in the market, much like we articulated we're now doing with nylon, we like being able to buy and make a little bit, and be in the market for a portion of that. For methanol, we consistently relook at what that right balance is. And we've landed right in that kind of 40% to 50% range.

Matthew Hettwer
Analyst, Vertical Research Partners LLC

Q

Okay. Thank you. And then just a quick one. You paid down $500 million in debt in the second quarter. Now, looking at another $500 million in the third, how do you expect that to trend in the fourth quarter?

Chuck B. Kyrish
Chief Financial Officer & Senior Vice President, Celanese Corp.

A

Are you talking interest expense?

Matthew Hettwer
Analyst, Vertical Research Partners LLC

Q

Yes.

Chuck B. Kyrish
Chief Financial Officer & Senior Vice President, Celanese Corp.

A

Yeah, I would – there's some moving parts in there. There's some short-term revolver draw and there is the debt pay down. When you look at it, some of those bonds that we're paying down have really low coupons. One of the maturities will swap down to 1%.

At the same time, you've got cash that you're using to pay that down. That's actually making really good rates. So I do expect a decline in interest, just a slight decline in the second half of the year. I'd say in both Q3 and Q4, the interest expense on a net basis should be a few million lower than you see in Q2.

Matthew Hettwer
Analyst, Vertical Research Partners LLC

Q

Thank you.

Operator: Our next question comes from Aleksey Yefremov with KeyBanc Capital Markets. Please state your question.

Aleksey Yefremov
Analyst, KeyBanc Capital Markets Inc.

Q

Thanks. Good morning. In your prepared remarks, we talk about expansion between price in raw materials and EM in the third quarter. Do you need to raise prices to achieve that or is this due to cheaper layers of raw materials inventory?

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

A

Aleksey, our focus is really on kind of controlling the things that we can control, as Lori mentioned earlier, and launching new projects from our pipeline model. As Lori mentioned, we are assuming very similar landscape in Q3 overall to what we saw in Q2. So, we're not necessarily baking that in to our base. It really is about the raw materials flowing through. And also as we launch new projects and new opportunities, getting a mix uplift from that. So I see that being the larger portion of margin expansion.

Aleksey Yefremov
Analyst, KeyBanc Capital Markets Inc.

Q

Very helpful. Thank you. And on Clear Lake expansion, can you just clarify how much do you expect it to contribute this year to your EBIT, given all the challenges in total versus your $100 million target? And then, how much can we expect next year assuming the margin picture does not change?

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

A

Yeah, look, Aleksey, I would expect about half roughly this year, and then the other half next year in addition.

Aleksey Yefremov
Analyst, KeyBanc Capital Markets Inc.

Q

Thanks a lot, Lori.

Operator: Thank you. And our next question comes from Frank Mitsch with Fermium Research. Please state your question.

Aziza Gazieva
Analyst, Fermium Research LLC

Q

Hi. Good morning. It's Aziza on for Frank. First question around the lowered CapEx that $400 million to $450 million range, how much of that is maintenance CapEx? And I just want to confirm I heard correctly that the early look on 2025 is calling for a similar range?

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

A

Yeah, what we said in the past is our maintenance right now most years is going to run between $300 million and $350 million, and then the balance of capital we would spend each year is going be for productivity and growth. So, really kind of the earnings growth piece of it.

I would just kind of remind you that as we said historically, we have been able to generate a high teens low 20% return on entire bucket of capital. So, that tends to be – we do focus on returns overall on all of our capital, but maintenance is in that $300 million to $350 million range.

Aziza Gazieva
Analyst, Fermium Research LLC

Q

Got it. And I know that the synergies for the first half came in around $40 million. Just curious what gives you guys the confidence that it will more than double in the second half of the year to reach that $150 million level?

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

A

Yeah, it's really the run rate that we're on and the actions that we've taken. I mean, most of the synergies this year are on the cost side of the equation. There are some revenue synergies, as I alluded to earlier, but it's mainly cost and the actions that we've taken.

We made several announcements around our manufacturing footprint. Those are rolling in. The Uentrop facility has been shut down and we're kind of ramping up servicing customers from other locations now, we'll have the next site, which will come out of the network here in the fourth quarter.

