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Celanese Corp. (CE)

Q1 2014 Earnings Call
CORPORATE PARTICIPANTS

Jon Puckett
Vice President-Investor Relations, Celanese Corp.

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

Steven M. Sterin
Chief Financial Officer & Senior Vice President, Celanese Corp.

OTHER PARTICIPANTS

David I. Begleiter
Analyst, Deutsche Bank Securities, Inc.

Duffy Fischer
Analyst, Barclays Capital, Inc.

John P. McNulty
Analyst, Credit Suisse Securities (USA) LLC (Broker)

P.J. Juvekar
Analyst, Citigroup Global Markets Inc. (Broker)

Maggie Cheung
Analyst, Wells Fargo Securities LLC

Aleksey V. Yefremov
Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.

Robert A. Koort
Analyst, Goldman Sachs & Co.

Laurence Alexander
Analyst, Jefferies LLC

Vincent Andrews
Analyst, Morgan Stanley & Co. LLC

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Jim M. Sheehan
Analyst, SunTrust Robinson Humphrey

Nils Wallin
Analyst, Credit Agricole Securities (USA), Inc.
MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the First Quarter 2014 Celanese Corporation Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. [Operator Instructions] As a reminder, today’s call is being recorded.

I’d now like to turn the conference over to Jon Puckett. Sir, you may begin.

Jon Puckett
Vice President - Investor Relations, Celanese Corp.

Thank you, Shannon. Welcome to the Celanese Corporation first quarter 2014 conference call. My name is Jon Puckett, Vice President of Investor Relations. With me today are Mark Rohr, Chairman and Chief Executive Officer; and Steven Sterin, Senior Vice President and Chief Financial Officer.

The Celanese Corporation first quarter 2014 earnings release was distributed via Business Wire on April 21, 2014 after market close. The slides for the call and our prepared comments for the quarter were also posted on our website, 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 the 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 on our website, www.celanese.com, in the Investor Relations section, under financial information. The earnings release, non-GAAP reconciliations, presentation and prepared comments have been submitted to the SEC in a current report on Form 8-K.

This morning, we will begin with introductory comments from Mark Rohr and then we will field your questions.

I’d now like to turn the call over to Mark.

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

Thanks, Jon, and good morning, everyone. We appreciate you joining the call today. Our prepared remarks were released with earnings, so I’ll keep my comments brief and then open the line for your questions.

For the quarter, we reported adjusted earnings of $1.33 per share, which is a record first quarter and one of the top earnings quarters in our history. Sales increased 6% year-over-year and 5.5% sequentially on 3% higher volumes for both periods. Segment income margin increased 260 basis points sequentially and 90 basis points year-over-year to 17.7%.

We generated operating cash flow of $164 million and deployed $53 million of cash this quarter to repurchase about 1 million shares, and ended the quarter with about $1 billion of cash on the balance sheet, well positioned to pursue our growth initiatives and maintain our capital deployment strategy.
Every business performed at a very high level, expanding margins both sequentially and year-over-year, driven by strong execution, innovative products and productivity.

In Engineered Materials, we introduced new products and applications that met customer needs, driving strong volume growth in auto and medical segments. In Consumer Specialties, a number of initiatives came through, helping us lower operating cost and improve operational reliability. In Industrial Specialties, our proprietary technology drove strong demand in Europe and Asia. And in Acetyl Intermediates, our strategic actions taken last year resulted in a lower operating cost, while day-to-day execution drove margin improvement.

While we’re off to a great start for the year, we still have a lot of work ahead of us to deliver on our commitments. For instance, in the second quarter we have a major turnaround going on at Clear Lake, the largest acetyl unit in the world. In our cellulose derivatives business, we expect slightly lower earnings due to the timing impact of our production schedule as we prepare for outages later this year.

These two items alone represent headwinds of about $20 million sequentially. But despite hurdles like those mentioned, our ability to execute against our strategy provides line of sight to earnings growth of 12% to 14% for 2014.

With that, I’ll now turn it over to John for Q&A.

Jon Puckett  
Vice President - Investor Relations, Celanese Corp.

