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Celanese Corp. (CE)
Q1 2015 Earnings Call
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Chairman & Chief Executive Officer

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Robert Andrew Koort  
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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the Celanese First Quarter 2015 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 Jon Puckett. Please go ahead.

Jon Puckett
Vice President-Investor Relations

Thanks, Drew. Welcome to the Celanese Corporation first quarter 2015 conference call. My name is Jon Puckett, Vice President of Investor Relations. With me today are Mark Rohr, Chairman and Chief Executive Officer; and Chris Jensen, Senior Vice President, Finance.

The Celanese Corporation first quarter 2015 earnings release was distributed via Business Wire yesterday 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, 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 some 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

Thanks, Jon, and good morning, everyone. Our prepared remarks were released with earnings. So, I’ll keep my comments fairly brief and then open the line for your questions.

Over the last several years, we have driven record earnings by building capability to support our core value generating propositions, the Acetyl Chain and Materials Solutions. We’re now taking additional steps to better align all of Celanese in support of these two value drivers.

In the Acetyl Chain, we create value by leveraging a fully integrated and industry-leading technology across an unmatched global platform to supply acetic acid and derivatives. This business is uniquely positioned to rapidly
respond to market needs to best support global trade flows and to serve a very broad array of customers. And in doing so, we distance ourselves from others in this space.

In Material Solutions, our foundation of chemistry and polymerization technology is combined with leading application expertise and deep customer engagement to create products and applications for diverse and highly valued end markets.

These two business cores are made even more successful by sharing technology, production assets, and research resources, allowing us to be more responsive to market needs while operating at lower costs than others. Our growth strategy has been based upon these two value equations since late 2012, and since then, we have delivered double-digit year-over-year quarterly earnings growth for 8 of the last 10 quarters. So organizing more completely around these cores is the next logical step to bring further gains in efficiency and higher earnings for our shareholders.

Now, let's move on to consolidated results. I’m very pleased to report first quarter adjusted earnings of $1.72 per share, representing 34% earnings growth sequentially and 29% growth year-over-year. This record quarterly performance also reflect the swift actions taken to help address the impact of raw material deflation, the precipitous fall in foreign exchange rates, as well as anemic growth in some of our end markets.

Our teams did a tremendous job of maintaining pricing in the face of significantly lower raw material cost. We also successfully offset a significant decline in euro to dollar exchange rate with productivity programs as well as lower energy cost. And we expanded our adjusted EBIT margin to 24.1%, a quarterly record and an increase of more than 600 basis points from the prior quarter and the prior year. I’d like to thank all of our global teams who worked so hard to deliver these results amidst a challenging business environment.

As we look to the remainder of 2015, some of these headwinds we outlined last quarter have increased. For instance, the euro has weakened roughly another $0.07 to $0.08 since January. We also expect lower MTBE prices and our Ibn Sina joint venture will impact affiliate earnings for the remainder of 2015. However, our building the first quarter to mitigate these and other headwinds through strong commercial performance along with specific productivity initiatives gives us confidence so we can manage this volatility going forward. And as a result, we have increased our 2015 outlook for adjusted earnings to a range of $5.60 to $5.90 per share.

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

Jon Puckett
Vice President-Investor Relations

Thanks, Mark. We’ve got a lot of folks on the line. We want to get to as many questions as we can, so please limit your questions to one question and one follow-up. And Drew, I'll turn it over to you now.
QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] The first question comes from Laurence Alexander of Jefferies. Please go ahead.

Laurence Alexander
Jefferies LLC

Good morning. Just two quick ones. Can you quantify your total FX assumption that you're looking as a headwind for this year? And have you seen any noticeable acceleration in any regions in your end markets?

Christopher W. Jensen
Senior VP-Finance & Global Business Services

So on the currency for the remainder of the year, it's probably somewhere in the $0.60 to $0.70 range and that would — the assumption driving that would be €1 at $1.05 for the second, third, and fourth quarters. And then, Mark, do you want to cover acceleration in end markets?

Mark C. Rohr
Chairman & Chief Executive Officer

Yeah. I'd say that's a hard one, Laurence. We're seeing certainly Europe is doing better and we're seeing some enthusiasm on the part of European car manufactures and some pretty strong growth. I think Germany was up 7% year-over-year, for instance, in auto. It's pretty strong growth. We've seen China come back a bit from what was a very anemic first two months of the year and that's been encouraging as well. So, I'd call out those two areas, Laurence.

