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# Celanese Corp. (CE)

Q4 2016 Earnings Call

## CORPORATE PARTICIPANTS

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**Mark C. Rohr**

*Chairman & Chief Executive Officer, Celanese Corp.*

**Scott McDougald Sutton**

*Executive Vice President & President-Materials Solutions, Celanese Corp.*

**Patrick D. Quarles**

*Executive Vice President and President, Acetyl Chain, Celanese Corp.*

**Christopher W. Jensen**

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## OTHER PARTICIPANTS

**Duffy Fischer**

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**Vincent S. Andrews**

*Analyst, Morgan Stanley & Co. LLC*

**Laurence Alexander**

*Analyst, Jefferies LLC*

**Frank J. Mitsch**

*Analyst, Wells Fargo Securities LLC*

**Robert Andrew Koort**

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**P.J. Juvekar**

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**Katherine Griffin**

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**Michael J. Sison**

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Hello and welcome to the Celanese Fourth Quarter 2016 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Surabhi Varshney. Please go ahead.

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### Surabhi Varshney

*Investor Relations Manager, Celanese Corp.*

Thank you, Carrie. Welcome to the Celanese Corporation's Fourth Quarter 2016 Earnings Conference Call. My name is Surabhi Varshney, Vice President, Investor Relations. With me today are Mark Rohr, Chairman and Chief Executive Officer; Chris Jensen, Senior Vice President and Chief Financial Officer; Scott Sutton, Executive Vice President and President-Materials Solutions; and Pat Quarles, Executive Vice President and President, Acetyls Chain.

Celanese Corporation's fourth quarter 2016 earnings release was distributed via Business Wire this morning before market opened. The slides for the call and our prepared comments for the quarter were also posted on our website, [www.celanese.com](http://www.celanese.com), in the Investor Relations section.

As a reminder, some of the matters discussed today and included in our presentations may include forward-looking statements concerning, for example, Celanese Corporation's future objectives and results. Please note the cautionary language contained in our posted slides.

Also, some of the matters discussed and presented include references to non-GAAP financial measures. Explanations of these measures and reconciliations to the comparable GAAP measures are included with the press release and on our website in the Investor Relations section under Financial Information. The earnings release and non-GAAP reconciliations have been submitted to the SEC on a Form 8-K. The slides and prepared comments have also been submitted to the SEC on a separate Form 8-K. This morning, we'll begin with introductory remarks from Mark Rohr and then open up for more questions.

I'd now like to turn it over to Mark.

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### Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

Thanks, Surabhi, and good morning, everyone. Our prepared comments were released with earnings earlier today, so I will keep my comments brief, then open the line for your questions.

First, I'd like to share some details about another exciting acquisition just announced this morning. We have agreed to acquire the nylon compounding division of Nilit Plastics. A major independent producer of high-performance nylon fibers and compounds.

Nilit Plastics has a comprehensive and functionalized nylon portfolio with operations in Europe and Asia. It is a great fit for Celanese. While the acquisition will be immediately accretive, it will take a bit longer to close, which

means the impact on 2017 earnings will be small. However, next year Nilit should add roughly \$0.10 of earnings to our portfolio.

We are really looking forward to teaming up with our talented colleagues at Nilit to bring new and exciting solutions to our customers. Scott Sutton, who is responsible for our Materials core is also on the call today to share more specifics during the question-and-answer period.

Now for our 2016 fully consolidated results. I'm happy to report strong GAAP earnings of \$6.19 per share, and recorded adjusted earnings of \$6.61 per share. Materials Solutions generated \$897 million of core income, an 11% increase year-over-year and a record core income margin of 38%. Volume growth from our opportunity pipeline, engineered materials and gains from productivity enabled us to grow despite headwinds in tow pricing and lower affiliate earnings.

We commercialized 1,385 projects last year, which is almost 3 times higher than just a few years ago. Both the Nilit and SO.F.TER. acquisitions are a critical next steps in our Engineered Materials evolution and allow us to extend the success of our pipeline model beyond Celanese legacy polymers.

The Acetyl Chain generated core income of \$454 million, that's 9% lower year-over-year, but good performance in a very tough margin environment. Commercial and operational flexibility and savings from productivity allowed us to expand core income margins to a record 14.5% for the Acetyl Chain.

Looking forward to 2017, we expect another year of strong financial performance for Celanese. Unusually heavy turnaround activity planned for the first half of the year, raw material impact building through the year, plus saluting some unique one-time earnings in the first quarter of 2016 add up to a second half that will be \$0.35 to \$0.40 half than the first.

Advanced Engineered Materials should add \$0.35 to \$0.45 of adjusted EPS, which will offset the \$0.40 of headwinds expected from tow we have previously discussed. The Acetyl Chain should contribute roughly \$0.25 to \$0.35 of growth over last year, driven by our ability to flex the chain and leverage raw material optionality.

These core earnings growth numbers include \$100 million of productivity through Celanese. Pat Quarles, who is responsible for Acetyls core is also on the call today to share more specifics about 2017 growth plans. We remain committed to buying back another \$500 million worth of shares in 2017 and to continue dividend growth. All in, we anticipate growing adjusted earnings per share in a range of 8% to 11% for the year, which keeps us on track to achieve our 2018 earnings and free cash flow targets.