Thanks, Mark. In order to get through everybody’s questions, we ask that you limit it to one question and one follow-up. And with that, Shannon, I’ll turn it over to you for the Q&A instructions.

QUESTION AND ANSWER SECTION

Operator: Thank you. Our first question is from David Begleiter of Deutsche Bank. You may begin.

David I. Begleiter  
Analyst, Deutsche Bank Securities, Inc.

Thank you. Good morning.

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

Good morning, David.

David I. Begleiter  
Analyst, Deutsche Bank Securities, Inc.

Hey, Mark, could you quantify the benefit from VAM in Q1 in terms of how much stock you sold and the likely benefit in Q2 from this spike in VAM prices?

Mark C. Rohr  
Chairman & Chief Executive Officer, Celanese Corp.
Well, I like to not break it down just by specific product, but we did see, as you know, David, we saw, with a number of unscheduled outages as well as some structural changes that happened last year, we saw some tightness in the VAM market manifest itself. As we ended the quarter, net-net, we had pricing up, offset a lot by raw materials, probably to the tune of $20 million or something that rolled through the quarter.

David I. Begleiter  
Analyst, Deutsche Bank Securities, Inc.

Very good. And just – Mark, just on China, could you talk about acetic acid pricing as well the profitability of your acid unit in Nanjing?

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

Well, no, I won't talk specifically about – what I will say is that acid remains very stable in China. We've seen some margin increase over the last several quarters. We're trending up in margins in China. Our kind of view is, David, that we should have volume growth and margin growth slowly through the year based on what we're seeing over there.

David I. Begleiter  
Analyst, Deutsche Bank Securities, Inc.

Thank you very much.

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

Thank you, now.

Jon Puckett  
Vice President-Investor Relations, Celanese Corp.

Thanks, David. Shannon, let's move to the next question.

Operator: Our next question is from Duffy Fischer of Barclays. You may begin.

Duffy Fischer  
Analyst, Barclays Capital, Inc.

Yes. Good morning, guys.

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

Good morning, Duffy.

Duffy Fischer  
Analyst, Barclays Capital, Inc.

Mark, I was wondering, you've talked a little bit about changing strategy and pricing, and I think pricing across AI in particular has been better than we would have forecast each of the last two quarters. Can you talk about that new level of either profitability or pricing that you've been able to get structurally changing the way you write your contracts?
Mark C. Rohr  
Chairman & Chief Executive Officer, Celanese Corp.

Yeah, Duffy. So I think most folks on the call know that if you look back historically, we have been a company that in the AI chain was largely fully contracted. And the contract pricing were all formula driven with a lot of restrictions on – self-imposed restrictions on how rapidly we can move pricing based on the circumstance that we face. And we looked at that in 2012 and really concluded that did not give us the degrees of freedom to make the kind of decisions you need to make to drive value. And so we started rewriting those contracts and moving away from indexes.

We're not completed with that. In some businesses, we're probably two-thirds of the way there. In other businesses, we're more like half the way there, Duffy. So what we're doing is we're just freeing ourselves to make a conscious decision every day on how we price these products. And so that's what we're doing. We burned it day to day. And because of that, we've been able to make good business commercial decisions. When we've seen hyperinflation roll through we've been able to capture that and not be victimized by that. And equally, when we see opportunities to push into new markets and areas, we're able to respond very quickly to that.

Duffy Fischer  
Analyst, Barclays Capital, Inc.

Great. And then just on the Clear Lake turnaround, it's a relatively new unit, kind of the one that got punctured or whatever, four or five years back. Will you be able to expand the capacity in that unit in this turnaround?

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

Not directly, Duffy. What we – that unit is – that's a less expansion than we did with the largest acetyl chain in the world. And what we're doing, though, is we are expecting to be able to run longer between turnarounds because of some of the steps we're taking. So incrementally, we'll, instead of going down every other year for a major, we'll try to go down every third year to fourth year.

Duffy Fischer  
Analyst, Barclays Capital, Inc.

Terrific. Thank you.

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

That will give us some capacity.