And so with some of those announcements as well as some of the actions we've taken on the functional side of things such as implementation of our IT systems on an integrated basis, the benefits of that really were always more second half weighted than first half weighted.

Aziza Gazieva
Analyst, Fermium Research LLC

Q

Got it. Thank you, guys.

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

David Huang
Analyst, Deutsche Bank Securities, Inc.

Q

It's David Huang here for Dave. I guess you noted lower level participation or activity in both acetyls and tow. What percentage did you sell to the spot market before the outage? And I guess, how should we think about the ramp of those activity in second half?

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

A

Overall, each product line has a different kind of percentage that's weighted towards spot versus contract, and each region is a little bit different. I would say on the acetate tow side of things, things are a little lower percentage that is spot versus contract. Most of that business is contract.

In our other product lines in acetic acid VAM, emulsions, for example, it's different by region. And so, I think just with the constraints that we had due to some of the supplier outages, we didn't have the same flexibility that we typically do to be able to flex our value chain in the Western Hemisphere, which limited some of those opportunities.

David Huang
Analyst, Deutsche Bank Securities, Inc.

Q

Okay, got it. And then medical, can you explain the other timing impact in the quarter? And I think some of your peers are still talking about continued destocking in medical. I guess, how has applications outside of implants performed in the quarter?

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

A

It's been very stable. Our medical business has been a key growth area for us. It has been an area of focus really around growing in the areas where we can be successful and picking some of the winning spaces. But we've talked a lot about implants. We've also talked a lot about drug delivery, continuous glucose monitoring, a lot of different megatrends there that have been useful for our polymers. And we've been working these opportunities for a long period of time.

Our medical implant business in general certainly is getting better each year, but you are going to have some fluctuations from quarter-to-quarter. So, I said that's really not demand related. It's just kind of more normal order patterns. And our business outside of implants has been extremely stable and growing.

David Huang
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Thank you.

Operator: 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, a couple of quarters ago, in your prepared remarks, you guys talked about sort of maximizing the make versus buy flexibility at Celanese. Particularly now in light of the force majeure on the acetic/VAM side of things. Is there a sort of heightened level of urgency around that? I mean, how are you thinking about that? And what form will that take on a go forward basis?

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

I don't think what we've experienced, Hassan, would change our view. I mean, we always want to have the flexibility. If you look at this past quarter, we were unable to make because of our supplier issues in some instances. And so, we actually went into the market to buy, to the extent we could, but at a higher cost. I mean, that's not ideal. But our first priority is to keep our customers whole and to meet our contractual commitments with our customers.

So in reliability situations or turnarounds or whatever, having that ability is good. And then, the other side of that is like we've seen in nylon when the margins for raw polymer got too low. It is really helpful that we had taken the steps to shut down Uentrop and put ourselves to where we could be buying raw polymer on the market, and what was a very low price situation, certainly lower than we would have been able to make it ourselves.

So again, I don't think our view is changing at all in terms of wanting to always have that ability to make or buy, depending on the economic situation, and also to help us through periods of operational shortages.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC
Q

Understood. Understood. Extremely helpful. And just as a follow up, I know you've made a couple of comments about the undifferentiated sort of nylon side of the market. Can you sort of dig a little deeper for us on what the goings on are with regard to supply demand fundamentals over there?

I mean, you obviously flagged the whole notion of Chinese capacity being below the cost curve right now. So how do you see this year and over the next couple of years, supply, demand dynamics panning out?

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

Yeah, I mean, look, nylon is no different than the rest of our portfolio in Engineered Materials. You kind of have three categories of business there. You have a standard grade category. You have kind of spec'd-in category, where you have more competition. Then, you have the really specialty new applications area. And it's really important that we play in all three buckets there, just because customers oftentimes are buying all three. And we want to make sure we're also filling out our assets.

And so, it is – while the competitiveness in the standard grades is definitely there, they're still really good opportunities kind of in that that spec'd-in and specialty area. I mean, just a simple data point. In the first half of the year, we actually closed over 400 projects in our nylon business using the pipeline model. That's a significant step up from the second half of last year.

