

20-Oct-2015

## Celanese Corp. (CE)

Q3 2015 Earnings Call

### CORPORATE PARTICIPANTS

Jon Puckett

Vice President-Investor Relations

Mark C. Rohr

Chairman & Chief Executive Officer

Christopher W. Jensen

Senior Vice President and Chief Financial Officer

### OTHER PARTICIPANTS

Laurence Alexander

Jefferies LLC

John P. McNulty

Credit Suisse Securities (USA) LLC (Broker)

David I. Begleiter

Deutsche Bank Securities, Inc.

Vincent Stephen Andrews

Morgan Stanley & Co. LLC

Frank J. Mitsch

Wells Fargo Securities LLC

Robert Andrew Koort

Goldman Sachs & Co.

P.J. Juvekar

Citigroup Global Markets, Inc. (Broker)

Jeffrey J. Zekauskas

JPMorgan Securities LLC

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SunTrust Robinson Humphrey, Inc.

John E. Roberts

UBS Securities LLC

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CLSA Americas LLC

## MANAGEMENT DISCUSSION SECTION

**Operator**: Good morning, and welcome to the Celanese Third 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, Carrie. Welcome to the Celanese Corporation third 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, SVP-Finance and Chief Financial Officer.

The Celanese Corporation's third 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 in our website in the Investor Relations section under Financial Information. The earnings release, non-GAAP reconciliations, presentation and prepared comments have been being submitted to the SEC in a current report on Form 8-K. We also submitted a Form 8-K/A this morning to correct a clerical error on page five of our non-GAAP reconciliation.

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

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

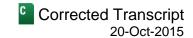
### Mark C. Rohr

Chairman & Chief Executive Officer

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

From my perspective, this quarter really demonstrates our ability to execute our strategic plans, drive what we can control, and create value regardless of the external environment. We achieved a huge milestone for our Corporation, the completion and start-up of the methanol unit in Clear Lake, Texas. We started construction on this plant 21 months ago with an aggressive timeline, and our talented team completed it in record time at an impressive capital cost of less than \$700 per ton. At 1.3 million tons of capacity, it is the largest, most efficient, and we believe the most economical methanol plant in the U.S., truly an impressive accomplishment.

Q3 2015 Earnings Call



For the quarter, we generated adjusted earnings per share of \$1.50. That's the second highest third quarter earnings performance in our history, reflecting the success we're having with our commercial models, overcoming global challenges, while also delivering on broad-based productivity initiatives across our business and functions.

We generated segment income of \$305 million in the quarter, and set a third quarter margin record of 21.6%. We continue to generate strong levels of cash, and we're tracking towards delivering record free cash flow for the year. Our confidence in our ability to generate cash prompted us to return a record amount of cash to our shareholders in the quarter by repurchasing \$420 million of stock; and dividends for the quarter boosted the total cash return to \$467 million. We also announced \$1 billion share repurchase authorization, which we intend to execute over the next two years.

As we look through remainder of 2015, we are confident in our ability to drive value across [ph] both cores (03:51), continued success of our productivity initiatives, and growing success in new product introductions. So we increased our outlook for earnings to a range of \$5.90 to \$6.10 per share for 2015.

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

### Jon Puckett

Vice President-Investor Relations

Thanks, Mark. I'd like everybody on the phone to limit your questions to one with one follow-up. Carrie, let's go ahead and get started with the Q&A.

### QUESTION AND ANSWER SECTION

**Operator**: Thank you, sir. We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Laurence Alexander of Jefferies. Please go ahead.

### Laurence Alexander

Jefferies LLC

Good morning. Two quick ones. First, in your comments about the \$50 million of productivity for next year, is there a tax line or is that just all cost adjustments?

#### Mark C. Rohr

Chairman & Chief Executive Officer

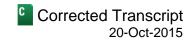
Hey, Laurence. This is Mark. No, that's – that's as we scope productivity, that would be a net impact. The productivity doesn't include tax in that assessment that we've done. And I want to comment, that's just a start, as we – we keep this as an evergreen process, but this time of year we start consolidating those numbers. And our first pass consolidation was \$50 million, and there's more to come.

### Laurence Alexander

Jefferies LLC

And then, secondly, as a comment about pushing 10% for – bridge for pushing 10% growth in 2016, how much of that depends on – what's your framework around normalized levels of demand? Or can you give us some sense of just where you see the demand levels going into next year at this point?

Q3 2015 Earnings Call



Mark C. Rohr

Chairman & Chief Executive Officer

A

Well, at the broad – so, let me back up a little bit on that, Laurence. So, I think what we're doing is, we're kind of scoping with my comments of range, and we really want to share a lot of detail with you, guys, coming up in a few weeks in New York for that plan.

