Goldman Sachs & Co. - Celanese Investor Conference call

December 15, 2016 - 12:30 PM EST

PARTICIPANTS:

- Scott McDougald Sutton, Executive VP & President-Materials Solutions, Celanese Corp.
- Robert Koort, CFA, Goldman Sachs
- Ryan Berney, Goldman Sachs
- Christopher Evans, Ph.D, Goldman Sachs

OPERATOR: Good afternoon ladies and gentlemen and welcome to today's conference, discussing CE's portfolio transformation with Head of Material Solutions, Scott Sutton. At this time, all participants have been placed on a listen only mode and we will open the floor for your questions and comments after the presentation. It is now my pleasure to turn the floor over to your host, Bob Koort. Sir, the floor is yours.

MR. KOORT: Thank you very much and good morning, good afternoon to folks on the line. This is Bob Koort I run the chemicals research effort here at Goldman Sachs. We also have my teammates Ryan Bernie (ph) who helps me out on selling these, Chris Evans (ph) and Gavin T. (ph). I have to read a few disclosures here before we get started. We're required to make certain disclosures and public appearances about our relationships with companies we discuss. Those disclosures relate to investment banking, compensation received or 1% or more ownership. We can read those disclosures aloud for any issue or upon request. You are able to get those in our most recent reports as clients of the firm on our portals. Disclosures and updates to those disclosures are available by ticker on our public website gs.com/research/hedge.html.

I really appreciate everybody joining in today. We're going to have some prepared remarks from Scott and if you haven't seen that slide deck or you're not accessing it on the web cast you can email me, Robert.koort@gs.com. We're also going to do Q&A at the end of his slide presentation and you can email those questions in as well. We're going to consolidate and aggregate those and try and hit the common themes because I'm guessing we won't have time to get through all of them so we're going to try and manage that process here.

Celanese has obviously been a very exciting story and we think the business Scott's going to talk about today in fact is even more exciting than perhaps some people are aware of. Certainly, we've been – we've been captured by the excitement that he has going on there and really becoming more informed about what Celanese is doing under the hood. I think this opportunity to expose that business could be quite helpful for our clients. We also have Sirabe V. (ph) on the line who runs the IR effort but with that let me introduce Scott Sutton who's head of the Materials Solutions business at Celanese. Scott, if you wouldn't mind maybe giving us a little of your background and then let's go through the slide deck.

MR. SUTTON: Okay thanks very much Bob. Just a short introduction right, I've been at Celanese now a little over three years. I initially led part of an acetyl chain and then I led the supply chain for the company and now I lead the material solutions core and before that I had about 25 or 26 years of experience outside of Celanese.

Bob I also need to say a short disclaimer as well. During today's presentation, I mean we are going to make some forward looking statements. Please note that we do have cautionary language in the slides and also today we're going to refer to certain non-gap financial measures so definitions of these measures and reconciliations to the comparable gap measures are included in our non-gap financial measurement document that's posted on our website under investor relations in the section called financial information. That's my opening disclaimer.

With that I'm going to go straight to slide number 3 and I'm really glad to have the opportunity to speak about some of those exciting items that we do have going on at Celanese. A key theme at Celanese is to be our customers first choice either for chemistry and that's really from our acetyl chain core or for materials and that comes from our materials solutions core. If we're going to do that, in other words if we're going to truly be our customers first choice than we should have differentiated models. For us, that differentiated model is putting the best package in the industry through the very best commercial system in the industry in both of our cores. In our AEM segment which is shown on the right-hand slide on slide number 3, the best package in the industry is our very broad polymer platforms as well as we have extreme capabilities to serve the customer. The very best commercial system in the industry is our project pipeline execution machine.

On slide number 4 I mean that differentiated model really is delivering a differentiated result. I mean the fundamental base of the business, that means excluding the joint venture contributions is growing profit very rapidly and that's shown in the upper right corner of this slide. In fact, full year 2016 will certainly be better than what's shown on this slide for the last 12 months.

