

**Celanese**

**May 14, 2020  
01:00 PM EDT**

Bob Koort: Good afternoon, everybody. This is Bob Koort, I head up the US research team -- equity research team for the chemicals space for Goldman Sachs. Joining me from my team is Anthony Walker, who helps me cover Celanese, and we're pleased to have Lori Ryerkerk, who is the Chairman and CEO on, as well as Scott Richardson, who is the Executive VP and CFO.

The format of the call will be for Anthony and I to grill Celanese, but hopefully our clients interject with their own questions. You can do that on the webcast by going into the Q&A window and submitting questions. And we will gladly put our client questions, prioritize those ahead of ours. But Anthony and I of course have plenty to ask, if you're bashful.

Maybe we can start, Lori, if you could just give us a little tour around the world, about half way through the quarter, what you're seeing in terms of trends and business dynamics. Maybe a little on what's happened in China as they've reopened earlier, and what that may suggest for Europe and the US as we go through the -- into the summer months.

Lori Ryerkerk: Sure. Thanks, Bob. We're glad to be here and glad to have a chance to talk to you guys. So it's been an exciting second quarter following a very exciting first quarter. Of course, China has been first in all things with their COVID outbreak, with the shutdown of much of the industry, certainly with the work-from-home and stay-at-home requirements and the impact that that's had on consumer purchases and manufacturing and everything else. And so I think the good news is in China, is we are seeing reopening. Our plants continue to run during the shutdowns, kind of the stay-at-home. But our plants were allowed to continue to run. They continue to run today, but our folks are now back in the offices. And we're seeing our customers start up operations and demand starting to come back from the customers.

I think what we don't know yet in China is how sustainable that demand is. I mean, in the acetyl area, for example, we've actually had reasonably good demand and we've started to see that help pricing a little bit in China. But we also can see that at our customers, some of the inventory is starting to grow. Now, some of that's intentional. They're taking advantage of raw material pricing and building inventory back when they have low raw

materials in anticipation of I think the rest of the economy coming back around the world. But how fast the rest of the world economies come back will really set that.

We haven't seen a big uptick in exports yet from China, and I think that will be a good indication when we see consumer pull on China as a swing producer, and what that mean then in terms of demand for our materials in China, both acetyls and engineered materials.

You know, Europe is slowly, slowly starting to come out from stay-at-home. Our own offices there are just starting to contemplate reopening at the end of the month. Our manufacturing facilities there again have continued to run as needed for demand, and we're just now really seeing auto, which is you know, about 35% of our engineered material volume -- auto starting to come back, really starting middle of April. Again, what we -- everyone's starting up but they're starting up slowly. What we don't know is, when will they get back to full production, and will there be enough consumer confidence to keep them up.

So in Europe, we really have seen a very big slowdown in auto sales, so we'll have to see how that develops.

In non-auto applications, the demand at least for our products has been relatively stable, and in acetyls we are seeing some softness as other producers and consumers of acetyls is slowing down, and we've seen building and construction slow down in Europe.

And then if you move to the Americas, auto started up, started starting up again last week. We start to see more and more autos coming back online. That's a great sign. Unlike Europe, actually auto demand was not great in the Americas. There still was some demand, even during the downtime. And so you know, that's optimistic. Hopefully we'll see that continue and we'll see the US autos come back up more quickly. But we don't know that yet, and we are hearing from some of the auto manufacturers that there may even be some models they no longer make, and they're really adjusting their plans according to what they think will sell and what will move in this kind of market.

Again, in non-auto, some impact in construction, in building with stay-at-home orders, people not able to work. This is really bigtime for building and construction, painting and coatings, other things that go into that from our side. So we hope to see that come back up as people start lifting the stay-at-home orders and people can get back to work.

We've also seen impact around the globe in terms of durable consumer goods, so you know, think appliances. I mean, people haven't been buying while they're at home, don't yet really have a view on how that's coming back. Although we know the manufacturers are starting to come up, not really a view yet in terms of how much inventory is in that system and how much pent up demand there may be amongst consumers.

So, just a bit of an overview.

Bob Koort:

Thank you for that. There are already some questions from our investors. One would be just the cadence as you go through the second quarter -- does it feel like April is the low water mark, or do you think maybe it's later in the quarter?