Jon Puckett  
Vice President-Investor Relations, Celanese Corp.

Okay. Thanks, Duffy. Shannon, let's move on to the next.

Operator: Our next question is from John McNulty of Credit Suisse. You may begin.

John P. McNulty  
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Yeah. Good morning. Thanks for taking my question.
Mark C. Rohr  
Chairman & Chief Executive Officer, Celanese Corp.

Good morning, John.

John P. McNulty  
Analyst, Credit Suisse Securities (USA) LLC (Broker)

So with regard to the consumer business, clearly it enjoyed a lot of lift and you gave some — or you put out some statements regarding there were a number of kind of initiatives that were finally starting to kick in. Can you walk us through kind of what some of the major initiatives were that really moved the needle? Because it clearly was a pretty big pick up there.

Steven M. Sterin  
Chief Financial Officer & Senior Vice President, Celanese Corp.

Yeah. Hey, John; Steven. Yes. First of all, if you look at the top line, in terms of what's gone on there, we've talked about our ability to continue to add value in the space and recognize higher pricing in our tow business. You'll see that was a little offset by the step down in our contract flake arrangement so you're seeing growth come from the top line.

In terms of productivity, we've also been able to do some things with our raw material usages and approaches there that have yielded us some meaningful productivity. And finally, we had talked to you before about building a natural gas pipeline down in Mexico to get us off of crude-based derivative for our energy and steam and we've completed that project as well.

So when you look at all those in combination, a really strong performance. I would note, though, that in Q1, if you look at Q1 versus the outgoing quarters, I think we did about 128 million or so in the first quarter. I'd expect that to be more in the 115 to 120 million range as we move out. We're going to have a turnaround in one of our major units and also you have the corresponding builds and draw of inventory associated with that, but that's in that $15 million to $20 million headwind that Mark talked about.

John P. McNulty  
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Okay. Great, and then just as the follow up, I know there's been some excess capacity put in place on the cellulosic fiber side. Have you seen the benefit of that on the raw materials yet? Is that part of some of the benefits that you've started to see yet or is that something still to – still on the come for you.

Steven M. Sterin  
Chief Financial Officer & Senior Vice President, Celanese Corp.

If you look at the headline prices for cellulosic, it is down, which is probably an industry-wide impact. So yeah, there's some benefit from that that's out there, but that's not a large part of what I just talked about.

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

And that's specific for the raws as well.

Steven M. Sterin  
Chief Financial Officer & Senior Vice President, Celanese Corp.
Right. Yeah.

John P. McNulty  
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Great. Thanks very much.

Jon Puckett  
Vice President-Investor Relations, Celanese Corp.

Thanks John. Let's move to the next question, Shannon.

Operator: Our next question is from P.J. Juvekar of Citi. You may begin.

P.J. Juvekar  
Analyst, Citigroup Global Markets Inc. (Broker)

Yes. Hi, good morning.

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

Hi. Good morning, P.J.

P.J. Juvekar  
Analyst, Citigroup Global Markets Inc. (Broker)

Mark, the European recovery should be benefiting the AEM business, so can you just talk about geographically what are the margins in Europe? How much did they improve and how do they compare sort of to North America?

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

Yeah in that business, the margins are virtually identical on either side of the Atlantic, P.J. There's no – I mean, there's certainly differences in one product and one application; broadly speaking, they're about the same.

What we're seeing in Europe is pretty strong auto build activity over there. I think year-over-year we're up 4.7% globally and Europe is about 4.6% of that or so, with Germany about 7%, if my memory serves me. So you've seen a real strong pull there and we continue to expand the applications of our product so we're seeing some real strong uptick in volume per vehicle. That's really pushing a lot of – a whole lot of material for us. But we're also seeing areas like medical did quite well, some industrial applications that have been a bit weaker starting to pick up again. So generally, Europe is doing much better, P.J., than it was this time last year and I think we're key ed to have a pretty good year there.