I'm going to go on to slide number 5, this recent evolution of AEM; it's been very purposeful for us. We implemented that differentiated model in early 2015 and it's really becoming an enabler for a string of many steps where we've done things like organically extend our platforms, we've organically expanded or added platforms as well. We're really now on step number five and that's inorganic platform expansion and the SoFTer acquisition that we just announced is a real start to that. If you're looking for a marker of the performance and the future expectations of how this business will do that key market really is the number of projects actually commercialized and that number is growing each year and we forecast, it publicly as well. You see in 2015 we commercialized a thousand projects, in 2016 we're actually already to thirteen hundred projects and in 2017 we'll do more than fifteen hundred and that's also prior to what's contributed by the acquisitions.

On slide number 6 I mean SoFTer is the acquisition we recently announced, it's a great company. It's a super acquisition for us and it really offers very nice synergy value. I mean they have eight sites globally, they have extreme capability and a whole pretty large number of thermoplastic and both elastomer platforms. It's going to be (indiscernible) for us in year one roughly around $0.10 a share.

On slide number 7 and going back to our model of delivering the best package in the industry. The existing Celanese platforms are shown in orange on this pyramid of highly engineered materials and the added SoFTer platforms are shown in blue. What I'll say is that really nobody in the industry can deliver this kind of complete solutions capability.

On slide number 8 you can see some examples of those combined solutions capability in appliances. We show refrigerator/freezer and how those platforms come together to solve many different problems and we also give an example of a washing machine there and how we combine our portfolios to provide lots of solutions there as well.

Slide 9 is other examples of projects and I really just put that in here to demonstrate the broad activities that we have and that our performance is really market agnostic and it's also even product agnostic as well. Almost everything that you touch and use on a daily basis has the potential to use our materials.

I'm going to go to slide number 10, let me quickly switch over to another dynamic area for us in material solutions. This is our acetate tow business; one key industry event is that China demand growth for cigarettes really reached an inflection point in 2015 due to a number of reasons. There was austerity measures put in place, at the same time there was a tax increase and at the same time there's been some anti-smoking bans as well. All of that really helped contribute to a rapid and what is really a permanent decline in tow imports going into China.

There's a lot of other key industry events that have happened and so I show all on those on slide number 11. I'm going to walk you from left to right. For many years, this industry has really been sold out but in 2014 the industry was still purchasing a tremendous amount of tow but it was really over purchasing tow and building inventory just due to significant supply disruptions that all of the customers had experienced before then. In 2015 that destocking out of China really materialized but now in 2016 you see that stabilizing outside of China again. About that same time period China started with their destocking and correction and that's going to continue for a couple years. At the same time in China the demand really hit an inflection point and supply increased as well. You really get out to about 2018 when you start seeing China demand stabilizing but it will certainly stabilize at a very low number with imports very small as they become very self-sufficient by then. I will say for Celanese really the worst combined impact will happen in 2017 and I think we've said that it will be roughly about $0.40 a share but for us 2018 will present options for stabilization and maybe even some capacity reductions.

The final slide that I have, number 12, I'll just say and conclude that running these differentiated models not only in material solutions but also on the acetyl chain is really yielding a differentiated result. EPS has been growing 13%, free cash flow much more than that.

Bob, that concludes the slides.

MR. KOORT: Excellent, thanks Scott and again for our clients on the line if you want to email in questions we have a few already, it's Robert.koort@gs.com and we'll make sure those get answered. I guess the first one, Scott, is asking maybe if you go back to your slide 5 and this evolution of the business processes here what fundamentally changed since Mark took over and then brought you in versus how you guys did things before?

MR. SUTTON: I mean sure, Bob we really took a look at this business and we knew it had great fundamentals. Very nice platforms, capabilities, global reach but frankly there was a lot of chaos in it. We implemented a brand new model, really this was in early 2015 where we did this and it really is our project pipeline system. I mean every day we're screening projects that come in through our commercial organization, we average about fifteen a day but we take a look at those and we screen for the ones that we're best suited to win and those are the ones that we work on. We prioritize those projects and we put those projects into programs, programs could be around a product, it could be around a market segment, it could even be related to one customer we just want the projects to go into a program that have similar qualities and then we're able to translate those. We take a global look at that every day so you have a picture of what basically the world and the market is asking you to work on so you can spot trends very rapidly so you build your business around customer pull as opposed to push.