Laurence Alexander
Jefferies LLC

Okay. Thanks. And just to clarify the FX hedge, what was the FX hitting Q1 then?

Mark C. Rohr
Chairman & Chief Executive Officer

$15 million to $20 million.

Christopher W. Jensen
Senior VP-Finance & Global Business Services

Yeah.

Laurence Alexander
Jefferies LLC

Yeah, okay. Thanks.

Christopher W. Jensen
Senior VP-Finance & Global Business Services

$15 million to $20 million.
Mark C. Rohr  
Chairman & Chief Executive Officer

Yeah.

Laurence Alexander  
Jefferies LLC

Okay

Christopher W. Jensen  
Senior VP-Finance & Global Business Services

So that's the hit. Yeah.

Laurence Alexander  
Jefferies LLC

Okay. Okay. Thanks.

Jon Puckett  
Vice President-Investor Relations

Okay. Thanks, Laurence. Drew, let's move to the next.

Operator: The next question comes from Duffy Fischer from Barclays. Please go ahead.

Patrick Duffy Fischer  
Barclays Capital, Inc.

Hey, good morning. Congratulations, guys.

Mark C. Rohr  
Chairman & Chief Executive Officer

Thank you.

Patrick Duffy Fischer  
Barclays Capital, Inc.

The thing that’s – investors have been focused on over the last quarter is the tow business and kind of a destocking. Volume seemed to have come down about what you guys were projecting. Did the underlying business perform as you would have thought in that environment? And what kind of signals are you getting from your end customers about how that destocking is going and when we might see that abate?

Mark C. Rohr  
Chairman & Chief Executive Officer

Yeah, Duffy. Great question. We communicated a lot in January – of course, end of last year, as we end the last year and then in January – about this destocking initiative, and the results that we've seen in January are exactly as, I mean, as close as you can be exactly, basically reflect the outlook that we're given to us by our customers. And so, we feel pretty good about that and I think that's consistent with their destocking initiatives based on what we knew about their end markets.
If you roll it forward, we're seeing some improvement as we enter into the second quarter, which again was consistent with improvement in terms of our orders, which is consistent [ph] with what they (08:28) had told us. So we continue to predict that we're going to have this first half impact, the first quarter being the most dramatic impact and get back to more normalized rates as we hit the back half of the year.

Patrick Duffy Fischer  
Barclays Capital, Inc.

Great, thanks. And then, assuming – let's just say we hit the midpoint of the guidance for the year, that $5.75 and then looking to 2016, is that a good baseline then to build in the next year or might there be some kind of transitory spread benefit in that $5.75 that we'd need to mitigate a little bit as we get into next year?

Mark C. Rohr  
Chairman & Chief Executive Officer

Yeah, I'm not sure I'm going to answer that question, Duffy.

Jon Puckett  
Vice President-Investor Relations

Yeah. And I think, Duffy, you're asking about puts and takes as we would enter next year...

Mark C. Rohr  
Chairman & Chief Executive Officer

Oh, as we enter into next year.

Jon Puckett  
Vice President-Investor Relations

And as the outlined at the beginning of this year, we try to be just real transparent about what headwinds we would have. And so I guess, Mark, I'll let you clean this up. But any – where we end the year is going to be a basis of how we build the next year. And so, Duffy – and we'll try to highlight what we think is a headwind and what we think might be either a tailwind or an action item that we'll pursue and to try to drive growth.

Mark C. Rohr  
Chairman & Chief Executive Officer

Yeah. I think, Duffy, I would – I'm not going out too far on this, but I would expect 2016 is a lot better year than 2015. If you – and we will have resolved methanol. We'll be – that would be fully behind us and fully functioning. It looks like with the steps we've taken at that headwind and as we let folks know last year will have been mitigated as we get into next year for the most part, you would expect that there's some inflation starting to occur.

I mean, if this year is marked by inflation, there'll be a backside to that and so there will be some inflation. Inflation is probably good for us and we'll be operating more fully around these two cores, which is going to generate a lot of new opportunity for us. So my belief is it's a good foundation and my belief is there'll be a lot more tailwinds than headwinds as we go into 2016.

Patrick Duffy Fischer  
Barclays Capital, Inc.

Terrific. Thank you, guys.
Jon Puckett  
Vice President-Investor Relations

Thanks, Duffy. Drew, let’s move to the next question.

Operator: The next question comes from John McNulty of Credit Suisse. Please go ahead.