But let me simply say that, on a demand perspective, we do think – I mean, China has been very, very weak today, and I'm sure, I'll have a chance to comment more on this as we go through the call. We have a view that China is really as bad as it's going to be. And we already see signs that China seems to be recovering a bit, and we're optimistic that we'll some uptick year-over-year in demand in China.

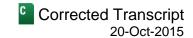
In the Materials section, broadly speaking, we are very confident in our ability to continue to grow that business through our new product introductions and efforts there. I commented on tow, that we see tow as being pretty flat from a demand point of view year-over-year. From earnings point of view, demand could actually be down a bit, if there's more inventory correction.

So I would say, broadly speaking, we see a recovering economy in China, we see a stronger economy in U.S., and probably the same in Europe.

Laurence Alexander  Jefferies LLC	Q
Okay. Thank you.	
Mark C. Rohr Chairman & Chief Executive Officer	A
Thanks, Laurence.	
Jon Puckett Vice President-Investor Relations	A
Thanks, Laurence. Carrie, let's move on to the next question.	
<b>Operator</b> : All right. Our next question comes from John McNulty of	Credit Suisse. Please go ahead.
John P. McNulty Credit Suisse Securities (USA) LLC (Broker)	Q
Yeah. Good morning. Thanks for taking my question.	
Mark C. Rohr Chairman & Chief Executive Officer	A
Hey, John.	
John P. McNulty Credit Suisse Securities (USA) LLC (Broker)	Q

So to your comment a second ago that you – looking to 2016, you kind of think tow will be flat, that would kind of imply that you continue to see some relatively serious destocking. So maybe you can give us an update as to what you're seeing right now, and maybe what's a little bit different from what you were expecting earlier this year?

Q3 2015 Earnings Call



Mark C. Rohr

Chairman & Chief Executive Officer

A

Yeah, we'll always – we've always been pretty guarded about how long it would take to work off the destocking there. And I guess what I would say to you, and always caution everyone, we don't have clarity into the markets, particularly in China. And we're there every day; we have teams of people there working. It's just a very complicated market.

But what we've seen is that – from the data we've seen is that, it would indicate that the – again, broadly speaking, that the – their objectives in reducing inventory in China were not yet fully satisfied. So that would tell me – well, they haven't told me this, but that would tell me that it's going to be probably more the same as we go through next year. Now, outside of China, we think it's largely run its course. But inside China, we think there's still some effort going on there.

John P. McNulty

Credit Suisse Securities (USA) LLC (Broker)

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Okay, great. And then, with regard to autos, I mean, it looks like there is some, at least some positive trends that were starting to pick up coming out of China, but maybe it's a little bit early. So when you're thinking about 2016, if we have a flat auto environment, how should we be thinking about the demand pull that you'll see, just based on new applications, say, in the auto industry? I know you highlighted a bunch of opportunities in some of the prepared remarks last night.

Mark C. Rohr

Chairman & Chief Executive Officer

А

Yeah. Well, the early looks at 2016 for a broad base, 2.5% sort of increase in volume year-over-year. And the good news always for us is, that's in North America, and it's in Germany, and it's now emerging more in Greater China, which is as projected, be up 3% or 4% next year versus a pretty stagnant year this year.

When we look at our ability to move in that market, we have multiples of that ratio. So two times or three times that ratio is what we think. So we believe that in auto, we should be able to get 6% to 9% growth off of a 2% to 3% global growth, if that helps. And that's – I listed one example in the call, and will go into, but for a skid plate on a vehicle, we're seeing more and more applications picking up our capability to do composites as well. We've got a lot of work going on in new models, particularly in Europe that are quite exciting. So, we're pretty confident we can go to multiples of the national growth rate.

Mark C. Rohr
Chairman & Chief Executive Officer

Great. Thanks a lot.

Mark C. Rohr
Chairman & Chief Executive Officer

Thanks.

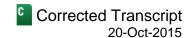
Jon Puckett
Vice President-Investor Relations

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

Q3 2015 Earnings Call

David I. Begleiter

Christopher W. Jensen



**Operator:** Our next question comes from David Begleiter of Deutsche Bank. Please go ahead. David I. Begleiter Deutsche Bank Securities, Inc.

Thank you. Mark, on the same point, very strong numbers in AEM, but volumes were down actually 3% in the quarter. So what's happening there versus the supposed – likely two times or three times growth in the market?