P.J. Juvekar  
Analyst, Citigroup Global Markets Inc. (Broker)

Thank you. And secondly on methanol, your first plant is being built with a joint venture partner; now you're working on a second plant. So why bring the joint venture partner on the first plant? Why not just build it yourself? Thank you.
Mark C. Rohr  
Chairman & Chief Executive Officer, Celanese Corp.

Yeah, P.J., these things are sequential. So we needed to get started in a hurry and there was a limit to how committed we wanted to be to one single project for methanol. And so we did that and we got started with that project. And you saw the amount of time it took for us to get the permitting complete, which has put us in a bit of a bind as we try to get those operational next year.

At the time, we had looked also at Bishop and Bishop was certainly very doable, roughly the same economics. But it represented some different challenges for us that we wanted some time to sort through and we sorted through those challenges so we're now starting the permanent process there. I think our construction of that project's going to be dependent on our attracting a suitable partner or partners to let us end up being balanced on methanol consumption versus demand.

P.J. Juvekar  
Analyst, Citigroup Global Markets Inc. (Broker)

Thank you.

Operator: Our next question is from Frank Mitsch of Wells Fargo. You may begin.

Maggie Cheung  
Analyst, Wells Fargo Securities LLC

Hi. This is obviously Maggie on for Frank. So in...

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

Hi, Maggie.

Maggie Cheung  
Analyst, Wells Fargo Securities LLC

Hi. So in Consumer Specialties, you had mentioned that the higher pricing in tow was offset by the legacy contract in flake. So would you be able to size that offset and how long will this contract last for?

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

That contract goes through 2017, I think; it's through 2017 and the pricing is not constant, so it's a bit tougher on us this year than it will be in the outlying years, Maggie. And I prefer to not get into actually the numerical offset there, but net-net, I think we're up a few percent on price that is reflected in the numbers.

Maggie Cheung  
Analyst, Wells Fargo Securities LLC
Okay. And then Celanese has a pretty healthy balance sheet and you've been spending a lot in terms of internal growth projects. What are your thoughts on M&A at this time?

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

Well, we're working it hard, Maggie. It's hard to buy things these days, but prices are very high and people tend to be reluctant to sell the kind of properties that we want to buy, but nonetheless, we're working very hard on that. We've been building out our M&A team and I'm real pleased with that group now. So what I'll just say is stay tuned. We're going to work hard to try to find some good properties to add to our portfolio. But anything we do there, Maggie, will make sense to you guys.

Maggie Cheung  
Analyst, Wells Fargo Securities LLC

All right. Thank you.

Jon Puckett  
Vice President-Investor Relations, Celanese Corp.

Thanks, Maggie. Shannon, let's move to the next question.

Operator: Our next question is from Kevin McCarthy of Bank of America Merrill Lynch. You may begin.

Aleksey V. Yefremov  
Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.

Good morning. This is Aleksey Yefremov for Kevin. Mark, could you offer us your view on the VAM market fundamentals. I think a couple of quarters ago maybe you suggested that VAM probably doesn't have sort of—we'll not see positive dynamics in that market for the next couple of years. Has your view changed over the past couple of months given sort of the fly up in price?

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

Well, what I was referring to, Aleks, is if you look back over the last decade, that business hadn't really contributed in a meaningful way to the acetyl chain for anybody associated with it. And we were sitting—and I'm going to quote a number that's directionally right, with capacity utilization of 60 some percent arena, so very, very low. And we, in turn, had a couple of sites in Europe that were stranded assets; excellent people, great sites, but—a lot of regard, but in a situation where logistically and from a size point of view they just couldn't make any money. So we took steps to sell and then ended up shutting down Roussillon Tarragona. At the same time, Ineos shut down a cracker—I mean, a VAM plant in the UK. The net effect of that probably was a 5% or 6%—I'm looking at my colleagues—capacity elimination, right.

So in theory, you haven't really changed the dynamics very much in the world market but what it did is it took what was a pretty sloppy Europe and made Europe pretty tight, so Europe's now a net importer of VAM. The U.S. is pretty tight. We've seen some demand growth in the U.S., we've seen demand growth in Europe and in Asia. So we've gotten it to a trade imbalance challenge that has driven pricing short-term, and it will take some period of time for that to work itself out.

