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Celanese Corp. (CE)

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Scott McDougald Sutton

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OTHER PARTICIPANTS

Robert Koort

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Duffy Fischer

Analyst, Barclays Capital, Inc.

David I. Begleiter

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Frank J. Mitsch

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John Roberts

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James Sheehan

Analyst, SunTrust Robinson Humphrey, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Celanese Third Quarter 2017 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note, this event is being recorded.

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

Surabhi Varshney

Vice President-Investor Relations, Celanese Corp.

Thank you, Denise. Welcome to the Celanese Corporation third quarter 2017 earnings conference call. My name is Surabhi Varshney, and with me today are Mark Rohr, Chairman and Chief Executive Officer; Chris Jensen, Chief Financial Officer; and Scott Sutton, Chief Operating Officer.

Celanese Corporation's third quarter 2017 earnings release was distributed via Business Wire yesterday after market close. The slides 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 with the press release and are on our website in the Investor Relations section under Financial Information.

The earnings release and the non-GAAP reconciliations have been submitted to the SEC on a Form 8-K. The slides and prepared comments have also been submitted to the SEC on a separate Form 8-K. This morning, we'll begin with introductory comments from Mark Rohr and then open up for your questions.

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

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

Thank you, Surabhi, and welcome, everyone. We posted our prepared remarks along with earnings yesterday, so I'll limit my comments and then open the line for questions. Starting with Hurricane Harvey, all three of our Texas sites – Clear Lake, Bay City, and Bishop – were directly affected by the storm. All units were quickly restarted, but logistics disruptions proved to be a challenge.

We estimate \$11 million in direct expenses and another \$20 million to \$30 million in lost profit opportunity as a result of the hurricane and flooding. It took extraordinary supply chain and commercial actions to overcome these headwinds, and we are very proud of our teams who worked tirelessly to overcome this disaster and deliver strong results this quarter.

Regarding the tow venture with Blackstone, we have filed for regulatory approval in all six jurisdictions and have already received approval in Mexico. We anticipate that the European Commission will continue to assess the tow JV over the coming months with a final decision potentially in late spring of 2018.

For our consolidated results in the quarter 2017 GAAP earnings were \$1.68 per share with adjusted earnings of \$1.93 per share. Record adjusted earnings per share came in at 16% above the level last year despite the hurricane. We also returned \$260 million of cash to investors of which \$200 million went to share repurchase and \$62 million to dividends.

The Acetyl Chain core income of \$157 million in the third quarter improved 44% year-over-year on sales of \$863 million. We were positioned for an improvement – an improved environment for the Acetyls business in the second half of the year and solid uplift occurring before the storm. Segment income margin for Acetyls Intermediates was an all-time high this quarter of 19.6%, primarily driven by acetic acid pricing in Asia.

Materials Solutions registered record net sales of \$730 million in the third quarter. Segment income in AEM increased 16% year-over-year to \$147 million on net sales of \$543 million, both records. In the quarter, we commercialized 585 projects, which set us up to deliver more than 2,100 projects for the full year.

In Consumer Specialties, segment income in the third quarter was \$79 million with segment income margin of 42%. Tow price and volume declined in the quarter versus the third quarter of 2016 due to lower industry utilization rates that we previously discussed. Affiliate earnings in Materials Solutions were \$71 million for the quarter, up 18% year-over-year.

Now, taking a first look in next year, in AEM, we expect new project commercializations, M&A and base business volume growth net of the planned site turnarounds that adds \$0.50 to \$0.60 to adjusted earnings per share in 2018.

In the Acetyl Chain, we expect commercial momentum to create additional value uplift of \$0.35 to \$0.45 of earnings per share. Along with other growth-related costs in the range of \$0.15, we contemplate year-over-year adjusted earnings growth in the range of 9% to 13% in 2018. We'll provide a more detailed look and updated view of 2018 earnings during the January call.

Closing out the year, we expect the sustained improvements in the Acetyl Chain and Materials core to continue, offset a bit by typical fourth quarter seasonality. Considering these factors, we are confident in our ability to end the year at the high end of our 9% to 11% range for 2017.

Surabhi Varshney

Vice President-Investor Relations, Celanese Corp.

Thank you, Mark. I'd like to request all callers to please limit to one question and a follow-up. Denise, please open the line for questions now.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Your first question this morning will be from Robert Koort of Goldman Sachs. Please go ahead.