Lori Ryerkerk: Yeah. Well, so let me talk a little bit about, you know, in -- for engineered materials we had guided to saying we thought Q1 to Q2 demand deterioration, volume deterioration of 25% to 35% in the second quarter. In April, the demand we saw actually was about 35% lighter than we were seeing last February. Now, we had baked in some amount of decline based on what we had seen in March when we did them, but definitely much lighter than we saw in February. And certainly within that range of deterioration that we expected.

May order patterns are very consistent with April, so it looks like May will be similar to April, no real improvement but no worsening, either. We probably expected some worsening, more worsening in May. And you know, assuming this continues, and given what we're seeing in terms of auto restarts and some of the lifting of stay-at-home restrictions, we would expect to see some modest improvement in June.

And so with that, we're still comfortable that we're, you know, well within that range, maybe even the lower end of that range in terms of demand deterioration for Q2 for engineered materials.

Similarly, in acetyls, you know, as I talked about, we were projecting to see 15% to 25% demand decline first quarter to second quarter. In April, that demand was about 20% off of March, and kind of right in line with that range. Again, pricing in China remains weak, but a little bit better than we had been seeing around the end of March and around the time of earnings. And we've seen a little bit of demand start to come up in Asia. We've seen India start to reopen, which is a good indication that Asia is on the path to recovery.

But demand in the western hemisphere remains challenging. So again, I'd say we're within that range we gave during the quarter earnings, if anything a little bit on the better end of the range versus the worse end of the range.

Bob Koort: Got you, that's helpful. Lori, I think as you took over as Chairman not too long ago and Mark sort of exited out, there's a lot of clients asking if that has changed the strategic direction of the company. I think when Mark stepped down as CEO, he indicated he was working on trying to maximize value for Celanese. And so can you talk a little bit about what that path to maximizing value has been and will be going forward? Has there been any change, and how do you think about doing that?

Lori Ryerkerk: Yeah. In that sense, Bob, I don't think there's really -- there's no change in that strategy. The core principle for us as a company is to always focus on generating meaningful shareholder value, and hopefully getting recognized by the market for that value that we generate. And part of that is really to ensure our base business continues to grow, and that we identify the right opportunities for future organic growth. And we really believe focusing in on those things that we can control, which is our organic growth and running our business exceptionally well, will really help unlock the full value of the acetyls and engineered material segments.

So you know, in the past year we've taken a strategic review of the base business. We've done a really deep dive into end uses for our projects, looking for areas we want to focus more on like 5G and electric vehicles, emerging businesses. We've looked at not just strategic sectors, but also who we think the winners will be within those sectors and

making sure we have good relationships and are there to help them develop solutions early on. We've also looked at how do we further utilize what we think are unique business models, and our capabilities to drive more growth within the sectors that we're already in and within the customers that we're already in. And then look at strategically investing in additional capacity and capabilities to support those business models.

So you know, maybe that's a little bit the changes, we're really been focusing on how do we shore up some of the foundational aspects of our model and things like supply chain and quality to make sure that we're really prepared to deal with the next wave of growth. And how do we do more of that growth organically, versus just depending on M&A.

And it's not that we don't think M&A is important. It's just M&A is episodic, as we see right now. You can't -- you know, no one wants to do a cash deal right now. No one wants to do a deal at these kind of valuations, because they don't think they're getting fair value for the company.

And so we really have a strategy now that delivers double-digit EPS growth in a normalized environment, just based on what we can control which is running the business well and driving organic growth. Now, we also believe there's a lot of M&A opportunities out there that exist, that can help us drive outsize shareholder returns and growth, be they bolt-on M&A which we continue to look at, as well as transformational deals. It's just we don't think they're going to happen right now during the downturn. But we are preparing, as we start to come out of recovery, to really be able to go back and continue to pursue some of those transformative opportunities as well as bolt-on deals.

Bob Koort:

Maybe segue from there to ask Scott, I think, Scott, maybe a year ago at the same conference you had mentioned that you guys are engaging with a number of counterparties particularly on the engineering materials side about opportunities, fits. When you talk about if there's anything that's changed beyond sort of this COVID economic issue, is there a change in your own strategy of what you have more or less appetite to do, or receptivity from counterparties given what's going on in your own portfolio. How have things changed from where you might have been a year ago pursuing the same approach?