Mark C. Rohr Chairman & Chief Executive Officer

Yeah. We did have a little weakness in some markets. I think some of the emerging markets were particularly slow for us. And I'll mention India, where we've seen a little bit of a wholesale movement of second tier products in the Indian market, and that particularly hit us hard in that regard.

We also spent time, if I can say this, moving our production assets around to make higher value products, and that's one of the ways we drove margins. So some of that volume we passed on, if I can say that, David, to move in, in the smaller volumes, but nonetheless higher return products.

Deutsche Bank Securities, Inc. Understood. And then, on the same bent, volume growth was minus 6% in Acetyl Intermediates. Why was – was

that driven by China or China and others? Any clarity there?

Mark C. Rohr Chairman & Chief Executive Officer

Yeah. I think, you can really say, it was China, we saw China – we do really think hit the bottom in the third quarter. As we ended the quarter, it was starting to get better, but really just tremendous overcapacity, almost unimaginable levels of overcapacity in China now. Assets are being shut down and people are just – there's not a

lot of inherent demand at this moment in time; and so almost all of that fall-off was in China.

Senior Vice President and Chief Financial Officer

David, I'd just add to that, back on your Materials question, that it's typical in the third quarter that you get some European customer plant shutdown activity, so it's not unusual to have that happen in the third quarter.

David I. Begleiter Deutsche Bank Securities, Inc.

But that would nil last year, as well Chris, correct?

Christopher W. Jensen Senior Vice President and Chief Financial Officer

Yeah. Sorry, I thought you were asking the question sequentially.

David I. Begleiter Deutsche Bank Securities. Inc.

Oh, no. Year-over-year. Thank you.

## Celanese Corp. (CE) **Corrected Transcript** Q3 2015 Earnings Call 20-Oct-2015 Christopher W. Jensen Senior Vice President and Chief Financial Officer Okav. Jon Puckett Vice President-Investor Relations Okay. Mark C. Rohr Chairman & Chief Executive Officer Thanks, David. Jon Puckett Vice President-Investor Relations Thanks, David. Carrie, let's move on to the next. **Operator**: Yes, sir. Our next question comes from Vincent Andrews of Morgan Stanley. Please go ahead. Vincent Stephen Andrews Morgan Stanley & Co. LLC Thanks and good morning, everyone. Mark C. Rohr Chairman & Chief Executive Officer Good morning, Vincent. Vincent Stephen Andrews Morgan Stanley & Co. LLC Just on the buybacks in the quarter, it looks like you used the revolver for a fair amount of it. And then for the \$1 billion of buybacks you're going to do over the next two years, how should we think about – obviously you have some U.S. cash flows from operations, but a lot of it is offshore, and a lot of your existing cash is offshore. So how should we be thinking about the way that you're going to fund those repurchases? Christopher W. Jensen Senior Vice President and Chief Financial Officer So, as we go through the next couple of years, we expect that our free cash flow will be better than it is today, and so most of it will be funded from that. As you pointed out, we really haven't touched the balance sheet cash. So we'll have \$900 million to \$1 billion of cash here at the end of the year. We'll expect to use some of that cash next year to pay off that amount that we borrowed under the revolver. So you can think prospectively over a two-year period of almost all of these being funded from – from free cash flow. We may spend down our global cash balances a little bit as well.

Vincent Stephen Andrews

Morgan Stanley & Co. LLC

Q3 2015 Earnings Call

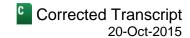


And in the process of doing that, should we be expecting to see a higher tax rate as a result? Or how will that work?

Christopher W. Jensen	А	
Senior Vice President and Chief Financial Officer  No. I think we'll talk more about 2016, but at this point, I'd say we'll still be less than 20% on the tax rate, the adjusted tax rate.		
Vincent Stephen Andrews Morgan Stanley & Co. LLC	Q	
Okay. Thanks very much.		
Jon Puckett Vice President-Investor Relations	A	
Thanks, Vincent.		
Mark C. Rohr Chairman & Chief Executive Officer	A	
Thanks, Vincent.		
Jon Puckett Vice President-Investor Relations	A	
Carrie, let's go on to the next.		
<b>Operator</b> : Our next question comes from Frank Mitsch of Wells Fargo Securities. Please go ahead.		
Frank J. Mitsch Wells Fargo Securities LLC	Q	
Yes. Hi. Good morning, gentlemen, and congrats on weathering the methanol contract expiration fairly well.		
Mark C. Rohr Chairman & Chief Executive Officer	A	
Thanks, Frank.		
Jon Puckett Vice President-Investor Relations	A	
Thanks, Frank.		
Frank J. Mitsch Wells Fargo Securities LLC	Q	

As I look at the year-over-year trends, you were down 4% year-over-year in Q2 on volumes, down 7% on price. A little bit of an acceleration there down 5% on volumes in Q3 year-over-year and down 10% on price. So little bit worse than the Q2 year-over-year comps, yet you posted a very nice upside surprise. I guess the simple question is, as we think back to what we thought three months ago to what we actually posted today, what went right for you guys?