Robert Koort

Analyst, Goldman Sachs & Co. LLC

Thank you. Good morning.

Q

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

Morning, Bob.

A

Robert Koort

Analyst, Goldman Sachs & Co. LLC

Mark, just wondering, in your commentary, you mentioned M&A still being a component of the AEM growth. Can you give us some sense of scale of assets or properties you're looking at and how much might be baked-in to that guidance for next year?

Q

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

Yeah. Well, there's nothing new baked-in to the guidance beyond what we currently have and the accretion of the current acquisitions that we've done. And I'd carry folks back to the Investor Day we had a few years ago where we put forth this objective of \$800 million to 850 million. In that, the difference between \$800 million and the \$850 million was incremental M&A. So you think \$100 million of M&A profit. And, of course, there was \$100 million more tow in that number. So we really, in a corrected basis, are more like \$750 million in that.

A

So, what I would say is that to push onto the \$850 million number, we probably need some additional M&A to help us close that gap. What we're looking for in scope, I think we're not limiting ourselves to just bolt-ons. But, Bob, that's where most of our activity is these days is continue to look for and finding – and we hope adding soon – more bolt-on properties

Robert Koort

Analyst, Goldman Sachs & Co. LLC

Would you expect those deals to continue to be, I don't want to call it niche-y but less of the high-volume, lower price stuff and more of the high-priced, lower volume stuff, or is it – do you have the potential [indiscernible] (07:38) business a little bit. Could you be looking at some higher volume engineering resins?

Q

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

Yeah. Yes.

A

Robert Koort

Analyst, Goldman Sachs & Co. LLC

Q

Got it. Thank you.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

I mean, I think directionally, we're practicing this process. The team is getting very good at it. We've approached a few deals, as you've suggested there. Maybe it's not worked out for us, but that's an area for us that we continue to look at.

Robert Koort

Analyst, Goldman Sachs & Co. LLC

Q

Okay. Thank you.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Thank you.

Operator: The next question will come from Duffy Fischer of Barclays. Please go ahead.

Duffy Fischer

Analyst, Barclays Capital, Inc.

Q

Yeah. Good morning, fellows.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Morning, Duffy.

Duffy Fischer

Analyst, Barclays Capital, Inc.

Q

A question, obviously, terrific growth in AEM. First time in a while, it looks like you're having to put some meaningful capital with expansions. How should we think about the incremental returns on that capital? How much will it cost to keep growing kind of at the rate we've seen the last couple of years?

Christopher W. Jensen

Executive Vice President and Chief Financial Officer, Celanese Corp.

A

Yeah, Duffy, it's Chris. Typically, our organic growth capital is the highest-returning investment that we have, higher than M&A. So, if you conservatively put our cost of capital at 10%, it's far in excess of that.

Duffy Fischer

Analyst, Barclays Capital, Inc.

Q

Okay. And then on the segment EPS increase that you talked about, is that using a like-on-like share count, or is that assuming some benefit from the share buyback when we think about that rolling through the segments?

Christopher W. Jensen

Executive Vice President and Chief Financial Officer, Celanese Corp.

A

So, I think we said in the prepared remarks that sort of the below the business stuff is an incremental \$0.15. So, that's net of some benefit of share repurchases, but not new share repurchases, rather the rollover of some of the share repurchases that we did in 2017.

Duffy Fischer

Analyst, Barclays Capital, Inc.

Terrific. Thanks, guys.

Q

Christopher W. Jensen

Executive Vice President and Chief Financial Officer, Celanese Corp.

Thank you, Duffy.

A

Operator: The next question will come from David Begleiter of Deutsche Bank. Please go ahead.

David I. Begleiter

Analyst, Deutsche Bank Securities, Inc.

Thank you. Mark, can you discuss the acetic acid market right now, how it's progressing through the year, and specifically, what's happening in China from your perspective?

Q

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

Yeah. I'll make a few comments and ask Scott, actually, to weigh in here, but we started out this year and we gave our projections for the year. The first, our range, we were very careful to note to everyone that we anticipated, expected, based on what we saw, the business to improve as we went through the year. And so, we had taken steps [indiscernible] (10:05) to prepare for that and, in fact, we saw that. So, we have seen an improving trends in this business, particularly in China, and that's prompted – it's allowed us really to take advantage of our global supply chain and the systems that we have in place to differentiate it.