Scott Richardson:

Well, I don't know that the principles are different, Bob. And I think the opportunities might be different as we go forward. We'll just have to wait and see. But I think the principles there around -- you know, and Lori just talked about, kind of our base strategy. We believe we can grow EPS 10% per annum in a normalized environment. And we think that's very solid growth, and we've seen I think, you know, investors have reacted positively to that over the years. But if there's an opportunity to drive outsize value, then we will definitely pursue that, but that's got to be a way that -- it's got to be a very synergistic transaction to make that -- Celanese either owning that or putting our business together with someone else's business. It's got to be extremely synergistic to make any sense.

And so there's not an infinite number of opportunities out there that do that, so things that either fit in the middle of the fairway, similar products, similar customers, or either upstream or downstream. That kind of tends to be where we put the focus.

So I wouldn't say it's shifted materially versus kind of where we've been before, but you

know, what we're kind of hoping is that this does kind of get the space thinking about strategies in a different way, and maybe that shakes something loose down the road.

Bob Koort: And then maybe before we get into the business segments, I guess from the outside it seems like you've got a bit of a bimodal portfolio with the acetyls chain on the one hand and the engineering materials business on the other. How do you think about value leakage and having those pieces together? Do you lose something for the higher value, higher growth business? Do you lift up the acetic business? How do you think about whether having those assets together makes the most sense?

Lori Ryerkerk: Yeah. I mean, Bob, this is always a question. I mean, what I would tell you is you know, there are some synergies between the two businesses. One, just the size of the businesses. Either one of them alone is a relatively small business, and so not having to have two boards and two sets of overheads and two billings and everything else. There are synergies that come with having them together. We think that number right now is about \$50 million, which is -- you know, in line for a business of our size.

Likewise, there are some synergies. I mean, for example, in this low oil environment we see, there's a bit of a hedge there. So you know, the acetyl products tend to be more impacted. With a decline in raws we tend to see also a decline in pricing for acetyl products. So the margins maintain the same but the absolute EBIT goes down.

On the same time on engineered materials, for about two-thirds of those engineered materials are value-priced. So raws go down but our prices stay the same so we get a little bit of a margin uplift, and those things tend to offset each other. Also, you know, about anywhere from -- you know, a good portion of our acetic acid, you know, 40% to 60% of our acetic acid goes downstream into derivatives and a good portion of it also goes on into making engineered materials, into some of the polymers that we make. And so you know, when we had for example the Clear Lake issues last year, we were actually able to cut back on some of our polymerization for engineered materials where we had inventories built, and pull that material back in acetic acid and use it to supply our customers who otherwise we may have had to short during that time.

So there are some synergies associated. Now, could you run these two business separately? Absolutely. But we do think there are some real dollars associated with having them together. You know, look. That said, if the time comes if we were to do M&A or something that would grow the size of one of the businesses, you know, we may reach a different conclusion about keeping them together. But for now, quite frankly, we have the cash. We're able to fund all of the capital we want to do in both of the businesses, so neither business is being starved because of the presence of the other businesses. And we think there are enough synergies and reason to keep them together until we have some kind of a trigger event that again, may make us want to consider a different decision.

Anthony Walker: Hey, Lori, Scott, it's Anthony. I thought that the comment that you made around the hedging effective pairing the acetyls business with EM is interesting. And I just wanted to ask, as a follow-up, if you think about the net impact of lower raw materials on your P&L in any given year where we see significant deflation -- is that positive or negative, do you think? I would assume that you'd rather see it slowly, gradually rising raw materials that enable you to capture more pricing. But can you just think about the net

impact in a period like this, how should we think about that?

Lori Ryerkerk: So generally, Anthony, we're pretty agnostic to oil prices, whether it's low or high. So I'll just say oil, versus raws. But generally we're pretty agnostic to that. We do see some transition effects, right, as raws move faster than pricing or vice-versa. But again, because we kind of have this natural hedge between acetyls and engineered materials, over time our systems adapt and we can maintain the same level of margins.