My gut feel, though, is that we're seeing margins in that business, like we're seeing margins in AI in general, slowly expand and get to a healthier level. So I wouldn't expect that business to be the best business that is in our
portfolio anytime soon, but I think it is going to be a better business for us as we go out through this year and into
next year than it has been historically.

Aleksey V. Yefremov
Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.

Thank you very much. And then moving to AEM, your volumes were up 14%. Do you think this kind of growth is
sustainable on a year-over-year basis or maybe this quarter was particularly good for whatever reason?

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

Yeah, if you look at Engineered Materials, we had strong sales increase, strong volume increase, that 13%, 14%
kind of percent. A lot of it has been driven by auto, where we – the own goal we have internally is to sell at 2X kind
of the growth in that business and we’ve been able to do that. So when you look at what we’re expecting year-over-
year, automobiles to be maybe 3% - 2.8% or something I think’s the full year forecasted growth – that would say
we need to grow 6% or 7% or 8% and that’s kind of the numbers that we kind of target.

When you get beyond auto, the new applications we’re introducing are starting to have traction. And it’s always a
point of caution, Aleks, when you introduce new things because people expect big revenue on day one and you just
don’t get that. But when you can go out and demonstrate a new way to support and insulate high-voltage power
lines and have 10-kilometer high voltage lines in place in South Texas, you start making a difference. And so we’re
excited about our ability to grow this business and we think it should be a multiple GDP kind of growth business.

Aleksey V. Yefremov
Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.

Thank you.

Jon Puckett
Vice President - Investor Relations, Celanese Corp.

Thanks, Aleks. Shannon, let’s move on to the next question.

Operator: Our next question is from Robert Koort of Goldman Sachs. You may begin.

Robert A. Koort
Analyst, Goldman Sachs & Co.

Thank you. Good morning. Mark, I was wondering if you could talk about what the hurdles are as you bring up the
Clear Lake methanol plant. You mentioned a third quarter 2015 start up, but trying to accelerate it. What are
going to be the biggest roadblocks to getting that done faster?

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

Hey, Bob. We’re just doing a lot of work in a short period of time. If you look at the chart we sort of gave you, you
can see how steep that project completion start is. We have a number of months, I think five months, we have
about 10% completion on average across those five months. Those will span the end of this year and early next
year so October through to like February kind of timeframe, which is also a bad time of the year, Bob. So we can
very susceptible to weather and events kind of out of our control.
So we’re trying to start really strong. We’re actually doubling shifts down there now as we speak to try to start making some inroads on the schedule early in the year to give us a little bit of lagniappe later on. We need to do that to have a chance of pulling this thing back. But right now, I think the schedule we’ve put out there, which is the September, October kind of timeline, is fully consistent with the numbers that we gave last quarter in terms of the range or the kind of headwinds we face. And we’re just going to do all we can to pull it up and we’ll keep you posted on our success there.

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

And if I might ask a couple of raw material questions, one of your fellow methanol producers struck a natural gas contract which appears to be based on a shared margin arrangement. Is there any chance you could do that in either Clear Lake or Bishop? And then also in the U.S., you guys used to have a favorable ethylene contract. Is that still there and when might it expire if it is?

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

Yeah, most of our ethylene, I’m not sure which ethylene contract you’re talking about, most of our ethylene contracts roll off in 2016 and we’re starting some early negotiations on a few of those so I’m not sure exactly which one you’re talking about now.

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

You may be thinking back to a contract we had in the mid-2000s, Bob, that had a kind of a virtual cracker type arrangement into it. That contract got wiped out in the industry bankruptcy, so that – we don’t have that type of contract anymore. So I think the contracts Mark’s talking about would be really kind of continuous market rollover type contracts we’re negotiating.

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

So as it relates to nat gas, we’ve looked at what Methanex did and I think that made sense to them. We don’t think that kind of contractual relation will make sense to us. One of the interesting things about the gas market now is the futures markets don’t move very much even with the tightness, the increased consumption we ran through this winter. So we’re exploring options to buy forward some gas to run that unit and as we get into looking at doing that, if we do that, we’ll certainly share that with you guys going forward.