MR. KOORT: I'm just curious how do you manage an average of three launches per day and are these $5,000, $10,000, $15,000, $50,000 platforms? It just seems like the numbers are staggering to try and prosecute all these in a year.

MR. SUTTON: I mean that is the heart of the model though about how we do that. I mean to give you a feel for it, you're right; we do juggle. We run 4,000 projects simultaneously today globally. Like I said we see fifteen new ones a day, we close you can call it four a day but it is a very systematic process for going through and making sure that you work on what you can win at and have a global view of this.

MR. KOORT: A couple questions back on slide 4 and I guess asking the base business growth that you've had which from a margin absolute and percent of sales basis is just pretty mind boggling. How did you get such a big step up, is that sustainable and then what do we read about the declines in the equity affiliated contribution?

MR. SUTTON: Right, right. Well, I'll start with the declines in the equity earnings just to knock that out but really over the last couple years we have experienced a decline there as you can see but that has been fundamentally driven by a joint venture that we have in Saudi Arabia that's associated with methanol and MTBE. As crude oil pricing, has come down MTBE pricing has come down as well. We believe going forward that has actually stabilized and we don't expect that to decline anymore. The rest of the equity earnings there are all from our engineered materials joint ventures and while they're not growing anywhere close to what our base business is at least they're stable to on an upward trend. I think that's going to get address. The rapid growth in the base business really is due to the fact that in 2015 we went through and upgraded all our projects, all our portfolio and you didn't see a growth in volume there purposeful but we always advertised and said that in '16 once the model is working well that you'll see the volume growth come in. '16 performance over '15 is driven by that volume growth, you can call it 8-10% volume and in '17 I would expect to see that same kind of volume growth.

MR. KOORT: Then there's a question around the sustainability of that margin lift that you've seen, will it expand as you get those high single digit volumes or will it stabilize as you have to ramp up the spending levels as well? What should we think about from sustainability of margin?

MR. SUTTON: I think – I mean clearly the absolute profit is going to grow but Bob probably the margin will erode slightly. As we bring in some inorganic acquisitions they typically come in with a lower margin so you'll see some impact there but it won't be extensive.

MR. KOORT: I'm sorry, I missed part of the guy's question here – it was around the – I think you said 8-10% volume growth, is that sort of the long term plan as well as the near term?

MR. SUTTON: Yeah that's right I mean I think having a high single digit growth expectation in this business is very reasonable because again we're not dependent on any one market. We're certainly not tied to an average market growth rate. We're in there using some of the unique capabilities that we have that maybe no one else in the industry has to go into every market segment and actually displace other kinds of materials that may not even be engineered thermal plastics.

MR. KOORT: Speaking of other materials you guys have obviously broadened out your product portfolio with SoFTer giving you a lot more tools in the box. There's been some speculation of other deals you guys are chasing after, how should we think about the ability to bring in other platforms and how close you might be to bringing in some new products or technology?

MR. SUTTON: Well, you know I think certainly we have an intention to bring in other platforms and so you – we've actually done a couple acquisitions in this business. One was basically a technology platform called cool poly which we've been organically developing since then. SoFTer was really the first inorganic expansion that we did but the intention is for us since the model works and we know how to lift value that inorganic expansion, in other words doing acquisitions, truly becomes a core competence for this business just like our project pipeline system has become a fundamental core competence as well. Yes, I mean we have an intention to do more acquisitions in this area.

MR. KOORT: Scott your chart there on slide 5 says many more steps. I can't logically think of what more you would need to do so can you talk about those a little bit and maybe step six being next project system step up, what that means as well?

MR. SUTTON: Yeah, sure. Yeah, you're right, I mean we're on this step five, right? There's sort of a perpetual number of steps here. There's not really a cap and some of those will involve extending our larger group of platforms that we have. Between ourselves and what we acquire through SoFTer you can say we have eighteen or twenty polymer platforms but we functionalize each of those platforms to have many different uses and to solve many different issues for customers. You'll see us expand our functionalization capability of those. You may also see us organically add another polymer just like we've added a peak recently. We may choose to do that again but next steps will clearly be more acquisitions and then they'll be also what you refer to as step six here. This is our project system step up. We have to continue to enhance our proprietary capability to close more and more projects and run a bigger pipeline. I fully expect that within a couple years we'll be running 6,000 projects simultaneously and we're going to target closing a couple thousand at least by 2018. There's a lot of work to do in our model and our systems. Bob we'll also be organizing our projects under more programs that fit current needs just like we've really gone through an organization where we have a program developed for energy storage devices because we see so many requests from customers to come in and solve a problem in those areas.