Now, generally we would prefer higher oil because prices tend to move up and we find that's a better environment for us because we're a low-cost producer. So we get more advantage versus our competition in a high-oil environment. But that said, it's not the biggest impact on us.

Scott Richardson: Yeah. And Anthony, we really like volatility of raw materials. I mean, that's something we've talked a lot about. You know, stability sometimes you do, you don't see as much industry activity typically when things are relatively flat. So we do like things moving around. And you know, we've kind of seen us -- you know, you've seen oil move. But you -- methanol and ethylene have been relatively stable, particularly here in the western hemisphere, at low levels.

As you start to see some of that volatility come back down the road, that tends to be opportunities for margin expansion really across both portfolios for us.

Anthony Walker: Interesting. And then maybe more specifically just on engineered materials, we talked through I think a bit about the headwinds that you're experiencing in autos and the percent waiting and exposure that you have within the portfolio to autos. But can you really talk about what you're seeing in your -- the relative exposures to electronics, to medical, to consumer, other areas of the portfolio that have actually seen fairly significant growth? And I would suggest outgrowth, relative to that market growth over the last several years, and how those individual subsegments might be performing at present?

Lori Ryerkerk: Yeah. So if you look specifically at engineered materials, you know, about a third of our portfolio in engineered materials is auto. And that actually is the smallest percentage that we've been at in our history, typically in the not-so-recent past, we were nearly half of our engineered materials portfolio was geared towards auto. So we have over time been focused on diversifying our portfolio to other high value end uses. Auto obviously is high value as well.

But you know, we have grown -- it's not so much that our auto has shrunk, but we have grown faster in other end markets as well, both organically and through our bolt-on acquisitions. So for example, today we have a much more sizeable business in medical and pharma, not that big by volume but better by margins. And we also have a much more sizeable business in electronics which continues to grow as we focus on meeting the needs of 5G where we have many of our polymers that are a really good fit for 5G, both antennas and things in your handheld devices as well as transmission equipment and repeaters and that sort of thing.

So our sales mix is much more diversified than it's ever been in our history. Even in auto, we typically outperform auto builds as we focus on replacement of materials, things that need to be painted, lightweighting, etc., replacement of other plastics from other

OEM -- other plastics as people want more functionality. We're really focused now on the growth of EV and hybrid so not just GUR, our ultra-high-molecular-weight materials. But for both -- for batteries, but also for wire, for cabling, for heat dispersion. All of those other things that happen and need to happen that needs these in hybrids, there's a lot more content of plastics in EVs and hybrids than there are in conventional ICs.

And then obviously, in Asia, which has traditionally still been very metal, getting more of the Asia auto producers to transition to more polymer materials.

And again, that ability to outperform build rates is not unique to autos. Because of the project pipeline that we run, we can also outperform the underlying rates in almost all of the end markets where we participate.

If you look at our end markets, and I'll do them on a total Celanese basis because it's easier, you know, about 15% of our total exposure for the company is in auto. About 50% in filter and media, so I think tow and a few other materials we make for filters. And about 15% for coatings.

Then we have about 10% that goes into adhesives, 10% into industrial, and 10% into consumer electronics, and then about 25% in everything else, primarily medical and pharma and food and beverage but also a little bit of construction, textile, and paper and packaging.

Bob Koort: Hey Lori, it's Bob again. Some investor questions. And I do get this periodically and I fail to do a good job answering it, which is, what is the secret sauce of your engineering materials business relative to other companies in the space that maybe have higher run and lower value products and applications? What is it that you do that's unique? Is it the product portfolio, is it the customer engagement, is it the technical development? Why have you seemed to have exceeded what maybe some other companies that are selling into some of those same end markets have failed to do?

Lori Ryerkerk: Yeah. So I think, Bob, it's really -- it starts with technology. We are, at our heart, a technology company. We still, you know, develop products, develop new techniques. We have people who specialize in color. I mean, so it starts with technology. It's our people who are really adept, at how do we use those technologies and provide specific solutions to specific problems that our customers have.