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

And Mark, I know you’d rather not talk about acetic and methanol, so let me ask you an EM question. You guys, I would assume, have pretty long lead times in developmental work. From where you stand, is the electric car revolution really going to occur? Are you doing a lot of work on those kind of applications beyond just sort of the standard light weighting that’s been going on to meet CAFE standards? Is there more in the pipeline that we don’t see from the outside?

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

Well, yeah Bob, it’s a bit – I don’t know if I’m smart enough to forecast whether it’s going to work or not. What I’d tell you is that light weighting is a precursor, a prerequisite, for that to happen. And the amount of energy and
effort in light weighting is just staggering. It's things beyond the conventional use of thermoplastics, the thermosets; we're seeing a lot of work on the electronics space to sort of eliminate dashboards and things like that and go to these, almost a flat panel display for our vehicles. So you can start to imagine ways that you can get the weight way, way down in these vehicles and that makes the – some of the lithium-ion technology really viable for electric cars to work.

So my gut is it's going to be – it's a little bit like the energy business. There's going to be a lot of different solutions, but what we're going play there a lot is going to be in the light weighting and strengthening and thermoplastics are just killer in that regard, because they're relatively inexpensive versus, say, carbon and it provides virtually the same characteristics.

Robert A. Koort  
Analyst, Goldman Sachs & Co.

Terrific. Thanks.

Jon Puckett  
Vice President-Investor Relations, Celanese Corp.

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

Operator: Our next question is from the line of Laurence Alexander of Jefferies. You may begin.

Laurence Alexander  
Analyst, Jefferies LLC

Good morning.

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

Good morning, Laurence.

Laurence Alexander  
Analyst, Jefferies LLC

I guess, two longer-term questions. First, on the Consumer Specialties segment, as you think about the longer term trend for acetate tow demand, to better sustain your kind of earnings CAGR longer term, do you need to start to see competitors shutting down capacity or do you expect demand to keep growing through the end of the decade?

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

No, I don't think there's – I think the industry's kind of perspective on demand is that we are – we're pretty close to the top on demand and demand is going to start sliding down. I think I've told you, I don't think that really matters as long as the industry kind of makes rational decisions with regard to capacity. We've certainly taken steps to shut down and idle and – our ineffective units and in case of doing that we actually gave up volume. So I think we saw a way to do that; it made economic sense for us. I'll be kind of shocked if others independently don't have the same kind of opportunities in front of them.
And then, secondly on the light weighting side, do you think there will be a point where the benefit for Celanese flattens out in the sense that as things move towards virtual dashboards and so on, you just end up taking out more pieces of the car and that offsets the incremental light weighting opportunity for you?

Well, yeah. It's just not absolute. We're only, from a penetration point of view, even though we had a good uptick this quarter, we're still a few kilograms per vehicle in the world and we see a range in there from zero to 8, 9, or 10. So I think there's still so much upside there. It's hard for me to see, Laurence, a near-term fall-off with that. And what we were finding is that the desire to continue to substitute is really great, so just like steel's facing aluminum and aluminum's facing carbon, they're also facing thermoplastics, like I commented on, and there's just a lot of room there.

Perfect. Thank you.

Thanks, Laurence. Shannon, let's move to the next.

Our next question is from Vincent Andrews of Morgan Stanley. You may begin.

Thanks. It sounds like from the release that you got 80% of your costs all set there at Clear Lake; but on the Bishop facility, how confident are you in the CapEx number you put out there just given all the inflation that others are seeing and that you're kind of at a bunch of other projects in that area are just in general ahead of you?

Yeah. Well, I think that's the big question on Bishop. If you look at the design and the basis, on a relative basis, it's virtually the same cost as we think we'll have at Clear Lake. Having said that, you come up building this thing at a time when everybody and their brother are building a chemical plant on the U.S. gulf coast, so there is going to be inflation, and to be honest, we haven't really quantified that yet.