A

Scott, do you want to provide an even more local color on China?

Scott McDougald Sutton

Chief Operating Officer, Celanese Corp.

Yeah. Yeah, I will and, David, I mean, China's an improving environment in Acetyls and it's particularly improving in acetic acid which really drives Acetyls in China which drives Acetyls globally as well. I mean, one of the reasons that it's improving is, I mean, China's having to run more of a – in a real business environment, right? You see regulatory things come in, you see environmental things come in, you see a drive for profit. And all of those things are driving up instantaneous capacity utilization of acid, right, that's different than nameplate capacity utilization. But it's running at a much more comfortable level and that gives us the ability to apply our model quickly, and you see that result coming through and we expect it to continue.

A

David I. Begleiter

Analyst, Deutsche Bank Securities, Inc.

Okay. Mark, you've discussed in the past perhaps doing an acetate tow-like transaction with Acetyls, acetic acid. How's the potential looking for 2018?

Q

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Well, I mean, that's being awfully specific on dates. I think we're working hard to – with all of our businesses which we think each one leads the world in its own way. We're looking hard to find ways to continue to shore up and monetize those in a way that it adds a lot of value to our shareholders. So, what I'd say is that we're working that equation, but I wouldn't go so far as to put a date on it.

David I. Begleiter

Analyst, Deutsche Bank Securities, Inc.

Q

Thank you.

Operator: The next question will come from Frank Mitsch of Wells Fargo Securities. Please go ahead.

Frank J. Mitsch

Analyst, Wells Fargo Securities LLC

Q

Yes. Hi. Good morning.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Morning, Frank.

Frank J. Mitsch

Analyst, Wells Fargo Securities LLC

Q

Mark, two weeks ago, one of your competitors suffered an outage. Can you talk about how that has impacted your business over the past couple of weeks and what the outlook would be?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Well, I'd really – yeah, there was an event. You guys are aware of the event. And fortunately, I think [indiscernible] (12:25) nobody was hurt out of that event and the community wasn't impacted. So, that's a really positive thing. We haven't really seen that big of an impact of that. It really is a function of how long that event last and whether it really rolls itself through the market in a big way I think is, you know, time will tell that.

Frank J. Mitsch

Analyst, Wells Fargo Securities LLC

Q

All right. All right. What sort of lingering effects, if any, are you seeing from Harvey? You obviously sized the impact in September. How we should think about that in Q4?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Well, as we speak today, we're still trying to get barge traffic to Bay City. We have four dredges, I'm looking at Scott here, I think lined up outside the plant site trying to dredge the last few miles [indiscernible] (13:13) Colorado River. We've been supplying that plant site with trucks and rails and mule trains and anything else that logistics team can get in place to get material down here and get product out. So, there's a cost – ongoing cost impact to that. [indiscernible] (13:27) we've been running it fairly successfully though or we found our ways to run it fairly

successfully. So, I think largely the ripple effects are over from that storm, and I wouldn't anticipate losses this quarter – material losses this quarter as a result of it.

Frank J. Mitsch

Analyst, Wells Fargo Securities LLC

Q

All right. Thank you so much.

Operator: The next question will come from P.J. Juvekar of Citi. Please go ahead.

P.J. Juvekar

Analyst, Citigroup Global Markets, Inc.

Q

Yes. Hi. Good morning.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Morning, P.J.

P.J. Juvekar

Analyst, Citigroup Global Markets, Inc.

Q

You too, Mark. You're introducing over 2,000 projects. That's almost 10 projects a day, and you're going to 3,000 next year. So, how much of these projects are cannibalizing your existing products versus how much are, would you say, new products like your hammer handle example?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Well, I don't think there's any cannibalization going on. I mean, they – by definition, you have to be new. So, it's a new application or a new customer that we're going in and putting an application into. So, having said that, there may be some substitution where a person is going from – moving in a lateral way. But largely I think they're new. Scott, would you agree with that?

Scott McDougald Sutton

Chief Operating Officer, Celanese Corp.

A

No. I mean, all those projects are new. I mean, it's true, P.J., there is some attrition in the business, right, as models change and models go away. But very rarely do we have a new project that actually replaces something that we were already doing, and that's called a project. I mean, it's really new growth which helps offset normal attrition that's going on in the business.

Are we answering your question?

P.J. Juvekar

Analyst, Citigroup Global Markets, Inc.