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

Yeah. Good morning. Thanks for taking my question. So with regard to the new segmentation of Materials Solution and Acetyl Chain kind of segmenting, I understand the customer focus aspect of it for the Materials Solution part, but I guess it appears that all four of these assets are pretty well integrated into the Acetyl Chain. So I guess how did you decide on where to make the cut in terms of, say, putting industrial specialties in the Acetyl Chain and maybe keeping consumer and/or AEM out of it maybe is my first question?

Mark C. Rohr  
Chairman & Chief Executive Officer

Well, I think what we really spend our time looking at, and we started this actually in 2012 and started practicing it in 2013, is the ability to lever the interconnected relationships through the raw material chain up to the customers. And we found there's a lot more leverage. I’ll say the closer you are to earth, wind and fire than there is, the further down you go. So, that kind of runs not completely, but it runs a lot of its course through the emulsions business pretty well. So that became the nature of drawing a circle around that.

And we actually, through that circle, John, a couple of years ago, we’ve been working that. But what we didn't do is fully commit ourselves to an organizational alignment that really supported that, and that’s a process we’re through now and that's unlocking lots of unique value options between ourselves and our customers when we do that.

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

Okay. And then just as the follow-up, so it sounds like the organizational alignment, it sounds like it all kind of makes sense the way you’re laying it out. Can you talk to the physical alignment of the plans and do they work in a similar fashion where the industrial segment and the Acetyl businesses basically kind of all locked together and the Material Solutions businesses may not be locked to them? Or is that how we should think about or not?

Mark C. Rohr  
Chairman & Chief Executive Officer

No. You have – no, they’re not totally locked. We have some places, we have integrated complexes where they're fully integrated and contain all aspects of our portfolio of businesses. Generally speaking, when you get past the big acetyl complexes, we have remote plants in the industrial specialties area around the world. So there’s a logistics component associated with us, but that’s also a benefit of the full integration because we, quite often, will sell products to competitors of ours in these downstream markets. So, we're now arranging swaps. We're now changing that trade flow in a favorable way that's adding many value.

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

Great. Thanks very much.
Jon Puckett
Vice President-Investor Relations

Thanks, John. Drew, let’s move on.

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

David I. Begleiter
Deutsche Bank Securities, Inc.

Thank you. Mark, on AEM, can you discuss the ability – your ability to retain some of this – more this pricing in Q2 and beyond as well have dropped here? And of the $0.30, $0.35 decline you’ve highlighted for Q2 versus Q1, would that be perhaps two-thirds in AI and one-third in AEM?

Mark C. Rohr
Chairman & Chief Executive Officer

Yeah. So, clearly, the more specialty-oriented the business, the more opportunity you have to retaining margin. So, I think there’s – it’s never easy, but I think directionally retaining raw materials in Engineered Materials is easier. Materials segments is easier for us to do than necessarily a – I mean, than Acetyl Chain. We have some link quite often pricing on raw materials. So, I think we’ll do a good job retaining it there.

If you look at the drop quarter-over-quarter, Chris, you want to comment on that, that $0.30?

Jon Puckett
Vice President-Investor Relations

Hey, from what we’ve experienced.

Mark C. Rohr
Chairman & Chief Executive Officer

Yeah, from first to second.

Jon Puckett
Vice President-Investor Relations

Yeah, as you go Q1 to Q2.

Christopher W. Jensen
Senior VP-Finance & Global Business Services

Yeah. The Q1 to Q2, if you think about the big movers there, so we’ll have better cellulose derivatives volumes like we’ve told you moving towards a nice back half of the year. We even seen a venture, so this shows up in the Engineered Materials segment, it’s MTBE and methanol. The earnings, you can think of the earnings of that venture being fairly correlated with Brent crude. And we actually reported on a three-month lag.

So, you’re going to see a pretty decent-sized decline on that in the second quarter going through the remainder of the year assuming that Brent stays kind of in this range where it is. So, you’ll have a little bit further currency headwind going Q1 to Q2 as well, and I think you can expect the corporate spend that shows up in that other segment to be higher in Q2 than it is in Q1.
Mark C. Rohr  
Chairman & Chief Executive Officer

So, that's roughly two-thirds the Acetyl Chain and one-third the Materials Chain.

David I. Begleiter  
Deutsche Bank Securities, Inc.

And, Mark, just quickly, now you have these two cores, the natural question is do they belong together longer term given that they will be valued by – definitely by investors eventually. How do you think about that situation?