The good news about the permitting process is that we have a little bit of time to do that as we work with partners and the permitting would not be finished for this actually until our other plant is up and running. So I think we'll have a good chance of nailing that cost and being very transparent with that at the time.

Okay. And as a follow up, is it a reasonable assumption on our end that sort of the move to JV at Clear Lake and now maybe to do Bishop as a JV as well or just to do it at all is because you've freed up capital that you sort of at
one point had thought was going to go towards TCX and now that that's not moving as fast as you thought you're just reallocating it?

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

No, I look at it a little bit differently. I think that we're quite confident in our ability to build these plants and we're quite confident in the long-term competitive position on natural gas in the U.S. So we think U.S.-based methanol is going to be one of the most cost effective methanols in the world; certainly in the developed world, it will be the most cost effective. We have a [indiscernible] (28:30) for 1 million tons and we've satisfied about two-thirds of that, a little more than two-thirds of that. And so what we're exploring is can we satisfy the other third, which would represent an economic advantage to us in our Engineered Materials business.

So, no, I'd think – I wouldn't look at it that way. I think it's just we've gained confidence and we feel good about our cash flow going forward and we're willing to put it out there. But I want to emphasize we will need a partner. We have no interest in building this plant by ourselves.

Vincent Andrews  
Analyst, Morgan Stanley & Co. LLC

Okay. Thanks very much.

Jon Puckett  
Vice President-Investor Relations, Celanese Corp.

Thanks, Vincent. Let's move to the next, Shannon?

Steven M. Sterin  
Chief Financial Officer & Senior Vice President, Celanese Corp.

Well, Vincent had a question embedded in there about TCX as well. Maybe we could give you just a quick update on where we are with that.

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

Well, you want to say something, Steven?

Steven M. Sterin  
Chief Financial Officer & Senior Vice President, Celanese Corp.

Yeah. I think in Indonesia we're making nice progress there in terms of identifying land. We see a parcel of land that we're interested in and the process is moving forward, but it's going to take a little bit more time, but we are making some forward progress there. In China, we are in the stage now we're actually engine testing and — with our product and moving forward on that, so those are kind of the securities update from our last call.

Jon Puckett  
Vice President-Investor Relations, Celanese Corp.

Okay. Shannon, let's move to the next question.

Operator: Our next question is from Hassan Ahmed of Alembic Global. You may begin.
Morning, Mark. Decent margin expansion on the AI side of things in the quarter. Just trying to get a sense, obviously it was a bit of a noisy quarter in terms of outages and higher methanol prices and the like. Obviously since then, methanol prices have rolled over. Just trying to get a sense that are these sort of Q1 margin levels in AI sustainable over the next couple of quarters?

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

Yeah, I think so. I mean, there'll be ups and downs. We're most concerned about the outages in Clear Lake because not only are we going down for a lumpier time, but our – some of our suppliers of raw materials are going down, so we have kind of baked in a fairly low operating utilization flow for the quarter there and that could have an impact if – I think we'll be okay, but if one of our suppliers does not get back up on time.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Fair enough.

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

What you're – I think what you're seeing, Hassan, is you're seeing the industry slowly, I won't say reset, but – and lord knows these margins aren't moving out dramatically, but we're seeing margins kind of move towards a point of greater sustainability. And I think there's an interest for that to happen. We're not seeing the world – people just making a little bit better decisions.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Got it. Now a follow-up on the methanol side of things; just curious about your views of the market near to medium-term. A fair bit of capacity coming online, be it Methanex or CIB; you obviously mentioned that you're very sort of confident and comfortable with the cost position within the U.S.

But just in terms of supply/demand fundamentals over the next couple of years with all of this capacity coming online, are you in the camp that you expect, call it effective utilization rates, to remain tight for the next couple of years?

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

Well, I think others in this business could comment on that better than I can. What I'll say is that we think we've seen prices pulled down – pulled back in China a bit and move back to more reasonable range in the $400 kind of range. I would expect that at some point prices in the U.S. will move off where they are today and back closer to $500 or so. And my kind of gut is that's the place that it's going to hunt for a while and then we'll bring on some of these additional plants and we'll see what happens. But I think for the next couple of years, methanol is pretty close to where it's going to be.
Fair enough. And essentially you're saying that most of this new capacity that is expected to come online, demand is strong enough to digest this incremental supply.