Q3 2015 Earnings Call



Mark C. Rohr

Chairman & Chief Executive Officer

Well, there's a lot of effort went into making this transition, bridging this transition. So we – to the extent we could, we - let's say that we had methanol available, some methanol available carried over a little bit in the first month. We also had accumulated some acetic acid that we've built up, all of which to help us moderate, if I can say that, Frank, the hole for methanol. And so, the pain wasn't quite as intense as we thought it would be, as we went through that quarter. So that's one thing that went well for us, I think.

The startup went very well. We had – in our own mind, we had some concerns about that, as of course, as you're finishing the plan. And so, that enable us to have confidence, we were going to run, be able to run very hard, very quickly with that unit. And that helped us in the planning, the scheduling as well.

I go on to say, our models are really working well for us, Frank. I mean, the team is out there every day looking for ways to use these global models, particularly in past business. And really, we're just – I don't know how to say it – we're just totally attuned to the market. So, we are – we're looking at every opportunity of making conscious decisions every day, and that allows us to extract incremental money that others can't.

Frank J. Mitsch

Wells Fargo Securities LLC

All right. So that – so the latter part is something obviously that's going to be ongoing. And just coming back to the use of cash, obviously you guided to about \$225 million of share buyback in the second half, you did \$420 million just in Q3 alone. With this \$1 billion over two years, seems like a very modest pace relative to what you just executed. Are you being conservative in that regard? And in terms of use of cash, does M&A play a role? Are you preparing for Bishop? Can you expand a little bit more on the cash?

Mark C. Rohr

Chairman & Chief Executive Officer

Yeah. I think - I don't know that we're conservative, but we try to be very thoughtful. And we have a lot of M&A activities underway that are – that tend to be smaller in scope. It's important for us to add, without steering too much to add, several hundred million dollars of EBIT. These are the M&A that logically plugs into our business over, let's say, the next three years.

And so, we're anticipating our funding needs relative to that. We're anticipating our cash generation needs. The ongoing efforts to drive greater and greater value, and put all these together and we think \$1 billion is reasonable; it's not – it shouldn't stress us. And so could we do a bit more? Yeah, maybe, but we want to let some things unfold before we make a commitment to do so.

Frank J. Mitsch

Wells Fargo Securities LLC

Great. Looking forward to [ph] Friday, the 13th (16:56).

Mark C. Rohr

Chairman & Chief Executive Officer

Right.

# Celanese Corp. (CE) Q3 2015 Earnings Call



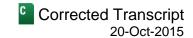
Jon Puckett Vice President-Investor Relations	A
Thanks, Frank. Carrie, let's move to the next question.	
<b>Operator</b> : Our next question comes from Bob Koort of Goldma	n Sachs. Please go ahead.
Robert Andrew Koort Goldman Sachs & Co.	Q
Thank you. Good morning.	
Mark C. Rohr Chairman & Chief Executive Officer	A
Good morning, Bob.	
Robert Andrew Koort Goldman Sachs & Co.	Q
Mark, I understand your pride in the capital cost of your methan might cost to make methanol in a brand-new plant at \$2.50 gas right now for methanol?	
Mark C. Rohr Chairman & Chief Executive Officer	A
I love you, Bob. That's a lot of data, man. It's not as good as our close.	contract with Southern, but it's getting pretty
Robert Andrew Koort Goldman Sachs & Co.	Q
And is there any hope that Southern will need to place that volution you're still a little net short of methanol?	me somewhere, and you could help them out since
Mark C. Rohr Chairman & Chief Executive Officer	A
Well, I think Southern is placed – the market is still materially has outplaced net material in the market today, and I $\alpha$	= =
Robert Andrew Koort Goldman Sachs & Co.	Q
And just	
Mark C. Rohr Chairman & Chief Executive Officer	A
We're friends with them. If they want to sell something – we have talk to them about buying some material from them.	ve a very good relationship, and so, I'm sure we'll