With that, let me turn it back to Surabhi for questions.

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## Surabhi Varshney

*Investor Relations Manager, Celanese Corp.*

Thanks, Mark. As a reminder, we'd like the callers to limit to one question and one follow-up. Carrie, let's go ahead and get started.

## QUESTION AND ANSWER SECTION

**Operator:** We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Duffy Fischer of Barclays. Please go ahead.

Duffy Fischer

*Analyst, Barclays Capital, Inc.*

Q

Yes. Good morning guys.

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Good morning, Duffy.

Duffy Fischer

*Analyst, Barclays Capital, Inc.*

Q

Just question around AEM, continued very strong growth there. Can you help us size, as we go from say 1,385 launches last year to 1,900 this year? Roughly what's the average size of a bid win, if I guess right 10 or 15 higher or lower than where you guys are at? And then more importantly, when you look at that segment, the last couple of years versus three and four years ago, margins are significantly higher. Can you break down kind of how much of that has come from volume leverage versus how much has come from just spreads between raw materials and pricing?

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Yeah. So I'll make just a few comments and then maybe have Scott to hop in here, and Scott, you're still here on the call, correct? Can you hear me?

Scott McDougald Sutton

*Executive Vice President & President-Materials Solutions, Celanese Corp.*

A

Yes, yes.

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Yeah. I'll start with the last one. When you look at our business, we've grown volume roughly 11% in this business, largely driven by the new products that come in. Be mindful, Duffy, there is a bit of leakage out of that. But I think as a rule of thumb, we've talked about it being half and half volume and contribution as well as price. And then – so that's really what we're leveraging to try to go forward. Scott, do you want to try to tackle the strong growth of 1,385 to 1,900 and kind of any rules of thumb you may use for these guys would find beneficial about the contribution of that kind of growth?

Scott McDougald Sutton

*Executive Vice President & President-Materials Solutions, Celanese Corp.*

A

Yeah, sure. I mean, Duffy, of course these bid sizes vary a lot, and we are running a lot of projects now. But the best way to think about it is, all the projects come together and they add about 15% to our gross revenue. And

then we get some level of attrition, maybe around 5%. That's a better way to think of it in aggregate instead of project-by-project.

Duffy Fischer

*Analyst, Barclays Capital, Inc.*

Q

Okay, great. And then, could you just give an update on the Ibn Sina expansion on the POM and kind of where that stands? And when that equity kicker will kick in, basically where you increase the size of your holding of that joint venture?

Scott McDougald Sutton

*Executive Vice President & President-Materials Solutions, Celanese Corp.*

A

Yeah. Sure, I will. And we're going to start-up the POM plant in the middle of 2017. And there's not a large contribution out of that joint venture in 2017. We have start-up expense, which is offset by the equity increase. But it really comes at a perfect time, Duffy. I mean, this is, we need some POM coming into our system to support our growth. So, you'll see the real impact in 2018.

Duffy Fischer

*Analyst, Barclays Capital, Inc.*

Q

Terrific. Thanks, guys.

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Thank you, Duffy.

Surabhi Varshney

*Investor Relations Manager, Celanese Corp.*

A

Carrie, let's move to the next question please.

**Operator:** The next question comes from Vincent Andrews of Morgan Stanley. Please go ahead.

Vincent S. Andrews

*Analyst, Morgan Stanley & Co. LLC*

Q

Thanks. I'm just curious on the M&A front. Obviously, another acquisition. Does this represent the extent of your interest in nylon? I mean, I know that was a big topic at the Investor Day in 2015. So, is there more to come here or is it more to come in M&A in general?

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Well, there's more to come from M&A in general, Vincent. And in that process, when we started out, we really focused a lot in nylon, because it is the fastest growing component in some of the markets like autos, really due to the high-temperature applications. So, could we do more, yes. Will we do more acquisitions, heck, yes in that. So, we're not – we're really looking for technology and market access. It's not so much a size thing for us.

Vincent S. Andrews

*Analyst, Morgan Stanley & Co. LLC*

Q

Yeah. I guess, maybe what I was asking was, did this nylon acquisition get you where you wanted to be in terms of size, scale and scope?

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

Well...

A

Scott McDougald Sutton

*Executive Vice President & President-Materials Solutions, Celanese Corp.*

Well, this is Scott. I mean, not yet. I mean, this is really just the third step. We did some organic work. We acquired SO.F.TER. that had a nylon business. Nilit has a higher value nylon business. Now we're pulling all that together and there's probably one more step to go.

A

Vincent S. Andrews

*Analyst, Morgan Stanley & Co. LLC*

Okay. And just as a follow-up, Mark, you referenced early signs of improvement in the Chinese economy in the press release. Is there anything in particular you're seeing there? And why do you think it's happening there, but not I think as you mentioned in Europe or the U.S.?

Q

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

Well, I think, we've had just some really great success, especially on Materials front. And in China, in particular, over the last year and we expect that to continue into this year. So my response was weighted a bit towards that. So some of the strongest growth we got from a year-over-year percent basis is certainly occurring in China.

A

In a minute, we'll probably get some questions about the Chain business and Pat can talk about some of the trends we're seeing there in China, in raw materials and also some consumptive behavior that leads us to believe there's actually some strength coming out of that business as well.