And so, it's a good proof point that what we're doing there and really the commercial teams focus on working with customers and building really nice differentiated business for the long term is going to pay off. We're going to have to participate in the basic blocking and tackling part of the marketplace. But having that flexibility, Lori just talked about is so critical in us kind of building this more contemporary nylon model that can be overall successful and can continue to grow.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC
Q

Very helpful. Thank you so much.

Operator: Our next question comes from Salvator Tiano with Bank of America. Please state your question.

Salvator Tiano
Analyst, BofA Securities, Inc.

Q

Yes, thank you very much. So firstly, I wanted to understand, I think you – so on the $25 million bracket that you mentioned the timing as well as some inventory changes that will weigh on Q3 in Engineered Materials. Does this mean that you were essentially producing above sales in the first half? And therefore, what this $25 million is? While this is a headwind to Q3, it was actually a pull forward effectively in H1 for the full year. Is that how we should think about it?

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

A

Yes, Sal, a large chunk of that is some of the footprint actions that we've taken. We've been building inventory now for a number of quarters. So, I wouldn't look at it as kind of being a big benefit in Q2 in particular. It's kind of been a gradual uptick. We also just have some kind of normal. We have certain products that have campaign runs. And so, you'll have a little bit of an uptick from time to time and then a downtick. So, I wouldn't look at it as being materially different for that piece than what we've typically seen.

Salvator Tiano
Analyst, BofA Securities, Inc.

Q

Okay, perfect. And then other thing I want to understand is, if I heard correctly, I think there's a comment that next year synergies will be similar to this year's levels, which I believe we're still targeting $150 million. Firstly, is that correct? And secondly, if I go back to the initial cost synergies targets from your M&M slides. I believe there was like, more like a $50 million, $60 million, $70 million figure left. So, how do you get to a number that's more than double that next year?

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

A

Yeah. So, let me clarify it, Sal, because probably my comments weren't clear before. If you look at 2023, we had $100 million of synergies, and if you look at 2024, $150 million. And so, my comment was, look, I don't have an exact number yet for 2025 because we've been very focused on 2024. But I think our synergies should be based on the actions that we're taking here this year in the same range as the last two years. So, somewhere in that range.

And then the remainder of the step up in 2025 is really the improved performance of acetyls with no force majeure, a full year of CLK productivity. And then we should have some further interest rate reductions. So, those are the things that I know about for 2025. But as I said, it's still too early to give any number with confidence yet on 2025.

Salvator Tiano
Analyst, BofA Securities, Inc.

Q

Great. Thank you very much.

Operator: Our next question comes from Laurence Alexander with Jefferies. Please state your question.

Laurence Alexander
Analyst, Jefferies LLC
Q

Good morning. I just want to confirm that the midpoint of your outlook for the back half of the year is predicated – it looks like it's predicated on your automotive volumes being up like mid-single-digits, let's call it 2%, 3% above a flat to slightly positive auto build rate. Is that right?

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

We are expecting some uptick, some moderate volume increase, I would say, in volumes into automotive.

Laurence Alexander
Analyst, Jefferies LLC
Q

Thank you.

Operator: Our next question comes from Patrick Cunningham with Citi. Please state your question.

Patrick Cunningham
Analyst, Citigroup Global Markets, Inc.
Q

Hi. Good morning. Thanks for taking my question. You talked a little bit about the weaker non-contracted sales for tow. How meaningful is this in terms of typical tow sales? How is the contract side of the business performing? And what are your medium-term supply and demand expectations for the tow business?

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

Yeah, I mean, tow business have been very stable, Patrick, and the contracted piece of the business has performed as expected. Again, as I mentioned earlier, the non-contracted part is a small percentage, it's just we did see a little bit of inventory reduction from our customers in that part of the sector during the second quarter. So, we don't expect it necessarily to continue going forward.

Patrick Cunningham
Analyst, Citigroup Global Markets, Inc.
Q

Got it. That's helpful. And then maybe just within nylon, you touched on this a little bit. But can you just talk about the contemporary business model here, how you feel it's performed, how you're maybe thinking about the footprint if we see further pressure from here? And on the flip side, would you put incremental cost back into this business if demand improves or the make versus buy economics change?