# Celanese Corp. (CE) Q3 2015 Earnings Call



Robert Andrew Koort  Goldman Sachs & Co.	Q
Got it. And I want to make sure I heard you right, because I thought you said China was getting a little better. Is that what you said?	
Mark C. Rohr Chairman & Chief Executive Officer	A
Yeah. Yeah. That's my prediction.	
Robert Andrew Koort  Goldman Sachs & Co.	Q
And does that provide you any incentive to try and do M&A a little quicker? Because it w feels a lot worse, and maybe you should move before it feels better?	would seem like the world
Mark C. Rohr Chairman & Chief Executive Officer	A
It absolutely does. Yes. Yeah, that's exactly right.	
Robert Andrew Koort  Goldman Sachs & Co.	Q
All right. Thank you.	
Mark C. Rohr Chairman & Chief Executive Officer	A
Thanks, Bob.	
Jon Puckett Vice President-Investor Relations	A
Okay. Thanks, Bob. Carrie, let's move on to the next question.	
<b>Operator</b> : The next question comes from P.J. Juvekar of Citi. Please go ahead.	
P.J. Juvekar Citigroup Global Markets, Inc. (Broker)	Q
Yes. Hi. Good morning.	
Mark C. Rohr Chairman & Chief Executive Officer	A
Hey, P.J. How are you?	
P.J. Juvekar Citiaroun Global Markets, Inc. (Broker)	Q

Q3 2015 Earnings Call



Good. Mark, you talked about China hitting bottom in third quarter, and then maybe recovery in China going forward. Is that a common company-specific Celanese based on your end markets? Are you making a generic comment that you think based on your observations in China?

Mark C. Rohr

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Chairman & Chief Executive Officer

Well, P.J., we're kind of old-fashioned here. So we just get out a lot and spend time with customers, and it's hard to describe the – there's a lot of negative feeling amongst the SOEs and the manufacturing industry in general, in China today, on one hand.

On the other hand, if you look at it from a retail point of view, if you spend time in - out and about, there's a lot of really positive things happening in the country. So, there's a - I think what I've just said, practically there's a limit to how much things can slow down. I think they kind of reached that limit. And so, we're seeing signs that things are getting a bit better.

So my kind of belief is, is whether this is immediately going to signal a ramp up in China; I wouldn't say that, but I think as we look back over this historically, the third quarter is going to be the low point, and you're going to see China start to come out of the situation that they're in. That's what — I think that's what we feel, and that's certainly what our customers feel.

P.J. Juvekar

Citigroup Global Markets, Inc. (Broker)

Q

Okay. And then in the past, you've bought a lot of stock here recently, but you haven't done any significant M&A, if I look at the last three years, four years.

Mark C. Rohr

Chairman & Chief Executive Officer

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That's right.

P.J. Juvekar

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Now, you're talking about M&A. Is that somewhat change in strategy on how you're thinking?

Mark C. Rohr

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Chairman & Chief Executive Officer

Citigroup Global Markets, Inc. (Broker)

Well, I think, P.J., I always quote my old friend [ph] Dennis Raleigh (20:15). He used to love to tell you guys, not only what he was going to do, what he wasn't going to do. What we're not going to do is, just something stupid as it comes to M&A.

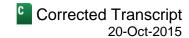
And so we have looked at a lot of deals, lot of big deals, and we simply – and that's where we are focused. We couldn't make it work. So we've totally converted our effort now to go after much smaller deals, use CoolPoly as the example, and we'll show you guys in November, some real examples of how that – the very small acquisition has given us some real positive traction in lot of areas.

We're looking at much smaller deals. We have a number of non-binding offers out today on these small deals, and it takes a number to get one. And so, yeah, you should see us be a lot more active there. We've been active; we've been looking in area, I think that was a tough area to complete one in.

## Celanese Corp. (CE) Corrected Transcript Q3 2015 Earnings Call 20-Oct-2015 P.J. Juvekar Citigroup Global Markets, Inc. (Broker) Thank you very much. Mark C. Rohr Chairman & Chief Executive Officer Yeah. Thanks, P.J. Jon Puckett Vice President-Investor Relations Okay. Thanks, P.J. Carrie, let's move on to the next question. **Operator**: Our next question comes from Jeff Zekauskas of JPMorgan. Please go ahead. Mark C. Rohr Chairman & Chief Executive Officer Hey, Jeff. Jeffrey J. Zekauskas JPMorgan Securities LLC Hi. Good morning. When I look at the adhesives companies, they seem to be growing pretty slowly or contracting. And the coatings companies have also had issues with demand. So has that affected vinyl acetate monomer demand? What's the shape of VAM demand these days, and sort of what's pricing like? Mark C. Rohr Chairman & Chief Executive Officer Yeah, Jeff. So the answer to your question is yes. In most of the markets, I think, that we're in, if you only get from a pure market point of view has fairly little growth. And so, the way we have to grow is do new and novel things, if I can say that. In the coating areas, some of the activities around VAE and those kind of coatings are still very positive, and we're still seeing, not double digit, we're still seeing strong growth though in those areas. That's kind of one bright spot. If I look at VAM, from a VAM point of view; VAM is just pretty long now, although there are some signs, it's getting a bit tighter. We've seen pricing wane a bit in that as you come off that – the chronic shortages of last year. We're out actually pushing some pricing now, and seem to be getting little bit of traction on that. But I think you should look at this as being a pretty anemic marketplace right now, and the marketplace is looking for a bottom to start recovering from. Jeffrey J. Zekauskas JPMorgan Securities LLC