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

I think so, yes.

Hassan I. Ahmed  
Analyst, Alembic Global Advisors LLC

Fair enough. Thank you so much, Mark.

Jon Puckett  
Vice President-Investor Relations, Celanese Corp.

Thanks, Hassan. Shannon, let's go to the next question.

Operator: Our next question is from Jim Sheehan of SunTrust. You may begin.

Jim M. Sheehan  
Analyst, SunTrust Robinson Humphrey

Hi Mark; what makes you comfortable that you can offset the negative impact of shifting towards internally produced methanol in late 2015?

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

Well, you don't get a chance to interact with the team I have here every day. If you did, you'd know we'll do it. We're looking at it every day and we're just acting out the things that we need to do to offset it and later this year we'll share those things with you, and it's not really – we're too early in this year to worry about it, to be honest, but – or I'd share more. But we have – I have confidence, I'll just put it that way; we have confidence that we'll find a way to offset that and that's our objective and Steven Sterin's office furniture is for sale right now. So whatever it takes.

Jim M. Sheehan  
Analyst, SunTrust Robinson Humphrey

Also on emulsion polymers, you noted that there were some beneficial effects in Europe and part of that may have been driven by the weather. I was just wondering if you can comment on the sustainability on the strength you're seeing in that business?

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

Yeah. Europe is all paints and coatings and that business is strong. I think the good news this year, and you called it out, is the weather was a welcome surprise for us early in the year. We had a pretty wet start to 2013, it was a bit slow. This year, weather was much nicer and people jumped on projects early.

We don't see it waning. There's a lot of – actually, there's a lot of construction underway in Europe; if you get out and about there you'll see it. It gives me pretty good confidence that we're going to see Europe remain strong. I'll
say the same thing for Asia in that business has been very strong and we don't see any signs of that letting up. What we're less confident of is the U.S., which is not a train wreck or anything but just kind of muddling along.

Jim M. Sheehan  
Analyst, SunTrust Robinson Humphrey

Thank you very much.

Jon Puckett  
Vice President-Investor Relations, Celanese Corp.

Okay. Thanks, Jim. Let's move, Shannon, to the next question and we'll have Nils be the final set of questions.

Operator: Our final question is from Nils Wallin of CLSA. You may begin.

Nils Wallin  
Analyst, Credit Agricole Securities (USA), Inc.

Good morning and thanks for taking my question. Back on the Bishop plant, since it's going to be similar scale as Clear Lake, but Clear Lake will account for both two-thirds of your current methanol needs, does this mean that there's going to be a different JV structure or will you – are you planning to actually grow into that methanol capacity in terms of downstream derivative growth?

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

No. We would like a different JV structure even though we'd like to be a minority consumer out of the structure. And do we need more growth? We could add more growth there and stuff but it's – but I wouldn't a build methanol plant to satisfy. So I think you should expect us to be a minority investor.

Nils Wallin  
Analyst, Credit Agricole Securities (USA), Inc.

Understood, understood. And just back on industrial ethanol in China, obviously for a while there it disconnected with the fuel ethanol and that kind of prevented the retrofit from having any meaningful earnings contribution. Has anything changed on the industrial ethanol pricing and is there any opportunity for the Nanjing retrofit to start adding to earnings?

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

No, I wish I could say there was. Right now, the industrial and the solvent market for ethanol remains quite weak in China. We're occasionally moving some material offshore; we're getting a bit higher net back on that, but it's hard to see our way clear for that unit to be a material contributor sort of this year.

Nils Wallin  
Analyst, Credit Agricole Securities (USA), Inc.

Thanks very much.

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

Thank you.
Jon Puckett
Vice President-Investor Relations, Celanese Corp.

Thanks, Nils and thanks everybody else for your time and interest in Celanese. We’ll be around later today for calls.

Operator: Ladies and gentlemen, this concludes today’s conference. Thanks for your participation and have a wonderful day.