Mark C. Rohr  
Chairman & Chief Executive Officer

Well, I think what – I say we've been practicing this for a while and we see ways to unlock more and more value. What our objective here, and we're being very vocal about that, is we expect that to be fully realized – the value of these to be fully realized by investors.

And so, we're going to work hard to get that full value realization out there and have the investors benefit from that as fully and completely as is humanly possible. So, we're driven to do that, David. And so, we hope that as we go through this process, that will start to happen. And certainly, it's our expectation to continue to drive earnings the way we have been and in that process, reduce volatility as well. So, we're committed to see that value is unlocked and realized, David.

David I. Begleiter  
Deutsche Bank Securities, Inc.

Thank you.

Mark C. Rohr  
Chairman & Chief Executive Officer

Thank you.

Jon Puckett  
Vice President-Investor Relations

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

Operator: The next question comes from Frank Mitsch from Wells Fargo. Please go ahead.

Frank J. Mitsch  
Wells Fargo Securities LLC

Yes. Good morning and great start to the year, fellas.

Mark C. Rohr  
Chairman & Chief Executive Officer

Really, thanks.

Christopher W. Jensen  
Senior VP-Finance & Global Business Services
Thanks, Frank.

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

Hey. On the productivity actions, you talked about last quarter about $60 million, and now you're talking about an incremental $40 million to $50 million obviously seem rather high. Can you give us some examples of that? And what segments we should be monitoring to see those productivity savings?

**Christopher W. Jensen**  
*Senior VP-Finance & Global Business Services*

Sure. Frank, that's – I guess what I'd say is look at all of them because they're all working on it. This is a deep focus initiative where all of our general managers and all of our functional leaders are engaged. Mark is personally involved driving this from the top. Lots of iterations and discussions on what we do differently to support this core business model going forward. So, you're going to be able, as you move through time here, to point anywhere and see some benefits from these initiatives.

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

Right. So, across the board, this is how we should think about that, nothing more focused on this segment or that segment.

All right, fine. And then in the release, you talked about pricing in the Consumer Specialties business being down 2% sequentially and also referencing a legacy flake contract that's having an impact there. Can you talk about what's going on from a raw material and end-product pricing perspective in that business? And essentially, prices are set I guess typically early in the year and that's it. So we should be thinking about pricing year-over-year being off for the balance of 2015, correct, in this segment?

**Mark C. Rohr**  
*Chairman & Chief Executive Officer*

Yeah, I think that's right. This is a price mix combination here and so a good chunk of that is mix, the effect of the legacy supply arrangement we have and that arrangement is near the end of its term and it kicked up a little bit higher volume this year, so that was the delta then year-over-year more negative.

Pricing was offset the end of last year and we kind of already commented on that. So, you're not going to see pricing change, Frank, in this segment as you go forward and there's really not a correlation between pricing and raw materials in this business. So, there's still opportunities for us to drop a little bit of raw material value enhancement we think as we go through this year that will show up.

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

Thank you so much.

**Mark C. Rohr**  
*Chairman & Chief Executive Officer*

Thank you.
Thanks, Frank. Drew, let’s go ahead to the next question.

Operator: The next question comes from Kevin McCarthy from Merrill Lynch. Please go ahead.

Wei Zhang
Merrill Lynch, Pierce, Fenner & Smith, Inc.

Good morning. This is Wei Zhang calling in for Kevin. So you’ve seen...

Mark C. Rohr
Chairman & Chief Executive Officer

Good morning.

Wei Zhang
Merrill Lynch, Pierce, Fenner & Smith, Inc.

Good morning. So you’ve made good progress on free cash flow and deleveraging, should we continue to see deleveraging trend to continue? And if not, how might your capital deployment plans change?

Christopher W. Jensen
Senior VP-Finance & Global Business Services

So, like we talked about in the past, we’re highly focused on strengthening our balance sheet over time. And if you look back to 2014, we did a lot that year. We returned over $400 million of cash to shareholders, we took that down by somewhere around $230 million and we also put $100 million into this U.S. pension plan, which is not fully funded. That’s what we did last year. That was a pretty high amount of cash outflow to use for that and what was a really good strong cash flow year, so it made a lot of sense. We’re focused on doing those things going forward.

If you go back to what I said in the prepared remarks, right now a lot of our cash is – really almost all of our cash is overseas. And in order to use that cash for U.S. purposes, which similar to other multinational companies, we have high cash needs in the U.S.: returning cash to shareholders, debt reduction, pension, lot of cash needs here. So that makes it difficult to do as much this year as we did last year. Not to say that we’re not working on ways to do that and we will find ways to do that, but I think you can expect that activity generally to be a little lower this year.