MR. BERNIE: Hey Scott this is Ryan Bernie on the chemical team. We had a question around just the way to think about how you're thinking about the acquisitions in this space, maybe diving a little bit more into one of the questions Bob asked earlier. Is the way to think about some of your inorganic acquisitions, is it fair to think about a revenue synergy opportunity whereby you bring a capability into the portfolio you didn't have before that allows you to get in with a customer that you kind of maybe weren't able to access before and sell them some of the products you already have specialties in?

MR. SUTTON: Yeah Ryan I mean that is the biggest synergy in these acquisitions that we'll do. Here's the tools that we can give our sales and our development engineers team. They can go to a customer now and they can have 18 polymer platforms sitting behind them and they can have many different products with many different capabilities. They can talk to a single customer now about a tremendous number of different parts or issues or opportunities and they have the solutions in their tool bag. Out of that one interaction with a customer we can get many more projects. Again, getting projects and closing projects is the key marker of success in this business. That's going to be a big top line or revenue synergy. Another revenue synergy that we'll get from the SoFTer acquisition for example is that they're really not present in Asia today and we are in a big way. In fact, it's our fastest growing region, certainly China is so we'll be able to bring their products and platforms to Asia. Vice versa they're very strong in Mexico and we have a presence that is less than we would hope for right now so we get it going both ways.

MR. BERNIE: Great, that's helpful. Then maybe we had an emailed question here wondering kind of who you see as your main competitors here and obviously, the model looks great but why – why are your competitors not doing the same thing you are able to kind of match your performance here? What's different about this model?

MR. SUTTON: I think of course in this space there's hundreds of competitors right. There's some larger ones that may focus on a singular polymer platform, an example is maybe a nylon. There's smaller compounders that try to do everything but I don't think anybody has been able to put a package together where they basically solve the mystery of how do you bring hundreds of products to customers in every market segment around the whole globe and do that without running up your complexity cost so that you're actually destroying value. I think we've cracked that code with our model and I think the results are showing that.

MR. BERNIE: Great and then one more from me, just for those who are maybe a little bit less familiar about it can you talk about a little bit more around what happened on the volume side in 2015? We had what looked like big numbers in '14 and then relative slowdown in 2015 before accelerating again this year. I know you talked about some of these qualitative issues with transformation but what would you say to an investor who says this seems more cyclical or a little bit less stable than kind of the forward outlook that you're describing here?

MR. SUTTON: Yeah that's a good question, 2015 was really a year of implementing this differentiated model so we went through this period where we upgraded our project portfolio. Ryan, it was more about what we stopped doing as opposed to what we started doing. What we stopped doing was critically important for us to get the model in place, build credibility and show that it worked. While we were doing, it we called out that look, volume is not going to grow because we're having to get rid of some volume that's not good. We went through this mixed enrichment process and now it's working so we're bringing back in the volumes purposefully again.

MR. KOORT: Hey Scott, it's Bob again. Another guy asking on the evolution chart you're talking about increasing your product launches by 50%. How is your expense load changed as you're going into it and increasing that launch intensity?

MR. SUTTON: Well there is some limited increase in cost right as you expand the business this big but I think that without specific numbers the answer there is that we have a lot of operational leverage in this business. We bring most of these projects online really at incremental economics.

MR. KOORT: I think you mentioned that you thought margins might even come under a wee bit of pressure so I have a client asking what you would expect for incremental margins in this business given the high margin you showed for the base business that was already in the mid-twenty?

MR. SUTTON: You know incremental margins are very high, of course we can't bring everything in at incremental margins but you should think that incremental margins in this business are sort of more than double our normal operating margin.