And then, for your methanol plant which is running at full rates, does full rates mean, I don't know, 95% capacity utilization? And do you expect that to be the norm from now till the end of the year, if that's what you mean?

Q3 2015 Earnings Call



## Mark C. Rohr Chairman & Chief Executive Officer

Yeah. It's running at 100% capacity, which you'd expect. Methanol plants are a little bit, I mean, they're pretty – chemically they're pretty simple operation. So you tend to run them at a – they don't hunt, if I can say that, Jeff. So you'll kind of lock it at 100% and let it run. And we'll take it down a few weeks a year. It's kind of the way you should look at that.

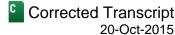
And so, we're – we pop the unit up and down a few times since we first put [ph] feet (23:34) in it, just getting things worked out. But generally speaking, we're running it at 100% rates, and I would expect just to continue to run at that level from now on.

Jeffrey J. Zekauskas  JPMorgan Securities LLC	Q
Okay. Great. Thank you so much.	
Mark C. Rohr Chairman & Chief Executive Officer	A
Thanks a lot.	
Jon Puckett Vice President-Investor Relations	A
Thanks, Jeff. Carrie, let's move on to the next question.	
<b>Operator</b> : Our next question comes from Hassan Ahmed of Alen	nbic Global. Please go ahead.
Hassan I. Ahmed Alembic Global Advisors LLC	Q
Hi. Good morning, Mark.	
Mark C. Rohr Chairman & Chief Executive Officer	A
Good morning, Hassan.	
Hassan I. Ahmed  Alembic Global Advisors I.I.C.	Q

Just wanted to revisit the – sort of pricing side of things within AI. Obviously, there were a couple of pricing hike announcements through the course of Q3, yet sequentially, Q2 to Q3, pricing was down around 3%, right? So what I'm trying to get sort of a handle on is that, obviously spot pricing, be it on the acetic side or the VAM side, came down through the course of the quarter as did methanol pricing as well. So – and you obviously talked about supply/demand fundamentals being quite slack as well.

So the question really is, how in such an environment does one sort of achieve any pricing hikes? That's question number one. And associated with that, question number two is, that if you do achieve those price hikes, some of the price hikes that tried to implement in Q3, is there a lag effect? Will we see those hike sort of coming through in Q4?

Q3 2015 Earnings Call



Mark C. Rohr

Chairman & Chief Executive Officer

Yeah. Hassan, it's a really complicated market, so you need to think of almost truly a spot market. And so you're always out there looking for the ability to sell cargos, and enter in a deal, that's a little bit favorable from a margin point of view from where you were the prior day. So price hikes are signals to the marketplace where we're going out and trying to get. And more important than the price hike is the margin that you're trying to drive. So it's a function of not only the price, but also the raw material input at the time.

So we've been out trying to create momentum around driving higher margins in this business. It's been very hard, as you've said, and I'd be misrepresented, I'd say, we've seen a big margin increase. In fact, margins have been flat to pretty steady the last couple of quarters or certainly the last quarter. So I don't know quite how to answer your question other than to say that, the market needs to get a bit tighter before you can really start driving margins, Hassan.

Hassan I. Ahmed

Alembic Global Advisors LLC

Sure thing. Sure.

Mark C. Rohr

Chairman & Chief Executive Officer

And that's – and it's – there are several outages out now, scheduled outages in China where plants are going down for several months to just do repairs, but also to sit down for a bit, because the market is long. We're getting ready to go down a bit for some turnaround activity in – particularly in China. So I think those are, again, signaling sort of the bottom of this trough piece, and you're going to start to see margins go up. And you'll see us announce pricing as part of that activity.

Hassan I. Ahmed

Alembic Global Advisors LLC

Fair enough. And maybe this is something that you'd want to address on the Analyst Day, but one of the things that you talked about in your qualitative guidance was that, obviously, some headwinds, currency being one of them, offsetting those headwinds via productivity, and one of the things that you talked about capacity rationalization as well.