Vincent S. Andrews

*Analyst, Morgan Stanley & Co. LLC*

Okay. Thanks very much.

Q

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

Great. Thanks, Vin.

A

**Operator:** Our next question is from Laurence Alexander of Jefferies. Please go ahead.

Laurence Alexander

*Analyst, Jefferies LLC*

Good afternoon. Could you breakout a little bit the bridge for the \$0.25 to \$0.35 of improvement from asset yields? And perhaps by upstream versus downstream within the portfolio or what you see in terms of pricing power to pass through input volatility?

Q

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Well, I think the best way to do that, when we talk about how the year is teeing up, and what we're doing really to drive value and I'll ask Pat to make some comments on that, Laurence, and we'll go from there.

Patrick D. Quarles

*Executive Vice President and President, Acetyl Chain, Celanese Corp.*

A

Yeah. This is Pat, Laurence, thanks for the question. Yeah, I think the way you should consider and how China plays into this and what it means for our chain is that we've seen a period now of re-inflation across our industry and particularly strong in China. If we look back from a year-on-year basis, coal is up in China, 83% from the beginning of the year to the end. Methanol is up 61%. That really changes the way in which we flex our model and participate across our global system. And importantly, it changes the slope of the cost curve from Eastern Hemisphere to Western Hemisphere and that really creates opportunities for us to exploit that.

If you look back in the fourth quarter, we announced about RMB 1,000 of asset price increases throughout the quarter and by the end of the quarter, we'd realized about RMB 700. So expanding our margin as the quarter went forward, despite the fact that we had raws coming up behind us. That's a really nice dynamic and momentum that we now carry into the new year. And as we move forward from here, we are anticipating an environment in the Western Hemisphere where through a variety of expected maintenance outages, it's going to create some more dynamics that allow us to drive pricing on a real supply/demand basis.

And past all of that, you have our continued focus on productivity, right. So we've got about 1,200 to 1,300 projects currently running and productivity across our company. That's an ongoing and continuous focus and we'd expect this year much like the past several to realize about \$100 million of net gain from that activity.

Laurence Alexander

*Analyst, Jefferies LLC*

Q

Those were the two main drivers, just to be clear, are the pricing and the couple of hundred million, \$100 million to \$200 million on productivity in that segment, volume trends haven't really changed much?

Patrick D. Quarles

*Executive Vice President and President, Acetyl Chain, Celanese Corp.*

A

I think that's right.

Laurence Alexander

*Analyst, Jefferies LLC*

Q

Okay. Thanks.

Patrick D. Quarles

*Executive Vice President and President, Acetyl Chain, Celanese Corp.*

A

Yeah. It's about a net \$100 million in productivity for the company and roughly speaking 50-50 typically between the two quarters.

Laurence Alexander

*Analyst, Jefferies LLC*

Q

Got it. Thank you.



Surabhi Varshney

*Investor Relations Manager, Celanese Corp.*

A

Thanks, Laurence. Carrie, let's move on to the next question.

**Operator:** Next question comes from Frank Mitsch of Wells Fargo Securities. Please go ahead.

Frank J. Mitsch

*Analyst, Wells Fargo Securities LLC*

Q

Hey, good afternoon folks. If I can just follow up on that. Pat, where do you see operating rates for Acetic and VAM, A, for the industry and B, for Celanese?

Patrick D. Quarles

*Executive Vice President and President, Acetyl Chain, Celanese Corp.*

A

Yeah, hi, Frank. Thanks for the question. I think, we tend to look at the market in somewhat segmented ways between Western Hemisphere and Eastern Hemisphere, specifically China. And we've been dealing with significant overhead of supply capability in China, but that market's – you can't just look at operating rates, what you really have to look at is what the cost structure is and how that impacts the global market.

So I'd say generally speaking assets outside of China had been running at fairly high rates over the last year. Frankly, they've been running reliably not only ours, but our competition. So that's created some turbulence at the end of last year in VAM. But what will make the difference is incentive for the opportunity for China to be participating in the global market and with the changes in their cost curve, we really see that as a diminishing influence. We saw asset imports out of China and their participation in Southeast Asia really fall off dramatically during the fourth quarter and similarly on VAM where, by the time we got to the fourth quarter, their typically imports were down about two-thirds to three quarters – exports rather out of China. So that's kind of playing on the balances that we're talking about as we head into this year.

Frank J. Mitsch

*Analyst, Wells Fargo Securities LLC*

Q

All right. That's very helpful. And if I could just talk about filter tow, Mark, your guidance now down \$0.40. I think it before was like down \$0.30 to \$0.40, but – and pricing down 10% in the fourth quarter. I assume that most of the negotiation's done for 2017. Where do you anticipate pricing to be down for 2017? And if I'm not mistaken, I think you indicated that potentially Celanese would consider rationalizing capacity in 2018, where do you stand on that?

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Yeah, I don't have the exact price numbers, so I'd rather not talk about that. I think classically it's been half and half, volume and price and that's good enough, I think is what I would say on that. As we look forward, we kind of – I mean when you look at lot of this ripple effect we've had has been really driven by two phenomena. One is the reduction of sales into China, which roll back into the U.S. and Europe and producers there, which is very disruptive. There was some oversupply situations that were working themselves out. And we think this year really is sort of the settling of that.