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

Look, we're really proud of the team. I mean the team has come together and embraced a different way of operating here. And we're taking the ideas really across each function in the organization to really go and build out a model that we can be proud of that can deliver greater than 25% EBITDA in any economic environment. And that's our target.

We're early in it. I mean, we've had some good success. We're seeing margin expansion as we talked about. We're seeing nice wins coming from our project pipeline but we have to continue to work the cost side of the equation. We have to continue to focus on really bringing our organization together to embrace the pipeline model and continue to elevate the returns that we're getting overall from the business. So, depending on what the market gives us, we're going to have to pivot, much like we do in other parts of our business, both in acetyls and EM, and it's building those muscles to be able to adapt as things change from quarter to quarter.

Patrick Cunningham
Analyst, Citigroup Global Markets, Inc.

Q

Very helpful. Thank you.

Operator: Our next question comes from John Roberts with Mizuho Securities. Please state your question.

John Roberts
Analyst, Mizuho Securities USA LLC

Q

Thank you. Just going back to nylon in China here, they have a lot of producers who serve both the plastics and fiber markets. And given the weak carpet and textile markets, are you seeing some of that China nylon shift from fiber to plastics? I know some applications can't switch, but I thought there was enough that could switch that maybe that would be pressuring the market.

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

A

John, that's really not where we're seeing the pressure from. I mean there's a lot of consistent players in the plastics market. So, I wouldn't say that's been a material issue.

John Roberts
Analyst, Mizuho Securities USA LLC

Q

Got it. Thank you.

Bill Cunningham
Vice President-Investor Relations, Celanese Corp.

A

Diego, we'll make the next question our last one, please.

Operator: Thank you. And our final question for today comes from John McNulty with BMO Capital Markets. Please state your question.

John McNulty
Analyst, BMO Capital Markets Corp.

Q

Yeah, good morning. Thanks for taking my question. So, Lori, I think you said of the original $150 million that you expected to get from lower raw materials kind of working through, you're going to get about half that. Does the other half get pushed out into 2025 or is it really just an opportunity that just given the circumstances, you're just not going to be able to capture? I guess how should we be thinking about that?

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

A

I would think about it as, we weren't able to capture it this year. There's no guarantee it'll be there next year. If you think about it the cost of inventory we're building right now, is will be what we see in the first half of next year, at least in the Engineered Materials. So, I can't count on that for next year. I mean, we just have to see how cost of inventory goes for the rest of this year.

John McNulty
Analyst, BMO Capital Markets Corp.

Q

Okay, fair enough. And then, I guess, with regard to the acetic acid capacity that came on in China, the two new world scale plants. I think like one of the issues was that you didn't see a whole lot of the downstream assets come on yet and I think that was putting pressure on acetic acid prices. Can you give us an update as to whether or not those downstream assets have come on yet? And if they haven't, does that mute the ability for growth or improvement in the market, even as China construction starts to come back on, and some of the downstream demand starts to come back on. I guess how should we be thinking about that?

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

A

So, John, some of the uses that those plants were expected to serve were things like caprolactam, which is new, PVOH, EVA, I'm not sure about the caprolactam plant at the moment, but PVOH, I think is up and okay. EVA is up from what we know but honestly EVA demand right now or not EVA demand but utilization of the EVA plants has gone to 70% or below from what we know. So, again, just because of the softness right now in solar panels. And so, I think, while it may be up, we're not seeing those plants consuming the volume of VAM that we would normally expect.

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

A

Yeah, John, really the root cause of that is the end use demand particularly in paints, coatings, construction and some of the solar spaces Lori mentioned are weak. And so, yes while we've seen capacity come on in acetic acid and pricing kind of move up and down, our margins have been largely stable now for quite a while. We've seen compression in VAM margins because that construction sector as well as solar has been so weak. So, I think that's more kind of where that compression has been seen.

John McNulty
Analyst, BMO Capital Markets Corp.

Q

Got it. Thanks very much for the color.

Operator: Thank you. And I'll now hand the floor back to Bill Cunningham for closing remarks.

Bill Cunningham
Vice President-Investor Relations, Celanese Corp.

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

Operator: This concludes today's conference. All parties may now disconnect. Have a good day.