MR. KOORT: I was curious Scott, you talked about having a screening committee or group that takes all these customer initiated inquiries and then figure out – can you talk exactly what they do, what kind of background these folks have, how – it would seem to me that the number of products, the number of applications, the sheer number of introductions you're doing; how do you make sure there's that core awareness across all that broad spectrum? As you said the complexity of this could get overwhelming. Can you talk just a little bit about how you distill down that inflow into a reasonable outflow of activity?

MR. SUTTON: Yeah sure I mean there's two things that go into that. One is people, expert resources; another is a process, right? I'd like to comment on the people that are basically on this expert committee. We have some of our most experienced senior folks from each area in the company. You're going to have product managers in there, you're going to have our most seasoned technical resources, you're going to have commercial resources, you're going to have manufacturing and scale up capability. They work together where they literally come together every single day and their collective knowledge and their collective gut feel and capability when looking at an opportunity is put on the table about every 3-4 minutes and that's how it happens.

MR. KOORT: Then how do you address the concern that some folks express around the exposure to one particular end market or vertical. I think legacy Celanese there was a much greater perception of it being an auto-play in AEM, can you talk a little bit about how that's evolved and to what extent your penetration can increase in spite of maybe OEM slowing?

MR. SUTTON: Yeah, yeah sure. I guess in some years past we were probably about 50% weighted toward the auto market. I mean today I can tell you it's closer to a third and while it is growing at a rate that is faster than annual production rates in autos are growing I expect over time that it will get (indiscernible) and perhaps even less. Again, that's just because we're positioned well in other markets like medical, electronics, energy storage, industrial, fluid handling and many others but still our rite and our growth rite in all those market segments is higher than the advertised rate. Particularly in auto if we just use that as an example today on average, just for round numbers you can imagine that we have two kilograms of our materials in every car. More in some countries, less in others and there's a lot more opportunity there as the light weighting trend continues due to emission requirements continuing to be implemented.

MR. KOORT: Scott, one client asking obviously, your trends are terrific here and end markets I guess are growing although maybe not the industrial end markets all that fabulously but what would happen in a recession to your business? What kind of volume or margin pressure might you see?

MR. SUTTON: Of course it's difficult to answer depending on the scale of the recession but yeah, a global recession will impact this business some. I think our impact may be a bit more limited than it may be in other businesses and industries because again we're positioned in a lot of different markets and our growth is not just a linear function of those market growths. Therefore, our decline won't just be a linear function either, it's because we have something unique and differentiated that others don't offer that we're always going to be in there solving customer problems and actually in a recession it becomes even more critical to have that capability. Those who are able to do that will fare better than those who are not during a recession.

MR. KOORT: Got it, got a few asking on the filter tow side of the business. If you wouldn't mind there and maybe the first one we've seen (indiscernible) is now out there in agreement to buy Solvay, do you think this will change anything about the dynamics of the industry or if you were advising them what could change for the better in filter tow even at consolidation?

MR. SUTTON: Well what I would say, I can't advise them but what I would say that the meaning of this acquisition is I do believe it removes an element of uncertainty and it removes an element of instability in the business. It's just one though because if you look at what's going on in this business sort of like my last slide showed we've been through this period of overbuying and subsequent destocking outside of China. Then we've been through this massive reduction of imports into China both because demand went down and because production increases there. At the same time customer, have come in for long term contracts in the industry, the tow industry certainly hasn't been used to that and we had a business up for sale and that is a lot of turmoil. At least it takes one element of that turmoil off the table and there will be less uncertainty going forward. I think it's a positive thing.

MR. EVANS: Hey Scott, this is Chris Evans another associate on Bob's team here. A question on the acetate tow, you were so successful, you highlighted all the products you're launching in other parts of your business why can't that same innovation be applied to the acetate tow where you're so reliant on a single end market in decline?

MR. SUTTON: Well actually even in our acetate area we do have a few areas where we're running new projects and launching some new things. We actually produce an acetate film that is used like on freezer doors and so forth so they don't fog up. That's been a new development, for us it's very small, I expect it to triple next year. We also have an innovation in a different kind of filter that uses (indiscernible) along with carbon as well that's being trialed in certain areas, particularly in Japan. We also have some codeines that actually replace nitro cellulose with our cellulose acetate as well. There is some similar development but it's rather small relative to the size of tow and when we look at those developments honestly, we weigh them against the potential developments that we can do in our advanced engineered materials business and that's where we put our resources. We don't think of it as two different things that we have to do both. We're going to do what we can win at across the whole company.