So we have in the past taken steps. We've taken more steps, we think than anyone to rationalize and deal with that. And I think going forward, we'll just take it through the steps necessary for us to take independently, we'll do that. But I think right now we kind of like where we are. We like our cost position where we are, and we're looking

for this industry to get some certainty about it and then move forward, again. Last thing I'd say, I think the sale of Solvay is a good thing in terms of settling some of that uncertainty. And so we're looking forward to 2018.

Frank J. Mitsch  
*Analyst, Wells Fargo Securities LLC*

Q

All right. Thank you.

Mark C. Rohr  
*Chairman & Chief Executive Officer, Celanese Corp.*

A

Thank you.

Surabhi Varshney  
*Investor Relations Manager, Celanese Corp.*

A

Thanks, Frank. Carrie, let's move on to the next question.

**Operator:** The next question comes from Robert Koort of Goldman Sachs. Please go ahead.

Robert Andrew Koort  
*Analyst, Goldman Sachs & Co.*

Q

Thanks, good morning.

Mark C. Rohr  
*Chairman & Chief Executive Officer, Celanese Corp.*

A

Good morning, Bob.

Robert Andrew Koort  
*Analyst, Goldman Sachs & Co.*

Q

I was hoping to follow-up on Nilit a little bit. I guess, there had been some discussion in the press that you're paying a couple of hundred million bucks for this asset. Would you advise us against seeing some credibility in those reports? And then I know they were both at textile and in engineered products business. Can you give us some sense of the scale and what kind of margins we could expect in the business that you're buying there?

Mark C. Rohr  
*Chairman & Chief Executive Officer, Celanese Corp.*

A

Yeah. I'll let Scott talk about the margins. Let me say that we don't comment directly on pricing. What we say is that on average, if you look at our model about 10 times is what our average model should be. And again, we don't talk specifically on this, but Nilit will be on the higher side of that, and SO.F.TER. was a little bit on the lower side of that in that process. And we still have a long ways to go to close this thing. So it's not right to get in too much details about the absolute price. But Scott, you want to tackle sort of the business itself and share more details about the business and where it is that we intend to take it?

Scott McDougald Sutton  
*Executive Vice President & President-Materials Solutions, Celanese Corp.*

A

Yeah. Yeah, sure, Mark. I mean, the Nilit business is a bit higher margin business relative to the SO.F.TER. acquisition we made, but still all these acquisitions we make are going to be a bit dilutive to our own margin. Over

time, we intend to bring that up, but it really is the bigger part of our nylon portfolio that we'll have, they're highly specified, mainly in electrical applications, a lot in auto as well.

Robert Andrew Koort

*Analyst, Goldman Sachs & Co.*

Q

And if I might follow-up and give Chris a chance to say something. I'm curious about the way you guys have issued guidance on an EPS basis for your operating divisions. Why not just give us EBIT changes? And what should we imply for share repurchase or tax rates or something else that might influence what the EPS deltas are for your division?

Christopher W. Jensen

*Chief Financial Officer & Senior Vice President, Celanese Corp.*

A

Okay. So share account, as Mark said in his comments, well, we plan to execute the other \$500 million of share repurchases, so you can do that math, it's in our models to just do that pro rata during the year. But that drives something north of \$0.30, if that's the outcome. Taxes, I'll have a better idea when we get through the first quarter, but it's probably in that same range of 18% or so.

Robert Andrew Koort

*Analyst, Goldman Sachs & Co.*

Q

Very good. Thanks, Chris.

Surabhi Varshney

*Investor Relations Manager, Celanese Corp.*

A

Thanks, Bob. Carrie, let's move on to the next question.

**Operator:** The next question comes from P.J. Juvekar of Citi. Please go ahead.

P.J. Juvekar

*Analyst, Citigroup Global Markets, Inc.*

Q

Yes. Hi. Good morning.

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Good morning, P.J.

P.J. Juvekar

*Analyst, Citigroup Global Markets, Inc.*

Q

Mark, your pricing was down in every segment in the quarter, but you sounded optimistic about the uplift from raw materials. I'm wondering is that coming mostly on the Acetyl segment or are you saying you also have pricing in the AEM business to offset raw materials?

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Yeah. I think what I'll say is I'll start with Pat's segment. Yeah, we actually did a pretty good job, I think managing a pretty rapid level of inflation that went on in that chain. And so I think we have had and we will continue to have

the ability I think to manage that inflation and stay at that or ahead of it. The growth and earnings from Pat's business is going to come through his ability really to drive higher and higher margins in that chain.

In Scott's business, we've had phenomenal success driving higher pricing, as it relates to the growth we've had in that business. We are facing some inflation in that business and little bit of that is in market this year. I think \$25 million to \$30 million worth or so of headwinds we expect, Scott, to have to overcome in that business and some of the me too stuff that's out there is going to be hard to do. So, I think net, net you won't see quite as much on the pricing side from his business year-over-year, but that's more of a mix effect than anything else.

P.J. Juvekar

*Analyst, Citigroup Global Markets, Inc.*

Q

Okay. And then, second question on tow. What are your views on sort of destocking of tow in China versus underlying demand? And do you think we're through that destocking phase?