Q

Yes. Yes. That's good. And what is the typical margin uplift from the new products? I'm wondering why you didn't see a margin uplift, actually margins declined, was that due to raw materials with the hurricanes?

Scott McDougald Sutton

Chief Operating Officer, Celanese Corp.

A

Yeah. I mean, as far as the margin's slight decline that you see, P.J., I mean, we do have some impacts in this business from Harvey in the quarter. We lost some sales and has some costs there. But it is the M&A and the fact that we're selling heavily into Asia. That's the real margin issue. I kind of missed the first part of that question that you had though.

P.J. Juvekar

Analyst, Citigroup Global Markets, Inc.

Q

[indiscernible] (15:48) what is the typical margin uplift from these new products that you're introducing?

Scott McDougald Sutton

Chief Operating Officer, Celanese Corp.

A

Yeah. Margin uplift, I got it. Yeah. All the new projects come in at a quite a high contribution margin, right? But on the other hand, we continue to support the business for growth, and that adds a bit of cost. And that's why we get back to this guidance that if you think about the base business including the acquisitions we do, so that's without affiliate earnings, an okay margin to think about there from an EBIT standpoint is around 20%, trying to hold that level.

P.J. Juvekar

Analyst, Citigroup Global Markets, Inc.

Q

Okay.

Operator: The next question will come from Laurence Alexander of Jefferies. Please go ahead.

Laurence Alexander

Analyst, Jefferies LLC

Q

Good morning. I guess, first, could you characterize what you're seeing in terms of year-end shutdowns or any noise you think about the bridge from Q4 to Q1 or how customers are behaving given the turbulence this year?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah. I don't think, Laurence, anything unusual with that. We're coming off a pretty volatile quarter, and so I don't want to forecast exactly what's going on there. But typically, folks tend to calm down a little bit as you get into holiday season and things tend to moderate a bit. But I'm not aware of – I'm looking around the table, I'm not aware of any big outage anyway that's really going to have a major impact on us one way or the other.

Scott McDougald Sutton

Chief Operating Officer, Celanese Corp.

A

Yeah, and Mark, I would just say it's kind of your normal collection. I mean, every quarter, there's some and Q4 is not going to be that different, yeah.

Laurence Alexander

Analyst, Jefferies LLC

Q

And then secondly on the trends in China, could you flesh out a little bit you're thinking currently about the degree of demand pull for AEM in China, and the degree to which you need to build capacity specifically there to serve that market?

Scott McDougald Sutton

Chief Operating Officer, Celanese Corp.

A

Yeah, sure. So, this is Scott again. I mean, look, the demand pull in Asia, particularly China, is strong in our Engineered Materials business. I mean, all market segments are up. In fact, globally for us, all market segments are up. But especially in China, you see good growth in consumer, you see – we're starting to see some traction in medical there, the rest of the world as well. So, it really is a combination of two things: one, there's great demand; number two, the China market is hungry for our model where we can really go in and offer a whole bunch of unique solutions. And so, I see that trend continuing.

Laurence Alexander

Analyst, Jefferies LLC

Q

Yeah. Thank you.

Operator: The next question will come from Jeff Zekauskas of JPMorgan. Please go ahead.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Q

Thanks very much. I do have a question about your cash flow slide in that what you say is you anticipate cash generation of \$6.2 billion between 2016 and 2020, including the dividend of \$1.6 billion from the JV. So, if we subtract out the JV dividend of \$1.6 billion, there's \$4.6 billion left, \$4.6 billion left. So, is what you're saying that, over a five-year period, you're going to generate \$4.6 billion in cash or \$920 million a year, or is that a four-year period? How do you do the calculation?

Christopher W. Jensen

Executive Vice President and Chief Financial Officer, Celanese Corp.

A

Yes, Jeff, it is five years. So, if you think of our current strategy period of 2018 to 2020 that we'll talk about early next year in our Investor Day, for that three-year period, this is \$2.9 billion or \$3 billion of free cash flow across three years. So, you're about right on that average.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Q

Okay. Great. And then for my follow-up, there's a Chinese initiative to have E10 nationwide in 2020. Is that something that would benefit Celanese or is it irrelevant to Celanese if it's actually enacted or do you think it will be enacted?

Scott McDougald Sutton

Chief Operating Officer, Celanese Corp.