Wei Zhang
Merrill Lynch, Pierce, Fenner & Smith, Inc.

Great. Thanks. And a follow-up on your Bishop project, just wondering how the estimated cost of that would compare to your project at Clear Lake?

Mark C. Rohr
Chairman & Chief Executive Officer

Yeah. So it would be more expensive because there’s not as much on-site equipment and utility systems that we could easily use. So just more investment in base facilities in Bishop, but not a lot. So I think it’s probably – I’m speaking to you a little bit out of tongue here because – a bit tongue and cheek because we haven’t finalized that work. But you should think in terms of 10% to 15% or 10% to 20%, not 30%, 40% or 50% if that makes sense.
But there’s a lot of work yet to do on that. We do have the permit applications underway, but to be very honest, we really want the energy market to settle out a bit. We want the raw – methanol market to settle out a bit. So you should never view that we’re going to start construction on this thing soon.

But we do have a great relationship with Mitsui. We’re excited about the partnership here to really evaluate it, and we’re also very pleased with the long-term supply arrangement that we’ve entered into with them over a five-year period. So that should give you some scope or some of the considerations we’ve got on what we’re building on.

Wei Zhang
Merrill Lynch, Pierce, Fenner & Smith, Inc.

Great. Thank you.

Mark C. Rohr
Chairman & Chief Executive Officer

Thank you.

Jon Puckett
Vice President-Investor Relations

Well, thanks, Wei Ming (sic) [Zhang] (22:17). Drew, let’s go to the next question.

Operator: The next question comes from Bob Koort from Goldman Sachs. Please go ahead.

Robert Andrew Koort
Goldman Sachs & Co.

Thank you very much. Good morning.

Mark C. Rohr
Chairman & Chief Executive Officer

Good morning, Bob.

Christopher W. Jensen
Senior VP-Finance & Global Business Services

Morning.

Robert Andrew Koort
Goldman Sachs & Co.

Mark, could you talk a little bit – I guess there were some anxiety maybe as you’d shut down some of your European assets and actually we’re shipping into the region that you’d have transactional challenges beyond just the translational issues occurring. So can you give us an update on how that’s progressed? And then secondly, it looked like you rejiggered a little bit your agreement with Mitsui at Clear Lake. Can you just tell us what the particulars and bases for that was?

Christopher W. Jensen
Senior VP-Finance & Global Business Services
Bob, I'll take part of that first question. I'll let Mark talk on whatever he'd like to say about our plans in Europe. But I think you're talking about transaction flows and how that flows through currency. So when we talk about euro exposure at least three-quarters of that is related to that issue where we have production in the U.S. And so you have dollar-based costs and then you're selling a lot of those product in Europe, so you have your own revenues.

So, it's not any different than we've described it before. That right now is our business model. And as you've seen, in spite of having that tremendous headwind in euro, the businesses have done a really nice job of these productivity initiatives and their pricing to offset that, but that model is probably here to stay for the foreseeable quarters in terms of that disparity between where we produce and where we sell. Just so you know, there are some offsets to that elsewhere in the business where you have U.S. dollar-based revenues and local currency costs and we've actually gotten a little bit of help in some other instances to offset some of those, but the big number is the Europe.

Mark C. Rohr  
Chairman & Chief Executive Officer

Yeah. Bob, most of these products that we’re moving from the U.S. to Europe are not produced in Europe by anyone, and certainly not produced in the EU by anyone. And so, everybody’s got that same incentive I think to – or roughly the same incentive to moderate the FX impact. We pushed really hard in the first quarter to do that and we had really good success. And to be honest, we’ve not priced in a lot of that going forward in this perspective we put out for the year in part because we did lose volume in some areas and we didn’t see as much support by some as we like to see. So, we’re going to continue pushing and hopefully others will do that, and that would represent some upside for us for the year if we can be successful with that.

Moving on to our production facilities in Europe, we continue to work. We have phenomenal team in Europe and phenomenal facilities in Europe. Some are disadvantaged or in main disadvantage even with the change and the favorable change from European point of view in FX in energy. So, we’re going to continue to look what the right footprint is in Europe and work with our employees there to address that over time.

Jon Puckett  
Vice President-Investor Relations

 Anything else on Mitsui?

Mark C. Rohr  
Chairman & Chief Executive Officer

Mitsui, I think – well, the nature of the question is we have entered this agreement. We’re excited about it. We think it gives us access to competitive methanol for the next five years and though it completely – some of you completely – does not completely eradicate the headwind but we’ll take a little bite at it we think overtime.