So just wanted to get a sense of, as we look into 2016, if you could sort of talk broadly about what areas that rationalization you may do in, and associated with that, how much of a cash drain could that potentially be in 2016?

Mark C. Rohr

Chairman & Chief Executive Officer

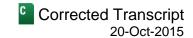
Yeah. So we will – if you'll let me punt that a bit for a few weeks, we'll take a better shot at that in November. What I will say is that we are – we have several activities under way. We're talking to employees now about outages. And from the scope of things, they're not – on one hand, they're not huge. On the other hand, it does let us consolidate, get efficiency and drive value. So you should see that in terms of \$20 million, \$30 million kind of thing, not \$100 million kind of opportunity.

Celanese Corp. (CE) Q3 2015 Earnings Call	Corrected Transcript 20-Oct-2015
Hassan I. Ahmed Alembic Global Advisors LLC	Q
Got it. Thanks so much, Mark.	
Mark C. Rohr Chairman & Chief Executive Officer Thanks.	A
Jon Puckett Vice President-Investor Relations	A
Thanks, Hassan. Carrie, let's move on to the next question.	
<b>Operator</b> : Our next question comes from Jim Sheehan of SunTrust Robinson Hump	ohrey. Please go ahead.
Jim M. Sheehan SunTrust Robinson Humphrey, Inc.	Q
Hi, Mark.	
Mark C. Rohr Chairman & Chief Executive Officer	A
Hi, Jim.	
Jim M. Sheehan SunTrust Robinson Humphrey, Inc.	Q
You're doing a really good job in AEM of holding price when raw materials were fallir could give us your perception of how customers view that relationship; you've clearly and do you see that as pretty sustainable going forward?	
Mark C. Rohr Chairman & Chief Executive Officer	A
Well, customers don't like it, Jim. I mean, so you've got to make sure that you're bring that process. I think the answer to your question, yeah, I think so. We're working real rapidly solve problems.	
The undercarriage, an example I gave you, I mean the amount of – what we can do we customer in Japan and triangulate with all of their tier suppliers around the world, in line to go into a bunch of different vehicles, and we do that better than anybody else, and edge on the pricing that you talked about. In return for that, we get to sell quality propaplications at a higher price than others. So I think, well, you should expect us to continue the supplications are a higher price than others.	troducing a new product or a And that allows us to having ducts, and the quality

And just on your 2015 earnings outlook, I mean, it looks like the magnitude of the beat that you had in the third quarter is roughly the same as the increase in your guidance. Yeah, with China possibly seeing an uptick, I'm just

Jim M. Sheehan SunTrust Robinson Humphrey, Inc.

Q3 2015 Earnings Call



wondering, are you being a little bit cautious on how you view the fourth quarter, and why wouldn't you be more optimistic given your views on China?

Mark C. Rohr
Chairman & Chief Executive Officer

Well, it's – Jim it's just early, it's early in the process. And I'll also say that, that we see other signs out there of people wanting to – we've got recently some announcements from folks that tell us they've got tough schedule for December, they were going to go ahead and shove to January.

So people are going to be taking steps to clean up this year, if I can say that, and it is hard for us to factor those things in, but those things can easily be a \$20 million hit or something if you get the number of companies and number of businesses that want to reduce inventory and things like that. So we expect this to be a tough quarter, even though we're starting to talk about China being a bit better.

Jim M. Sheehan SunTrust Robinson Humphrey, Inc.	Q
Thank you.	
Mark C. Rohr Chairman & Chief Executive Officer	A
Thanks a lot, Jim.	
Jon Puckett Vice President-Investor Relations	A
Thanks, Jim. Carrie, let's move on to the next question.	
<b>Operator</b> : Our next question comes from John Roberts of UBS. Plea	se go ahead.
John E. Roberts UBS Securities LLC	Q
Thank you. How far out into the future is the methanol JV buying gas	?
Mark C. Rohr Chairman & Chief Executive Officer	A

Well, John, I've forgotten. Not that long. I mean, we have part of the gas locked up for most of next year, but not all of it. So, yeah, I'd be happy to share more detail I just don't have it with me right now.

What we tend to do is we tend to – we don't intend to go 100% on anything. So we will – we lock into some pretty good positions, and for a portion of our gas and will continue to kind of treat it that way.

John E. Roberts
UBS Securities LLC

Okay. And if you collapsed the two business units within the Acetyl Chain, collapsed Acetyl Intermediates and Industrial Specialties from a reporting, is there a layer of cost that could be taken out with, is that something that's worth looking at?