And ultimately, it's the breadth of our portfolio. You know, there's not anyone else out there. We have about 20 polymers that we can offer, you know, if someone comes to us with a problem we have many different combinations of materials that we can offer as solutions to meet their specific needs versus if you just have a few polymers in your portfolio then you have to use those to do everything.

So you know, customers don't come to us because we're the cheapest. They come to us because we can add the highest value product that best meets their need, you know, and maybe helps with other things like not having to paint or speeding up production lines or other characteristics. So it really, the secret sauce is really around the technology, the knowledge our folks have about the application of that technology, and then just the sheer breadth of our portfolio.

Scott Richardson: Yeah. And I'd also just add, I think that the cost structure plays a role here, Bob. I mean, it's -- and I think this is an area where we tried to leverage what we learned over many, many years in acetyls around having to run a very lean manufacturing operation and constantly looking for ways in which to drive cost productivity, whether that's energy reduction projects or revgen projects, and get more capacity out of our assets. That lever on fixed cost is really important, and we've leveraged some of that capability over to engineered materials.

And so -- because it is a high fixed cost business, and so finding ways at which to get more from your existing base, whether that's the SG&A line or the plant manufacturing line, plays a big role in the ability to scale that business.

Bob Koort: And I mean, I envision you have these technical development and technical sales folks that are just terrific about finding these opportunities, and the work-from-home environment, is that significantly stunting that opportunity? Are we going to create a gap that has to be filled as people slowly go back to work or are you -- have you found you're able to create continuity even in a remote setting? And also curious, does that change your work processes in the future? Is there something that you revisit?

Lori Ryerkerk: Yeah, that's a great question. So in the first quarter we actually closed as many projects as we had planned, you know, was in our target to close for the first quarter. We're on track for that in the second quarter. Certainly it's been more challenging as not only are some of our folks not being able to work in the office and do some of the test runs and things, but some of our customers are also not in the office.

Now, the good news is, because we're global, because we have capability around the globe in the first quarter when Asia maybe couldn't have their folks in the development labs, we were able to move some of that work to other parts of the world. In the second quarter, we've been able to move some of that back to Asia plus some of the stuff from Europe and the US back to there. And our labs have, you know, continued to run in some capability.

In some cases, we've been able to do testing for our customers, that they had planned to do but can't, so we're doing the testing. So we are still keeping our project pipeline moving. Our sales force and our technical support folks are making calls every day to customers. We have solved some interesting problems with molders and other things. They've had a problem. We couldn't send people in. We've done it using iPads and over Skype. And you know, doing it more remotely.

I think the exciting thing is, we've been able to pretty effectively solve problems for people. On a remote basis we've been able to use our global model to keep work going, and I think it shows us there's probably more potential for productivity and cost savings and actually better connectivity with our customers going forward as we've gotten more comfortable and as our customers have gotten more comfortable doing this in a remote environment.

Anthony Walker: Lori, it's Anthony again. Similar to Bob's question on EM and drilling down into the secret sauce, you know, as we talk to clients and we're explaining the acetyls business, we certainly also get questions on understanding the cost advantages between the various regions, your ability through your integrated system to flex kind of upstream versus

downstream. So maybe just help us better understand how you think about the competitive advantage of the way that your acetic acid business is set up, that enables you to have a differentiated position in the marketplace.

Lori Ryerkerk:

Yeah. Look, I think our acetyl chain business is significantly different than anybody else's out there. So you know, again, you mentioned acetic acid specifically. But it is, for us, all about the chain. If you start with acetic acid we have what we believe is the world's most competitive technology to produce acetic acid, and we also believe our Clear Lake facility, because of the size, because of the natural gas advantage, is probably the lowest-cost producer of acetic acid in the world. So this is a huge advantage for us.

But the real secret sauce if you will, what differentiates us the most from people, is start - - again, with -- starts with technology, not just acetic acid but VAM , VAE. But really is the length of our chain and the global diversity of our chain.

So if you look, you know, we start with raw materials and we go all the way from making CO and methanol all the way now to redispersible powders. So we have many value points in the chain. We have the ability to flex anywhere from 40% to 60% of our acetic acid downstream into derivatives, and we're able to -- so we're able to manage that as well as globally manage it, to go basically where the best returns are. So if you look at '18 which was like, unbelievable pricing and demand for acetic acid in China, we moved as many molecules as we could into acetic acid and we moved them to China. We ran Nanjing full, we had Singapore, but we also were able to move molecules competitively even from the gulf coast, and we maximized the amount of acetic acid in China.