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Well, I think – and maybe I'll ask Scott in a minute, take a few comments on this. But in a fundamental sense, we think that the way we look at it is really what our imports into China going to do. We think the imports into China over some period of time are going away. There is still imported volume going into China and there'll still be imported volume going in this year. But our long-term view is that that is going to go away. And as we go through stocking and destocking in China and consumption trends, which does appear down year-over-year about 8%. I think just directionally, we should all anticipate that that volume into China from outside of China is going to go away. Scott, do you want to make any comments about destocking or changes that you may see in China?

Scott McDougald Sutton

*Executive Vice President & President-Materials Solutions, Celanese Corp.*

A

Yeah. And P.J., on your first comment there, I mean, the inflection point in demand, the short part of it's probably over. So, there is likely to be a slow decline in underlying smoking demand in China. But it's very slow, maybe 1% a year. The destocking is not over. It's come down. But there is enough stock there to bridge for a little while to do exactly what Mark said. And that has led imports slowly decline to close to zero over two years or three years here.

P.J. Juvekar

*Analyst, Citigroup Global Markets, Inc.*

Q

Great. Thank you. That's helpful.

Surabhi Varshney

*Investor Relations Manager, Celanese Corp.*

A

Thanks, P.J. Carrie, let's move on to the next question.

**Operator:** The next question comes from David Begleiter of Deutsche Bank. Please go ahead.

Katherine Griffin

*Analyst, Deutsche Bank Securities, Inc.*

Q

Good morning. This is Katherine Griffin on for David. Kind of just follow-up on the discussion about Acetyls and acetic acid. Mark, you mentioned, we are looking to see the industry to achieve a level of certainty. Could you talk

more about maybe the supply/demand fundamentals behind that or pricing that would get you to that level of certainty?

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Well, my uncertainty comment Kathy was more around the tow business and really the status of one of the big sellers there. I may have commingled those for you. No, we're pretty confident on the direction that we see in the Chain business and we're really confident on our model. So as those raw material fundamentals change, as they are changing, we feel comfortable about those changing, we think we'll be able to extract more value. I think maybe one of the things we could share more of them – I'm looking at Pat, when I say this, there's a little bit of talk about the ripple effect on the cost curve of some of the producers in China versus those outside of China as you look at coal and methanol, what's happening, yeah.

Patrick D. Quarles

*Executive Vice President and President, Acetyl Chain, Celanese Corp.*

A

Sure. Yeah. Maybe I'll just put some numbers around that. So if you think about the competition we have in China, these are essentially coal-based guys and many of them are actually integrated on the coal side through methanol as well. So if you take what we can all see on coal prices, we're ending the year at about \$100 a ton on coal price and again, methanol up in the kind of the 350s and has actually gone up higher than that as we've gotten into 2017.

If you're just looking at your cost structure, they're up about \$50 a ton, but the reality is their behavior's going to change because now they have an alternative for the methanol in the market that they didn't have all last year. So effectively, it feels to them like their costs are up about \$120 a ton and that's exactly the behavior that we're seeing in the market that's driving our ability to drive margin not only in China, but then to support our expectation that that margin then begins to be driven in the Western Hemisphere as we flex our system towards those opportunities. So that \$120 a ton we think is legitimate. We've tested it through a variety of kind of internal ways in which we monitor the market and see it actually realized in our pricing. And I think that's really where the confidence is coming from, that Mark's alluding to.

Katherine Griffin

*Analyst, Deutsche Bank Securities, Inc.*

Q

Great. Thank you. And then, so also in terms of your outlook commentary, I know you touched on the signs of recovery in China, but maybe you could elaborate on what trends are you seeing in Europe and the Americas that we do believe that demand is stable or will be stable through 2017?

Patrick D. Quarles

*Executive Vice President and President, Acetyl Chain, Celanese Corp.*

A

Sure. Yeah, from the demand side, in the Western Hemisphere, it's been not exciting but it's been steady. And we don't really see that profile changing, if anything, we're seeing consumer confidence increase. We're seeing confidence in housing markets seem to be improving, and that gives us the feeling that, we should have some ability to realize growth as we head into 2017.

What's really changing in 2017 isn't so much the demand side, it's how we're seeing the variety of outages associated with maintenance on our assets and others, stacking up here in the first half of the year. Remember the Western Hemisphere is fundamentally and structurally short acetic acid and VAM, and that the market has to balance with Eastern Hemisphere. And so, as the west goes through these maintenance outages, that's just a

further shortage that we have to deal with. And that's how we take actions to position ourselves to drive value through those periods, and we see that coming at us here beginning late in the first quarter.

Katherine Griffin

*Analyst, Deutsche Bank Securities, Inc.*

Thank you very much.

Q

Surabhi Varshney

*Investor Relations Manager, Celanese Corp.*

Thank you. Carrie, let's move on to the next question.

A

**Operator:** The next question comes from Mike Sison of KeyBanc. Please go ahead.

Michael J. Sison

*Analyst, KeyBanc Capital Markets, Inc.*

Hey, guys.

Q

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

Hey, Mike.

A

Michael J. Sison

*Analyst, KeyBanc Capital Markets, Inc.*

Nice end to the year there. When you think about your triangles that you have for AEM, and you have a lot of different acronyms there, obviously POM and PBT have done well. Any other particular compounds are driving the growth peak? Anything there that has good momentum?