A

Yeah. So this is Scott and, you're right, it is. I actually think it's probably going to happen one year earlier. That's the intention from China is to make that happen one year earlier where 10% of all the cars sold are EVs, right? And there is – we see a big push there. I don't know that they'll be completely successful to get to 10%, but it is a pretty dynamic change and that kind of move is good for Celanese because we offer a lot of solutions into the EV

market, not just the car itself because the cars are new, that helps, but also the batteries as well. So, it's a positive trend for us.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Okay. Great. Thank you so much.

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

A

Thank you, Jeff.

Operator: The next question will come from Mike Sison of KeyBanc. Please go ahead.

Michael J. Sison
Analyst, KeyBanc Capital Markets, Inc.

Q

Hey, good morning. Nice quarter.

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

A

Thanks, Mike.

Michael J. Sison
Analyst, KeyBanc Capital Markets, Inc.

Q

Mark, when you think about AEM, the new project growth continues to be pretty impressive. Can you maybe talk about some of the markets, particularly as you look to get to 3,000 next year, what are the areas that are looking to replace other materials with polymers and do you need to find new markets at this point given you've maybe saturated some of these areas?

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

A

Well, I don't know if we've saturated anything but, Mike, there's just tremendous desire on the part of all manufacturers of consumer goods to continually evolve and update and make more contemporary their goods. So, that evolution is ongoing. What I will say is that medical continues to be a big area of focus for us, we put more attention there. We think there's a lot of opportunities in medical, and so that's a growing segment for us. The electronic segment that we set up recently and, of course, [indiscernible] (21:45) in electronic, we haven't been focused on it as much as legacy Celanese and that's an area of real growth for us.

And I would say broadly in consumer applications. We gave an example in the handout that we did have a hammer handle. I know it sounds somewhat a little bit low tech, but it's a pretty impressive opportunity to use some of our technology, and we're seeing lots of interest from more players like that really to upgrade in many ways.

Automotive remains important for us, and we're demonstrating really strong growth in automotive in spite of global trends, and that really is also one of the continual upgrade that we talked about earlier. So, I would list those four as areas that we're focused.

Michael J. Sison

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. And then, when you think about the \$0.50 to \$0.60 EPS per share growth in AEM in 2018 versus 2017, is the turnarounds a pretty big negative impact? And then how much of that growth will come from the Ibn Sina production expansion?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah, so we do have some turnarounds slated in Materials next year that takes away from that total. So, absent those, it can be another \$0.05 to \$0.10 higher, I would think, in there in the base business. So, we've been seeing a contribution. We haven't said what that is, but it's not de minimis.

Scott McDougald Sutton

Chief Operating Officer, Celanese Corp.

A

Yeah. It's not de minimis. This is Scott. I mean, I would say you will see less of that, [indiscernible] (23:15) contribution through equity income and a little bit more that's in our base business because it basically supplies some of those products to our base business to go out and execute projects by.

Michael J. Sison

Analyst, KeyBanc Capital Markets, Inc.

Q

Got it. Thank you.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Thank you, Mike.

Operator: The next question will come from Vincent Andrews of Morgan Stanley. Please go ahead.

Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

Q

Thanks very much. Chris, just on the working capital comments this year vis-à-vis your free cash flow targets, is that a new level of working capital based on the growth rate or some of the stuff that's just going to reverse next year and help free cash flow next year?

Christopher W. Jensen

Executive Vice President and Chief Financial Officer, Celanese Corp.

A

Yeah. Let me sort of take that in two pieces. So, first, we're – as you know, we came out now and said, look, we're going to be towards the higher end of our guidance. We've had some nice growth across the business; and along with that, top line growth comes an investment in working capital.

The other thing that's driving that, you heard Scott talked about strength in Asia. And when our business is growing in Asia quickly as it is right now in Acetyls and has been for a couple of years in Engineered Materials, you're growing in a region of the world that typically has longer payment terms for accounts receivable. So, that's why we've come out and said, look, working capital may be a little higher than we thought.

To answer the second part of your question, I think that continues on into 2018, provided that business stays strong in Asia and raw material prices stay a little bit elevated. If those things reverse, then yes, your working capital would reverse.

Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

Q

Okay. And then shockingly no one's asked about acetate tow yet, so I will. It sounds like you're expecting the segment to be flat next year. But if you could comment on where price negotiations are for the uncontracted portion of your volume, and then any thoughts or comments you have about the FDA's recent indication they'd like to take nicotine out of cigarettes over some period of time and what impact that might have? I can see some good things and bad things from that for your business depending on how it shakes out, so any thoughts would be great.

Scott McDougald Sutton

Chief Operating Officer, Celanese Corp.

A

Yeah. And so Vince, this is Scott. Look, as far as contract season and so forth, some part of that business is locked for another year or two. Another part, we've already been through negotiations on. There's a smaller part still yet to be finalized. And there's still a competitive nature in that industry. There's some price pressure. But generally speaking, I mean I think you'll see us come out with 2018 relatively flat compared to 2017. So, it's really at this trough state.

On your second – the second question there, the FDA coming out with a proposal, right, to be – to move out nicotine, I think it's unknown how that'll impact the industry. The reality is, depending on the delivery system, the demand for cigarettes could either go up to get the same amount of nicotine or go down. So, we really don't know.

Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thank you very much.

Scott McDougald Sutton

Chief Operating Officer, Celanese Corp.

A

Yeah.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Thank you, Vince.

Operator: The next question will be from John Roberts of UBS. Please go ahead.

John Roberts

Analyst, UBS Securities LLC

Q

Thank you. Can you hear me?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah, John.

John Roberts

Analyst, UBS Securities LLC

Q

I'd like to go back to Jeff's earlier question which, Scott, I think you answered as an electrical vehicle question in China. But I thought he had asked about E10 which is another announcement that China had back in September. And I would think if they're going to go coal-based, that's something you would know about, but it doesn't seem to make sense for them to go corn-based given they import. So, do you have any thoughts on that announcement?

Scott McDougald Sutton

Chief Operating Officer, Celanese Corp.

A

Okay. Yeah, okay. Sorry, I heard EV but I think he said E10. Got it. Yeah, on the – on ethanol, how will it go. Look, that's kind of a no-impact for us. We don't expect that to be material to us in either way.

John Roberts

Analyst, UBS Securities LLC

Q

And then on the [ph] sales trend (27:30) polyacetal in the ultra-high molecular weight polyethylene expansions, would the capital required there scale off of past reactor capacities, or is there anything that would make those more or less capital-efficient projects for you?

Scott McDougald Sutton

Chief Operating Officer, Celanese Corp.

A

Yeah. I mean, look, as far as the ultra-high molecular weight polyethylene, part of that is incrementally expanding capacity, and another part of that is a substantial additional system at a site where we already produce that. So, you can think of all of those expansions as being incremental. The other part of that, the [ph] LFT part (28:10) is effectively just another line at a site where we already produce it.

John Roberts

Analyst, UBS Securities LLC

Q

Thank you.

Scott McDougald Sutton

Chief Operating Officer, Celanese Corp.

A

Okay.

Operator: The next question will come from Kevin McCarthy of Vertical Research Partners. Please go ahead.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Q

Yes. Good morning. Question on capital deployment. You bought back \$200 million of stock in the third quarter, yet in your prepared remarks, I think you commented that you do not expect additional repurchases unless they're opportunistic or relate to the tow JV. So, I was wondering if you could clarify some of the thinking around the opportunistic piece of that and how you're weighing your options for capital deployment through year-end.

Christopher W. Jensen

Executive Vice President and Chief Financial Officer, Celanese Corp.

A

This is Chris. We're always looking for buying opportunities. But in general, now that we've completed \$500 million of share repurchases, that is what we set out to do this year. So that's likely the ending point for the year. I just don't want to ever say never, just depending on what kind of opportunities we have. The piece that's tied to the JV, that really is repurchases that will be timed together with the proceeds that come from the day one dividend on that joint venture.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Q

Understood. And then as a follow-up, Mark, I was wondering if you could speak to the margin outlook in AEM. You've obviously had some mixed effects related to your acquisitions. Perhaps, you could elaborate on what's going on with the underlying margins and your efforts to raise the margins on the acquired properties?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

For those businesses, as we've said earlier, we're – and to be honest, most of the businesses we look at, unfortunately, have much little margins than we do. So, there's a process you have to go through to rebuild those margins, get them to our area.