Roll forward to 2019, not such great pricing in China and Asia, not as much demand for acetic acid, but good demand for VAM and emulsions in the western hemisphere. And the acetic acid. So we moved a lot of volume now back to the western hemisphere. We moved a lot more downstream. During this time we also brought a new capacity for VAM and for emulsions and we continue to bring on more capacity there. We had an advantage in methanol pricing even in '18, in '19 after the startup of our projects there. So we are able to completely flex and decide where in the world and where in the chain we can get the most value for our products, and basically that way you know, stabilize the level of earnings.

You know, we feel we've probably versus a few years ago have increased the kind of stable base level of acetyl earnings, several hundred million dollars from where we were just a few years ago.

Anthony Walker:

I think that's incredibly helpful. And then maybe piggybacking on that question and related to that last sentence there, one of the noticeable differences I think between this recessionary environment and 2008-2009 is the amount of capacity that's coming online through the acetyls chain. Can you maybe just talk to your expectations, and I think you alluded to it, for margin stability relative to prior downturns in 2020 and into 2021?

Lori Ryerkerk:

Yeah. And Scott may want to give some historical perspective as well, since he was around. But if you look at '08, '09, a lot of capacity had come on in China. There was a lot of overcapacity and we went from a period of being kind of at maximum margins, if you will, to all of a sudden a lot of capacity on economic downturn at the same time. And we went from a very big peak to a very big trough overnight. I think you know, in

this downturn, one, we haven't really had any new capacity being built in acetic acid since the mid-2000s. And so we're not seeing as much overcapacity. We also were already -- you know, we also, 2019 wasn't a great year for acetic acid demand and for acetic acid pricing. And so we're coming off what was kind of a poor year into this trough. We're just not seeing as big of an impact. Again, we are seeing some impact in terms of volumes, but not as big of an impact in terms of margin because we're not coming off the peak.

And again, you know, we're down, you know, '19 and the early part of this year we're down kind of more into the 70% utilization in China, you know, as an industry. Maybe sometimes even sub-70s at some of the worst points in the first quarter. But you know, when we -- in 2018 when we were doing really well, we were just really above 80. So you know, there's just -- it doesn't take a lot of demand recovery to push us back to where we start seeing, you know, more attractive pricing, but still not pricing that would incentivize a lot of new capacity to start being built.

Scott Richardson: Yeah, Anthony. I feel really good about where we are right now, just from a fundamental-based business. You know, as we enter this recession, we're selling about 60% of our acetic acid actually downstream. And we're leveraging that. We actually used to sell about 60%, 70% of our acetic acid to the third-party market when we entered the previous recession. And so just the diversity of business, we've also shut down a number of facilities which yet have increased capacity broadly across that acetyl chain. So that gives us a much greater lever on the fixed cost in this business.

And so as we enter this, we're entering a very different period as well from a capacity landscape as Lori talked about. You know, what was going on back in 2008 was this kind of the industrialization of China, and you had coal gasification and people needed to turn that gas into something. They turned it into methanol. They needed a home for the methanol. Acetic acid was a logical choice because you were making a CO as well in that gasification process.

And you know, we just don't see that same push to coal gasification. In fact, you see things going the other way with the focus on pollution. So it's not that we won't see acetic acid come -- additional capacity come up. I just, it probably won't be the same mass build and overbuild that we saw back then, that we you know, really has taken us a decade to kind of work our way through. So we do expect to see much better balanced supply/demand situation as we go forward.

Bob Koort: Well guys, unfortunately, that ends the time we have. So Lori and Scott, thanks so much for joining us. Stay safe and appreciate your time.

Lori Ryerkerk: Thanks very much, Bob.

Scott Richardson: Thanks you, Bob.

Lori Ryerkerk: Thanks, Anthony.

Scott Richardson: Thanks, Anthony.

Bob Koort: Cheers.

Scott Richardson:       Bye.

Lori Ryerkerk:         Bye.