Q

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

Yeah. Scott, do you want to tackle that?

A

Scott McDougald Sutton

*Executive Vice President & President-Materials Solutions, Celanese Corp.*

Yeah. I sure will. And so, we do have – we're approaching sort of 20 platforms between the engineered thermoplastics and the elastomers. Other big drivers and the one you mentioned certainly, our ultra high molecular weight polyethylene, we call it GUR, which has high application use in medical, high application use in energy storage, particularly lithium ion batteries is a big driver of growth.

A

But it really is across the board. I mean it's our model. We're almost market agnostic, sort of product agnostic as we walk in to deliver a solution to a customer. So, it really is across the board growth. It's not really focused on just a couple polymer platforms.

Michael J. Sison

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Right. Great. And then, as a quick follow-up, Mark, when you think about the two triangles, I'm sure there will be a nylon triangle. When you think about acquisitions, are there other areas – is there another one or two areas of focus that could continue to add these little impairments?

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Yeah. I think, what I'd say rather than talking about specific polymers. Mike, what we have is a really good model. And what we have been saying to investors, as we've rolled this out is, watch how we lever this model internally first and we've been doing that now over a year, and everybody is seeing the results of that. And now we're seeing that platform's delivered again. We think this model is very leverageable, when you combine technology and our expertise for applications with the way we engage with customers.

So, when we fantasize about that as a result, there are many ways we could push this. We're trying to stay a bit close to home now and making sure that we have some direct connection to the end market of these goods or we engage with them in some way. But Mike, I think as this year unfolds and we get into next year, it is our intention to continue to continue to add bolt-on acquisitions, what I mean by that is acquisitions that can be assimilated very quickly, that are reasonable in scope and size and really continue to push that out. And at the same time, Scott's got to develop this organization to handle thousands of new introductions per year across the globe. So we just think the model gives us lot of latitude and yes, there are a lot of things we're looking at, but I'll really not say exactly what they are.

Michael J. Sison

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Great. Thank you.

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Thank you, Mike.

Surabhi Varshney

*Investor Relations Manager, Celanese Corp.*

A

Thanks, Mike. Carrie, let's move on to the next question.

**Operator:** The next question comes from Jeff Zekauskas of JPMorgan. Please go ahead.

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Hi, Jeff.

Jeffrey J. Zekauskas

*Analyst, JPMorgan Securities LLC*

Q

Thanks very much. Your AEM volumes were up 20% in the quarter, how much was organic and how much was from acquisitions? And I see that you paid down your pension liability by about \$300 million. So I would assume there might be a book benefit of \$24 million next year in your cost structure. Is that part of the \$100 million in cost cutting or is that separate?

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

Yeah. So we will start with Pat, talks about volumes.

A

Scott McDougald Sutton

*Executive Vice President & President-Materials Solutions, Celanese Corp.*

Yes.

A

Patrick D. Quarles

*Executive Vice President and President, Acetyl Chain, Celanese Corp.*

The question really is for Scott?

A

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

I'm sorry. Scott?

A

Scott McDougald Sutton

*Executive Vice President & President-Materials Solutions, Celanese Corp.*

Yeah, sure. So the volumes, you're right. I mean, they're up 20% in the fourth quarter, but if you look at it without the SO.F.TER. acquisition benefit, they're up about 13% and on the whole year they're up about 10% organically.

A

Patrick D. Quarles

*Executive Vice President and President, Acetyl Chain, Celanese Corp.*

So the question on pensions, yeah, that math is closed, it's not quite that high, it's closer to 20%, but when you look at all elements of compensation, not just pensions, it's really going to be kind of flattish going into next year. And that just has to do with different awards that we have for different open years, and how those stagger out. Most of our senior leadership compensation is variable in nature based on success of different metrics. And it's – that's changing really into the new year. So, it's a long way of saying don't count on seeing that 20% hit the bottom-line, because it's part of a bigger package of compensation that's probably more flattish.

A

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

And I think there was a question on productivity as well.

A

Patrick D. Quarles

*Executive Vice President and President, Acetyl Chain, Celanese Corp.*

So think in the productivity piece, we need to target about \$180 million to \$210 million per year of gross productivity, Jeff to get to the \$100 million net. And I mentioned earlier, we're running about 1,214 projects today across the company, that does not include pensions, to get to our target of \$100 million. And I think we feel pretty good about where that pipeline sits today to continue to deliver that, that productivity for 2017.

A

Jeffrey J. Zekauskas

*Analyst, JPMorgan Securities LLC*

Q



Okay. And for my follow-up, your AI operating income decreased sequentially by about \$16 million. Now there are some seasonal factors, but can you geographically explain where the \$16 million decline comes from? And are you shipping acetic from Singapore into China, because you think that you'd get a better cost price differential?

Patrick D. Quarles

*Executive Vice President and President, Acetyl Chain, Celanese Corp.*

A

I'd say generally speaking, Jeff, if I think about the profile of the business last year and into the fourth quarter, acid was in a very difficult place for the market, exacerbated by extraordinarily difficult kind of input cost in China, and what that cost curve implication was to the market. And I talked about how that's changed. That change really occurred dramatically and throughout the fourth quarter. So, I think about where we began – the beginning of the fourth quarter and where we ended the fourth quarter in acid in China specifically, dramatic margin improvement there, okay.