Robert Andrew Koort  
Goldman Sachs & Co.

Right. Thank you.

Mark C. Rohr  
Chairman & Chief Executive Officer

Thanks, Bob.
Jon Puckett  
Vice President - Investor Relations

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


Vincent Stephen Andrews  
Morgan Stanley & Co. LLC

Thanks. Just got a broader question on capital allocation. Now that you're buying a lot of the remaining volume that belongs to Mitsui out of the plant that you guys JV-ed and you're thinking about building another one, I guess I'm just trying to understand the point of the JV structure. And I guess maybe I tie that to you've got this $850 million offshore and that's helping your tax rate to be low. So, how do we think about the decisions you're making in capital allocation versus keeping the tax rate low and how that all come together?

Mark C. Rohr  
Chairman & Chief Executive Officer

Listen, yeah, I'll go back to the Mitsui. So, that's a U.S.-based venture. We've made a decision to build one plant. That plant should be operating around October of this year. And we also have entered into a long-term agreement with Mitsui to evaluate the opportunity to build a second plant and this year, we have made a decision to build that and we set to evaluate that.

And as part of that, we have an agreement to – a supply agreement from the plant in Clear Lake to make up some of the balance – to make up all the balance we have of methanol. So, that's what we have in play. And so, you shouldn't look at this as an announcement. We're getting ready to invest another $4 million in Bishop. We have not made that decision yet.

Christopher W. Jensen  
Senior VP - Finance & Global Business Services

Let me take a crack at the broader capital allocation question as it relates to where our business is and where is our cash. This situation that we're in right now with most of our cash being overseas, it's not new. That's what happens in a multinational business model. And across time, we have figured out ways to deal with that, so that it has not been a constraint in terms of our ability to invest where it made sense for the business to invest. And I expect that we're going to be able to continue to figure that out in the future. So I wouldn't want you to have a view that says we cannot invest in the U.S. because that cash is overseas. That wouldn't be the way that we look at that.

Vincent Stephen Andrews  
Morgan Stanley & Co. LLC

Yeah. I guess my question is really just more like should we be expecting your tax rate to go up over time if you need to repatriate future income and not necessarily the money that's over there? And I guess I just was thinking on Clear Lake facility. You're now paying Mitsui for – presumably a price that's above cost when you could've just been taking that product across your sales if you just own the plant. So I just was really trying to understand why the continued desire to JV.

Christopher W. Jensen  
Senior VP - Finance & Global Business Services
Let me take the tax rate question first and what will happen over time. The tax rate’s going to go up over time because we plan to make more money over time and that always pressures your tax rate because your marginal tax rate is higher than your average tax rate. I don’t expect in the near term to be repatriating cash and taking a tax hit in order to do that. So I’m going to separate what you see in tax rate movements from having to do with the cost of repatriating money.

**Vincent Stephen Andrews**
*Morgan Stanley & Co. LLC*

Okay. Thanks very much.

**Mark C. Rohr**
*Chairman & Chief Executive Officer*

Thank you, Vincent.

**Jon Puckett**
*Vice President-Investor Relations*

Okay. Thanks, Vincent. Let’s move to the next one, Drew.

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

**Jeffrey J. Zekauskas**
*JPMorgan Securities LLC*

Hi, good morning.

**Mark C. Rohr**
*Chairman & Chief Executive Officer*

Morning, Jeff.

**Jeffrey J. Zekauskas**
*JPMorgan Securities LLC*

The first question I’ve got is when you look at your other activities line, I think it was a cost of something like $17 million in this quarter versus $30 million last year and the number can really bounce around. And I think your depreciation charges this quarter were $60 million – your D&A were $67 million versus $75 million in a year ago, can you explain some of those positive variances?

**Christopher W. Jensen**
*Senior VP-Finance & Global Business Services*

On other – the other activities, are you referring to the segment? Is that what you’re looking at...

**Jeffrey J. Zekauskas**
*JPMorgan Securities LLC*

Yes, that’s exactly right. Yeah.
Okay. So just as a reminder what’s in there, it’s corporate cost, corporate functions. It has our global pension interest expense, the return on assets for the $2 billion-plus that we have invested in the pension plan is there. So there are a number of things there that can make that volatile quarter-to-quarter.