Two elements of that. One is just pure productivity which is certainly underway and that helps. That also includes loading the assets up and some of the expansions that the team rolled out last week help us load up these assets and dilute the costs associated with the operation of the third party's mix upgrade. And we're going through a process now of really upgrading the quality of the products that are produced and by that I mean the marginal contribution quality of the products that are produced away from some of the low-end products and the products that are, we think, more consistent with Celanese. So those three things are underway.

I think we said the 20% to 22% range is the range where we want to be in that process. We're a little bit lower than that this quarter. So, I think you'll see us move back as we get into next year and start pushing that back up a little bit. It would be my fault if we add another a deal or two. You're going to see more downward pressure from that, but net-net, we should be able – that's the kind of target we have as we go through this acquisition period to be in that low-20s range.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Q

Perfect. Thank you very much.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Yes, sir.

Operator: The next question will come from Arun Viswanathan of RBC. Please go ahead.

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Q

Good morning. Thank you.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Good morning.

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Q

Just had a question on the Acetyls Chain. Maybe you can just help us understand the \$0.35 to \$0.45 growth for next year? What's kind of embedded on a pricing outlook standpoint, do you expect some of the recent pricing to be sustained through next year?

Scott McDougald Sutton

Chief Operating Officer, Celanese Corp.

A

Yeah. Yeah, sure. Arun, this is Scott. Look, I mean, we have momentum going into next year. So the biggest part of that \$0.35 to \$0.45 a share will be continued margin expansion. The other efforts we have underway have a little bit more to do with growth. So, at the same time, we'll be bringing in volume growth. Margin expansion is number one; number two will be some volume growth.

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Q

And similarly, on the tow side, what gives you guys the confidence that that will be neutral now after a couple of years of declines?

Scott McDougald Sutton

Chief Operating Officer, Celanese Corp.

A

Yeah. Well, I think just our position with where we are in terms of knowing the outlook for next year already. Some contracts done; some recently are being done right now, a few more to do. We know we have a very good view of where we're going to be next year. There's still work to do there, right? We still have to have a little bit of productivity to get there, but we're working on that. So, it's a decent view.

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Q

And so, if you were to roll it up, I mean, what would you say are some of the swing factors that would kind of push you towards the 13% projected growth for next year?

Scott McDougald Sutton

Chief Operating Officer, Celanese Corp.

A

Well, I think, again, it comes back to hitting in all businesses. I think we have a lot of momentum in Acetyls. We can preserve that. We have to see how long we can preserve that at the same level. Engineered Materials, you already see us stepping up our project outlook to be 3,000. And then, we don't have this giant headwind on top of us like we have before with tow. So, if you put all of those things together and things line out, then we get to the – closer to the upper end of that guidance.

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Q

Great. Thanks.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

Thank you.

A

Operator: The next question will be from Hassan Ahmed of Alembic Global. Please go ahead.

Hassan I. Ahmed

Analyst, Alembic Global Advisors LLC

Morning, Mark. Just wanted to sort of bring up the 2018 guidance again. Back obviously in end 2015, you guys were guiding to long-term, call it, 2018 guidance sort of \$800 million to \$850 million. If I do a compare and contrast where we were in 2015 relative to where we are right now, obviously a couple of moving parts. It seems to me, China seems to be a bit better, Europe seems to be a bit better, U.S. seems to be a bit better, economy-wise. But obviously back then, maybe tow wasn't as bad as it looks today. So just want to figure out this sort of new guidance that you're giving of call it \$804 million to \$824 million, where the deltas were versus what you guided to \$800 million to \$850 million back in end 2015.

Q

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

Yeah. Well, just first off, what we classically do this time of year is share our first look at next year. So, I would call it a little bit short of annual guidance. That is just the ranges. We look at our data today that rolls up, and we will give – to the extent there's an official guidance, we'll give that in January for the year.

A

Nonetheless, when we look at it, we rolled up – the numbers we put forth that frankly, I think, people believe we could at \$800 million to \$850 million had a bunch of factors in there. Most predominantly was growing the Materials business and we were putting out numbers at that time of starting to – just starting to push new project introductions. And there was a lot of skepticism we could do that. I think the team has shown we have the ability to growth that quite handsomely and has been one of the strongest stories of that three-year – what would be a three-year period.

I think the second piece to that was the Chain business, how we get that Chain business to move up from trough numbers in the low, low double-digit kind of range, and we gave a range, I think, of 12% to 16% earnings on that and we started demonstrating. We will state what we think the appropriate range is going forward next year, but we've shifted that up with a lot of activity and a lot of things too numerous to mention over this call that have really stabilized that business a lot and gave us more global reach with that business.