MR. BERNIE: Scott this is Ryan again. I know there's been a lot of discussion in the industry recently around moving to a long term contract relationship in between the filter tow suppliers and the customers. Can you explain to us maybe a little bit of why the buyers want to do that and kind of what your strategy has been relative to your peers there?

MR. SUTTON: Yeah sure I mean my opinion of why the buyers want to do it is that they sense that pricing is at a bottom. They've been used to a period where the tow industry assets have been run at capacity for many years. There's options to return some of those assets to capacity in the future, 2018 and forward and so I think they see an excellent opportunity to lock in the bottom for some number of years and that's what they've done.

MR. BERNIE: When you say return to capacity in 2018 does that mean additional closures or how does the industry get to capacity again?

MR. SUTTON: You know I can speak for ourselves. I don't know – there's going to be a number of years before the industry may return to capacity but I think every single producer of tow has options for capacity. We have options as well and we're evaluating those options for our future in 2018.

MR. BERNIE: If a producer were to look at closing capacity would they need to shut down a whole plant or could they close down part of a plant? How would that kind of – how can that really work?

MR. SUTTON: The way that we look at it is every plant has many different lines. You can choose either to shut down a whole plant or you can choose to shut down lines and other are similar to that.

MR. KOORT: Let's see, a couple of these we've asked. Question around the company having an acetic arm and then this materials business, obviously, there's some vertical integration of acetic through into filter tow but what about the benefits of integration from the acetyl side into the AEM business?

MR. SUTTON: Right, well you know there's a lot of advantages, right? One of them is just scale and sharing an overhead and leveraging the company that way. Even the engineer thermoplastics business or the AEM business has some raw materials that come from the acetyl chain. Look at our largest polymer, palm or polyacetyl; it originates with materials that come from the acetyl chain.

MR. KOORT: Then Scott I think you guys have intimated the desire to get into nylon. Can we assume that's still high on the priority list for a tuck in acquisition?

MR. SUTTON: Yeah well, I think that's fair. We have a small nylon business ourselves, the SoFTer acquisition that we did has another nylon business that is bigger than our own. Yeah, I mean we desire to marry those two up to a bigger nylon business so that's one of the objectives we have in our acquisition pipeline.

MR. KOORT: Then I'm not sure if this is your pay grade on this one but a client asking about, as these businesses go that the cost of separating Celanese would be lessened and increase your flexibility of making any kind of portfolio decisions. Is that anything you can talk to or add some color to?

MR. SUTTON: Of course I probably can't answer that specific question but what I can say is that Celanese is really focused on what adds value to the company and to our shareholders. Right now, that is making these two models, there's an excellent model in our acetyl chain business and there's an excellent model in our material solutions business. We're trying to make those models very transparent to show exactly what drives those so that they can each be valued in their own way and that valuation becomes transparent as well.

MR. KOORT: Maybe one last one in here Scott, the evolution in this business really has been remarkable. If you could distill it down to something unique about that process what would be the most prominent thing that's featured in this because frankly as equity analysts, we hear similar comments from other companies trying to achieve this level of customer intimacy or innovation growth and I can't come up with a long list of successful companies. Can you just maybe describe what you think is the most prominent part of this strategy that's driven this success or what the key success variables have been?

MR. SUTTON: I mean sure, one element is just the broad platforms that we have but the bigger element is our commercial pipeline system where we're actually able to take that broad materials platform and go in and solve problems at customers globally and pick ones that we can win at. Probably that simple.

MR. KOORT: Well look I didn't want to take more than 45 minutes of your time, that was super helpful. There were a few other questions in here and certainly if folks want to follow up with us afterward or reach out to Sirabe for help there. Thanks, everyone for participating, Celanese guys' thanks so much and we will talk to you all soon.

MR. SUTTON: Okay, thank you.

OPERATOR: Thank you very much ladies and gentlemen; this concludes today's conference call. You may disconnect your phone lines at this time and have a wonderful day. Thank you for your participation.

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