So what is it that you saw in the first quarter? So I would say, first, as we’ve talked about, we’re driving productivity hard and that relates to the functional spend that you see there, and that’s reflected in the result in the first quarter. But there’s also some timing on some favorable items that impacted that. So, while you’ll see some volatility quarter-to-quarter, I think generally you can look for this year and expect that to be somewhere in the mid-$20 millions. Part of that is the timing of our annual merit increases across the company happens here in the second quarter.

Jeffrey J. Zekauskas  
JPMorgan Securities LLC

Okay. And if you could also...

Christopher W. Jensen  
Senior VP-Finance & Global Business Services

Ask the question on depreciation again, if you wouldn't mind.

Jeffrey J. Zekauskas  
JPMorgan Securities LLC

Yes, exactly. Yeah. I think the depreciation in the quarter was $67 million – depreciation and amortization was $67 million versus $75 million in the year-ago period and maybe that was tilted down by $3 million less in amortization costs, but why should your depreciation go down so much?

Christopher W. Jensen  
Senior VP-Finance & Global Business Services

So I don't have the details in front of me, but part of that is currency. So your entire European asset base is being depreciated then transferred into U.S. dollars at a different exchange rate.

Jeffrey J. Zekauskas  
JPMorgan Securities LLC

Right. And so my follow-up, just conceptually, is it roughly the case that your adjusted gross profit in the first quarter was more or less equal to your adjusted gross profit in the fourth quarter and that the difference in earnings between the fourth and the first quarter are all the different overhead items through SG&A? Is that roughly correct?

Christopher W. Jensen  
Senior VP-Finance & Global Business Services

I don't think I follow what you mean by adjusted gross profit.

Jeffrey J. Zekauskas  
JPMorgan Securities LLC

In other words, if you look at your gross profit ex non-recurring items, whatever that absolute number was, I thought it was roughly $382 million in the fourth quarter of 2014 and I thought that in this quarter, it was roughly
$383 million. Is that correct that those two numbers are more or less the same in your opinion or are they very different?

Christopher W. Jensen  
*Senior VP-Finance & Global Business Services*

Yeah. I don't have a reconciliation sitting in front of me because we generally don't look at adjusted gross profit; we do that on an EBIT level. But just to remind you what's the driver in general behind gross profit here is the margin expansion that we've had quarter-on-quarter.

Jeffrey J. Zekauskas  
*JPMorgan Securities LLC*

Okay, great. Thank you so much.

Jon Puckett  
*Vice President-Investor Relations*

Okay. Thanks, Jeff.

Christopher W. Jensen  
*Senior VP-Finance & Global Business Services*

Thanks, Jeff.

Jon Puckett  
*Vice President-Investor Relations*

Drew, let's move to the next question.

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

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

Yes. Hi. Good morning.

Mark C. Rohr  
*Chairman & Chief Executive Officer*

Good morning, P.J.

Christopher W. Jensen  
*Senior VP-Finance & Global Business Services*

Good morning.

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

So you had a big benefit from lower raw materials in this first quarter, especially in acetyls. So how much of this benefit is sustainable if Acetyl Chain is running at 70% utilization globally? And do you think that acetyl have sort of decoupled from methanol and as methanol came down, acetyl did not come down as much and that's driving the profitability? So can you just talk about sort of that long-term outlook?
Mark C. Rohr  
Chairman & Chief Executive Officer

Yeah. I think – yeah. P.J., it’s a hard question to answer directly. I think there – if you look at what we do is we try to decouple it. All the time, we worked very hard to move our products into markets and get a proper return for those products. And so we have over time, as you know, decoupled our contracts and given ourselves more freedom to price and you’ve seen some of the benefit of that in this first quarter.

What we’re always dependent on, though, is for others to be thoughtful about how they price and generally would say that – well, I’d say it’s a mixed bag right now. So if the industry doesn’t try and doesn’t care about driving margin, it will be hard for us to maintain that. However, we’ve been running in 70% capacity utilization for a long time as an industry and you’ve seen the ability of the industry to drive higher and higher pricing. So my kind of gut is, P.J., it’s going to be somewhere between a replication and nothing as we go through the rest of this year.

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

Okay. Thank you. And then on this new methanol plant in Bishop, what’s the rationale there? Do you think that methanol is going to be tight and you would rather control your own supply? Is that the rationale or is it just that?

Mark C. Rohr  
Chairman & Chief Executive Officer

Well, the rationale is always just to make money, P.J. And what we’re trying to say here is we’ve entered into – it’s hard to fully evaluate these projects. And so, we’ve got a great partner in Mitsui who has the same long-term vested interest as ours, which – I mean, last thing they would do is invest money and not get a great return on it.