But if you step back from that and you think about the total chain, we were challenged in VAM really, is where the step down was, as we had some end of quarter dynamics at the end of the third quarter and into the fourth quarter that really made it challenging for us. We see that reversing today, but that's what hit us late last year.

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

There were few other small things too, Jeff, in there. We had an unscheduled outage of an operating facility that cost us \$5 million or so, so \$0.02 or \$0.03, let's just say out of that. We also have some currency impacts that popped up quickly and we usually cover those over time, that was another \$3 million, \$4 million, \$5 million. So there is probably not half but you start to press half of that, were some episodic or one-time things, we wouldn't expect to continue going forward.

Jeffrey J. Zekauskas

*Analyst, JPMorgan Securities LLC*

Q

Okay, great. Thank you so much.

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Thanks so much, Jeff.

Surabhi Varshney

*Investor Relations Manager, Celanese Corp.*

A

Thanks, Jeff. Carrie, let's move on to the next question.

**Operator:** The next question comes from Arun Viswanathan of RBC Capital Markets. Please go ahead.

Arun Viswanathan

*Analyst, RBC Capital Markets LLC*

Q

Great. Thank you. I just wanted to see if you guys can give us an update on – I know it's a little bit out, but the 2018 look, you've talked about \$8.00 to \$8.50 in earnings in the past. How does the AEM pipeline development affect that and maybe some of the upstream developments as well as your acquisitions?

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

Scott, do you want to tackle that?

A

Scott McDougald Sutton

*Executive Vice President & President-Materials Solutions, Celanese Corp.*

Yeah. Yeah, thanks. Look, I would say that I mean the pipeline really supports getting to that level. I mean, you look at what we're going to do this year, but we'll probably commercialize about 1,900 projects.

A

After that, you see the benefits of SO.F.TER. and Nilit kick-in and on top of that, we're growing the organic portion of it too. We hope to have another acquisition in line as well. So, I would say that the trend that helps drive a lot of the growth in AEM is going to continue and we continue to see this volume growth as we look out into 2017.

Arun Viswanathan

*Analyst, RBC Capital Markets LLC*

And then, just as a follow-up. I think you may have discussed this briefly earlier, but just on the margins in both AEM and tow, I understand tow maybe impacted by some pricing, but still very strong and then AEM, do you see kind of holding these levels, even though you're adding on slightly lower margin businesses? Thanks.

Q

Scott McDougald Sutton

*Executive Vice President & President-Materials Solutions, Celanese Corp.*

Okay, yeah. Thank you. In AEM, I mean you'll see a little bit of dilution there. It won't be extensive, but there will be a little bit as we bring in acquisitions that may not be at the same margin level and there's a little bit of raw material price pressure as well that Mark already commented on. There is the tow pricing effect, margins have probably hit a high point in that business, but they'll stay fairly high is the way to think about it.

A

Arun Viswanathan

*Analyst, RBC Capital Markets LLC*

Thank you.

Q

Christopher W. Jensen

*Chief Financial Officer & Senior Vice President, Celanese Corp.*

This is Chris. Maybe if I'd just pull that into kind of your original question on 2018, I mean we're still confident, that's our range for 2018 that we put out before. And even more so just want to point you back to free cash flow, that we're confident in \$2.5 billion across those three years.

A

I mentioned in my prepared remarks that it should be down a little bit next year. Just to be clear on that, I meant from the \$933 million before the pension contribution, not from the \$633 million. So it'll be down a little bit in 2017 because of income taxes. So, 2016 had some nice benefits of a lot of capital spending on things that you already know about leading up to that and some bonus tax depreciation deductions that we got for that. So it will be in the \$800 millions in 2017 instead of in the \$900 millions most likely, but you just add that up, it stacks up to confidence in \$2.5 billion, when we go clear out through 2018.

Arun Viswanathan

*Analyst, RBC Capital Markets LLC*

Great. Thank you.

Q

Surabhi Varshney

*Investor Relations Manager, Celanese Corp.*

A

Thanks, Arun. Carrie, let's move on to the next question.

**Operator:** The question comes from James Sheehan of SunTrust Robinson Humphrey. Please go ahead.

James Sheehan

*Analyst, SunTrust Robinson Humphrey, Inc.*

Q

Good afternoon. So, when you mentioned your impact from share buybacks in 2017 being around \$0.30, was that the same magnitude that was in your original path to 2017 that you laid out last quarter?

Christopher W. Jensen

*Chief Financial Officer & Senior Vice President, Celanese Corp.*

A

The path to 2017 or 2018?

James Sheehan

*Analyst, SunTrust Robinson Humphrey, Inc.*

Q

2017.

Christopher W. Jensen

*Chief Financial Officer & Senior Vice President, Celanese Corp.*

A

Oh. Yeah, yeah. I mean we always just assume it will be pro rata, but sometimes it can be lumpy. So, we can update you as we go through the year on on how it's unfolded. But the intention was always \$500 million of repurchases in 2017.