Q3 2015 Earnings Call



### Mark C. Rohr

Chairman & Chief Executive Officer

Well, if you look at from a – part of the productivity we're getting is, is we're really running these cores with a lot of shared resources now in there, and we're making sure that in support of those cores, we're aligned from a functional point of view in a more and more efficient fashion. So everybody in this company wears at least two baseball hats, some wear three or four. So we're – the answer to your question is yes, we can do more there, we'll continue to do more there, and some of the productivity we talked about is reflection of that.

John E. Roberts  UBS Securities LLC	Q
But you'll probably continue to report the two business units?	
Mark C. Rohr Chairman & Chief Executive Officer	A
Yeah. I mean it's – you mean the subordinated units within the Acetyl Chain?	
John E. Roberts  UBS Securities LLC	Q
Yeah. I just don't know if there's another layer to take out there if you brought them together	
Mark C. Rohr Chairman & Chief Executive Officer	A
No. No, at some point, we'll fully collapse them.	
John E. Roberts  UBS Securities LLC	Q
Okay. Thank you.	
Mark C. Rohr Chairman & Chief Executive Officer	A
We promise, we report it for a while, and we're talking about how we should move forward in the future.	
John E. Roberts  UBS Securities LLC	Q
Great. Thank you.	
Mark C. Rohr Chairman & Chief Executive Officer	A
Thanks.	
Jon Puckett Vice President-Investor Relations	A
Okay. Thanks, John. And, Carrie, let's move on to the next question. Let's have this to be the last series of questions.	

<b>Operator:</b> All right. The next question comes from Nils Wallin of CLSA. Please go ahead.	
Nils-Bertil Wallin CLSA Americas LLC	Q
Yes. Good morning. Thanks for taking my question. First, I	
Mark C. Rohr Chairman & Chief Executive Officer	A
Good morning.	
Nils-Bertil Wallin CLSA Americas LLC	Q
just had a question on your SG&A line. You've done a tremendous job certainly you're focused on more productivity. But curious to know how currency, and so, going forward, how much of the costs that you've take	much of that has been the benefits of
Mark C. Rohr Chairman & Chief Executive Officer	A
Some of it is currency from our European operations. But Chris, do you	have a sense to that?
Christopher W. Jensen Senior Vice President and Chief Financial Officer	A
Yeah. I'm trying to – what periods are you looking at?	
Nils-Bertil Wallin CLSA Americas LLC	Q
Just year-to-date.	
Mark C. Rohr Chairman & Chief Executive Officer	A
Year-to-date.	
Christopher W. Jensen Senior Vice President and Chief Financial Officer	A
Yeah. We get – if it's year-to-date versus year-to-date last year, there's not massive. I mean, think of that being \$10 million to \$20 million for	
Nils-Bertil Wallin CLSA Americas LLC	Q
Got it.	
Christopher W. Jensen Senior Vice President and Chief Financial Officer	A
Just looking at SG&A.	

Q3 2015 Earnings Call

Corrected Transcript 20-Oct-2015

Mark C. Rohr

Chairman & Chief Executive Officer

Α

Yeah. Yeah, it's not the issue.

#### Nils-Bertil Wallin

CLSA Americas LLC

Q

And then, obviously, the methanol plant coming off, you've finished your — the buildup there, and so you've freed up cash, and you certainly talked about returning that to shareholders. But I'm curious as to how much of that might be siphoned off towards innovation. And certainly that's going to be something you're talking about at Investor Day, but how are you thinking about things like your vitality index and new product introductions as a percent of total sales?

Mark C. Rohr

Chairman & Chief Executive Officer



Yeah, we've – we're putting a lot of energy in that, we think we're fully funding that today. What I will say is that, we are starting to adopt some – from a vitality point of view, some longer-term investments in areas that seemingly make sense to us, that could, at some point, require us to up that spending from the level we're at currently. At the Investor Show, we'll share a lot detail about our new product launches, and how we do the math around those, and how we expect to continue to grow that, and how that correlates to sales revenue that we expect from new products that we introduce.

Nils-Bertil Wallin

CLSA Americas LLC



Great. Looking forward to it.

Mark C. Rohr

Chairman & Chief Executive Officer



Great. Thanks, Nils.

### Jon Puckett

Vice President-Investor Relations

Okay. Thanks, Nils. Carrie, I'll turn it back over to you. We appreciate everybody's time this morning, and we'll be around for questions later today.

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

### Celanese Corp. (CE) Q3 2015 Earnings Call



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