So, those two things were big, big factors in pushing it forward and gave us that concept of the range . We were very clear that to do the high end of that \$800 million to \$850 million, we need a material M&A; material. So you could translate that in saying that we were thinking maybe \$0.50 of M&A, which should be \$100 million, and of course currently, we're maybe a third of that kind of level with the deals that we've done.

So, if you want to deduct, then you ought to deduct that \$0.30 off of that for that reason alone. And then of course tow was not expected to be down from where we were. It's actually expected to be flat to up. So, that's another probably \$0.50. So I think on an apples-to-apples basis, assume like \$750 million next year.

Hassan I. Ahmed

Analyst, Alembic Global Advisors LLC

Q

Understood.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

So – but business is doing better. We're creating more value, and we're still out trying to do deals. So, we're not walking away from anything we said in the past, I think; but right now, we see ourselves being in kind of in the middle of it.

Hassan I. Ahmed

Analyst, Alembic Global Advisors LLC

Q

Understood. Very helpful. Now, as a follow-up, obviously, a bunch of moving parts around sort of NAFTA, whether it's going to be sort of disbanded, a certain amendment, whatever the case may be. And at least as I take a look at your sort of 2016 revenues, call it, 2% of sales from Canada, another 4% from Mexico. Just would love to hear your thoughts about any changes with NAFTA or disbanding of NAFTA, would that impact you guys?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

No. We've recently talked about that. We don't see any big impact positive or negative relative to that. I mean, I think the – for us, it really gets down to not – I'll say it again, it's not how many vehicles are built, it's the fact that vehicles are being modified and upgraded continually, and that's kind of the space that we played.

And to that effect, we're showing very strong growth in that business in spite the fact that business is not growing or shrinking depending on which part of the world that you're in. So, whether we build a bit more or less in Mexico, it doesn't really seem to matter to us, or Canada. We don't care where they're built.

Hassan I. Ahmed

Analyst, Alembic Global Advisors LLC

Q

Understood. Very helpful. Thanks so much, Mark.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Thank you, yes.

Surabhi Varshney

Vice President-Investor Relations, Celanese Corp.

A

Denise, let's take one more question and it will be the last for the call.

Operator: Thank you. And that will be from Jim Sheehan of SunTrust. Please go ahead.

James Sheehan

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thanks. You had a management departure in Acetyls Chain. Who's going to be running that business going forward and what's your thinking on the planning and the management there?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

A gentleman named Todd Elliott. You know Todd? Todd is one of the commercial operations of the corporation for a long time. He's been also running our European operations and he's taken that role.

James Sheehan

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Great. And on the bridge to 2018 EPS, with respect to the tow JV, I think you initially indicated that it would be cost synergies that would be offsetting interest costs for that. And I think today, you're framing it as interest cost or kind of being offset by the share buyback activity. If you could just reconcile that a little bit, and are you assuming here a mid-year close for the JV, or what would be the timing to make the bridge work?

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Yeah, just for planning purposes, we've talked about mid-year just to make the math easier to do. We think there'll be a little bit of EBIT contribution from that. There'll be no EPS contribution on an annualized basis because the interest cost will be covered by share repurchases. So, that's how we are – so from an EPS point of view and the numbers, this range we're giving you, there's a really a non-event in that. The timing of that is pretty critical though and depending on how it happens and how fast we got the market, you could see a little bit of movement around intra-year because of that.

Scott McDougald Sutton

Chief Operating Officer, Celanese Corp.

A

And synergies will eventually offset the cost of interest, it's just if there's a gap in the time.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

That's right. Yeah.

James Sheehan

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thank you very much.

Mark C. Rohr

Chairman & Chief Executive Officer, Celanese Corp.

A

Thank you.

Operator: And at this time, we will conclude the question-and-answer session. I would like to hand the conference back over to Surabhi Varshney for her closing remarks.

Surabhi Varshney

Vice President-Investor Relations, Celanese Corp.

Thanks, Denise. We will wrap up the call now. Thank you, everybody, for your questions and for listening in this morning. We will be around if you have any further questions after the call. Denise, please close the call.

Operator: Thank you. Ladies and gentlemen, the conference has now ended. Thank you for attending today's presentation. At this time, you may disconnect your lines.

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