James Sheehan

*Analyst, SunTrust Robinson Humphrey, Inc.*

Q

Great. And then, in the Acetyls Chain, can you discuss, what is the lag in passing through higher raw materials that you're assuming for 2017?

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

So, Pat, do you want?

Patrick D. Quarles

*Executive Vice President and President, Acetyl Chain, Celanese Corp.*

A

Yeah, I'm sorry I missed that.

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

What's the lag on passing through raw materials?

Patrick D. Quarles

*Executive Vice President and President, Acetyl Chain, Celanese Corp.*

A

Well, it ranges anything from instantaneous to the extent that we have contracts tied to those external indexes, what we're able to drive through in the market. Again, I kind of think back to what we're able to do in the fourth quarter in China on the escalation there. Again, I talked about of the RMB 1,000 we announced throughout the quarter, we realized RMB 700 by the end of the quarter, which actually kept us ahead of raws. And if we've got the right kind of market dynamics which I think we have now heading into the first quarter, we should be pretty much on top of it.

James Sheehan

*Analyst, SunTrust Robinson Humphrey, Inc.*

Q

Thank you.

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Thank you.

Surabhi Varshney

*Investor Relations Manager, Celanese Corp.*

A

Thanks, Jim. Carrie, let's take the next question now.

**Operator:** The next question comes from Aleksey Yefremov of Instinet. Please go ahead.

Aleksey Yefremov

*Analyst, Instinet LLC*

Q

Good afternoon. Thank you.

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Good afternoon.

Aleksey Yefremov

*Analyst, Instinet LLC*

Q

In your filter tow business, have you signed any multiyear contracts? And if so, have you fixed either price or volume commitments?

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Yeah, do we sign multi-year contracts with price and volume? I mean it's a combination of short-term contracts and longer-term contracts, and it's a combination of terms depending on who they are, where some are volume, some are with price commitments, some have options on price on new release. So it varies depending on who the customer is and what we think we can accomplish. Scott, do you want – am I saying it the right way? Any comments on that?

Scott McDougald Sutton

*Executive Vice President & President-Materials Solutions, Celanese Corp.*

A

No, I mean in the tow business, there is some multiyear contracts now and for us it's not a giant percentage of our business, maybe up to a third of the business is the way to think about it. They more commonly have a fixed price and a share of volume. So the absolute volume could fluctuate a little bit.

Patrick D. Quarles

*Executive Vice President and President, Acetyl Chain, Celanese Corp.*

A

Yeah, and I would say maybe on the Acetyl side to build that out a little bit, so the thing about acid and VAM, fairly responsive on price. You don't make long-term price commitments because your market's changing too quickly. A business like our [indiscernible] (40:51) emulsions can have quarterly pricing. So, kind of tying back to that last question about how quickly our prices respond, that's one area where you'll have some quarterly lag as we reset beginning of each quarter, particularly in Europe.

Aleksey Yefremov

*Analyst, Instinet LLC*

Q

Great. Thank you, that's very helpful. And turning back to organic volume growth in the AEM business, is double-digit growth something we could expect in 2017 or high single-digit is I think that was your prior target of something what we should expect in 2017?

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Scott?

Scott McDougald Sutton

*Executive Vice President & President-Materials Solutions, Celanese Corp.*

A

Yeah. And so this is Scott. Yeah. Thanks. I mean, I still think that the high single-digits is the right place to be when you think about our organic growth profile. Obviously, we're adding significant growth from acquisitions, but in terms of organic, I think high single-digit is a good place to be on average.

Aleksey Yefremov

*Analyst, Instinet LLC*

Q

Thank you very much.

Scott McDougald Sutton

*Executive Vice President & President-Materials Solutions, Celanese Corp.*

A

Sure.

Surabhi Varshney

*Investor Relations Manager, Celanese Corp.*

A

Thanks, Aleksey. Carrie, let's move on to our next question and let's make it our last one.

**Operator:** Okay. Our last question comes from John Roberts of UBS. Please go ahead.

John Roberts

*Analyst, UBS Securities LLC*

Q

Thank you. On the innovation model in AEM, does it extend to the JVs or would you need to have control for the JVs to be able to get the benefit of the new innovation model?

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

Yeah. Not so much. I mean, it's – we're working with our joint venture partners, so we can drive more of it in there. I think in some we're – it's fully involved in it. You can look at PPS for us, in others, it's a little more distant relationship.

John Roberts

*Analyst, UBS Securities LLC*

Q

And then, your basic and most of it is polymers, but you're only in compounding in nylon. With the Nilit capacity to consume nylon, would you be a big enough consumer to consider maybe even having a JV with a nylon producer or somehow accessing polymer capacity?

Mark C. Rohr

*Chairman & Chief Executive Officer, Celanese Corp.*

A

If it makes sense, we would. We're pretty – there's not a lot of shortage in nylon out there, and we're pretty comfortable with our position right now in it. But certainly having access to some nylon and/or specialty nylons could be pretty attractive for us.

John Roberts

*Analyst, UBS Securities LLC*

Q

Okay. Thank you.

Surabhi Varshney

*Investor Relations Manager, Celanese Corp.*

Carrie, that's it. We'll wind up the call now.

**Operator:** The conference is now concluded. Thank you for attending today's presentation. You may now disconnect your lines. Have a great day.

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