So, we put together a phenomenal project in Clear Lake that is going to be the, we think, the most cost-competitive methanol plant, I’m assuming the most cost-competitive methanol plant in the U.S., maybe be one of the most cost-competitive in the world when you look at it from a logistics point of view. That’s going to be a phenomenal investment for us and for Mitsui.

And so what we’ve agreed to do is to ask ourselves can we replicate that ambition. That’s what this announcement say. It doesn’t say we’ve decided to replicate it; it says that we’re going to devote ourselves to looking at it. And as part of that process, we entered into a five-year agreement and key words there, five-year agreement to take some of the volume coming out – that Mitsui has out of the Bishop plant and roll it into the Celanese system and we are doing that in a competitive fashion. So, we want to work with Mitsui. We want to see if we can develop a project, but we’re not committed to it and we would not do it unless it made sense, economic sense in a very strong way.

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

Thank you.

Mark C. Rohr  
Chairman & Chief Executive Officer

Thank you.

Jon Puckett  
Vice President-Investor Relations
Okay. Hey, thanks, P.J. Drew, let’s move on to the next question. Let’s have the last series of questions.

**Operator:** Okay. And that last series of questions will come from Hassan Ahmed from Alembic Global. Please go ahead.

**Hassan I. Ahmed**
_Alembic Global Advisors LLC_

Morning, Mark.

**Mark C. Rohr**
_Chairman & Chief Executive Officer_

Morning.

**Christopher W. Jensen**
_Senior VP-Finance & Global Business Services_

Good morning, Hassan.

**Hassan I. Ahmed**
_Alembic Global Advisors LLC_

In your guidance, you guys talked about the methanol headwinds being $0.10 to $0.15 lower than what you guys had originally forecast. So now probably part of the reason obviously is lower natural gas prices. But in this guidance, what are you baking in, in terms of methanol prices?

**Mark C. Rohr**
_Chairman & Chief Executive Officer_

Well, we did it really based on lower natural gas and that’s how we ran it.

**Hassan I. Ahmed**
_Alembic Global Advisors LLC_

Fair enough. And because it’s...

**Mark C. Rohr**
_Chairman & Chief Executive Officer_

It’s more raw material input point of view, maybe we gave a range of $75 million to $125 million. And then last time, we said it’d be towards the lower end of that. Now, we’re saying we’re going to be $20 million or so below that, but that’s all being driven by natural gas prices. And could it be a little worse than that or a little better? Sure. I mean, it could be, but we’re – that’s how we’re doing it, just raw material base.

**Hassan I. Ahmed**
_Alembic Global Advisors LLC_

And are you thinking about sort of methanol kind of being relatively flat with where we are right now?

**Mark C. Rohr**
_Chairman & Chief Executive Officer_

Yeah, I think so.
Hassan I. Ahmed  
Alembic Global Advisors LLC

Fair enough. And...

Mark C. Rohr  
Chairman & Chief Executive Officer

And if you take it, we're just taking the marginal difference so, yeah, I think that's right.

Hassan I. Ahmed  
Alembic Global Advisors LLC

Fair enough. And as a follow-up, another thing that you talked about on the Clear Lake side of things was that you've increased the staffing numbers obviously to get the plant up and running on time and you talked about how there'd be some higher costs. Now, some of these newer facilities that have come online, I mean, we've seen inflation anywhere between 10% to 30%. So, just purely ballpark, is it closer to 10% inflation that you'll see, less than that, closer to 30%? Just any guidance around that.

Mark C. Rohr  
Chairman & Chief Executive Officer

Hassan, it's closer to the 10%. What we're seeing is we're seeing – in pipe fitting and welding crafts, we're seeing an operation of about 80% efficiency. So that's about 80% of the level of efficiency that we would expect out of these crafts. And so you compensate that by having more men and women there doing the work, and that's one of many, many trades and one of many, many systems. So, we think – and this 10% range is certainly what we believe and that's what we're rolling out internally as we look at it.

Hassan I. Ahmed  
Alembic Global Advisors LLC

Super. Thank you so much.

Mark C. Rohr  
Chairman & Chief Executive Officer

Thank you. Yeah.

Jon Puckett  
Vice President-Investor Relations

Okay. Thanks, Hassan. And Drew, I'll let you wrap it up but, folks, thanks for your time this morning and we'll be around for calls later today. Have a great day.

Operator: The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.