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Celanese Corp. (CE)

Celanese Corporation and Daicel Corporation joint Venture Agreement Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Celanese Webcast Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instruction] Please note this conference call is being recorded.

I would now like to turn the conference over to your host, Mr. Abe Paul. Thank you. You may begin.

Abe Paul

Vice President - Investor Relations, Celanese Corp.

Thank you, Rob. Welcome to the Celanese Corporation conference call to discuss the agreement to sell our equity investment in Polyplastics joint venture to Daicel Corporation. My name is Abe Paul, Vice President of Investor Relations. Joining us on the call today will be Lori Ryerkerk, Chairman and Chief Executive Officer; Tom Kelly, Senior Vice President, Engineering Materials; and Scott Richardson, our Chief Financial Officer.

The Polyplastics joint venture equity investment press release was distributed via Businesswire last night and posted on our Investor Relations website along with the slides. As a reminder, some of the matters discussed today and included in our presentation may include forward-looking statements concerning, for example, the closing of the transaction, Celanese Corporation's future objectives and results. Please note the cautionary language contained in the slides as well as our Form 8-K.

Also, some of the matters discussed and presented include references to non-GAAP financial measures. Explanations of these measures, comparable GAAP measures and reconciliations to the comparable GAAP measures are included in the slides. We also filed the Form 8-K with the Securities and Exchange Commission, which includes the description of the transaction, the press release, presentation and any non-GAAP information.

I'll turn it over to Lori now.

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

Thanks, Abe, and welcome to everyone listening in today. Please turn to the slides we posted on our website. I am very pleased to announce that we have just executed an agreement with Daicel Corporation to sell our equity investment in the Polyplastics joint venture.

Our culture at Celanese has been one of action and resolve amid any economic environment to continue to drive growth and shareholder value. As part of the previously discussed business strategy refresh, which included a review of our joint venture relationship, we have decided to unlock value and historically passive investment. We have been focused on driving more robust performance at our joint ventures over the last several years, resulting in a higher level of influence over business decisions at certain key joint ventures.

However, our minority ownership share in Polyplastics has limited the ability to drive the financial performance improvement that we expect in all of our investment. The monetization of this passive investment will enable Celanese to deploy cash towards higher growth businesses within the company, and share repurchases in the near-term to ensure this deal is immediately accretive.

As a reminder, Polyplastics, formed in Japan in 1964, is Celanese's oldest joint venture, and enabled Celanese to create a presence in Asia. Over the years, Celanese has been able to build up our capabilities in Asia so that they now rival our US and Europe operations with localized production sites in China and India, and three technical innovation centers in the region.

A world-class organization of local talent and leadership has been able to create longstanding relationships with customers, suppliers and officials throughout the region. The expertise and depth of the Engineered Materials team have resulted in net sales growth at a 15% CAGR over the last decade in our base business, becoming a more significant contributor to our earnings growth than all of our JVs in the region combined.

The Engineered Materials business has matured and grown significantly in Asia over the last decade, allowing the company to depart from a legacy joint venture structure to one that is more contemporary in its approach to driving the Engineered Materials growth trajectory further.

We have and will continue to compete with Daicel in our overlapping polymer product line. And this deal does not change the competitive business landscape. This transaction is another defining step in our evolution in Asia that will provide the opportunity for the Engineered Material team to fully apply its unique business model and breadth of polymers to serve customer needs better.

The earnings for our equity investment in Polyplastics was \$44 million for Celanese in 2019. The return for this passive investment was below our expectations, clearly underperforming EM's base business growth in Asia for the past decade. We have been able to unlock this investment resulting in this transaction with Daicel for \$1.575 billion in cash for Celanese's 45% stake in Polyplastics, which represents a 36 times multiple of Celanese's share of earnings in 2019. We anticipate the transaction to close in the second half of 2020.

We expect to deploy the proceeds in a manner consistent with Celanese's disciplined capital deployment strategy: prioritizing organic growth, remaining active in this dynamic environment to pursue the right acquisitions, and returning capital to our shareholders through share repurchases. In the near term, we expect to use a portion of the net cash proceeds for share repurchases to alleviate the equity earnings dilution and to pay down existing debt under our revolving credit facility.

The company has the luxury of benefiting from tremendous balance sheet strength, liquidity and financial flexibility. We have no intention of letting cash sit idle on our balance sheet for any meaningful time and will look to deploy capital in an accretive manner. We are committed to a multi-year value creation strategy in Engineered Materials by continuing to enhance our product development capability, investing in product expansion in growing end markets such as 5G, electric vehicles and lithium ion batteries, and additional investments in Asia to meet customer demand.

We have been and continue to be committed to maximizing outsized value creation for shareholders. This transaction further equips us to be in the driver's seat to actively managing all of our business relationships and positions us to take advantage of the economic recovery when it arrives.

With that, I'll turn it back to Abe for Q&A.

Abe Paul

Vice President - Investor Relations, Celanese Corp.

Thank you, Lori. I'd like to remind everyone to please limit their questions to one question and a follow-up and also remind the group that any questions related to Q2 results should be deferred to our July 29 scheduled earnings call.

Rob, please open the line to questions.

QUESTION AND ANSWER SECTION

Operator: Absolutely. Thank you. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] Our first question comes from Vincent Andrews with Morgan Stanley. Please proceed with your question.

Angel O. Castillo

Analyst, Morgan Stanley & Co. LLC

Q

Hi, this is Angel Castillo on for Vincent. Congratulations on the deal, first of all. And just, I guess, to start out, a quick question just to clarify that we're kind of reading this correctly. But what does this mean, I guess, for your remaining JVs, the likes of Ibn Sina, and how should we think about the probability of assets like that or stake of that being sold?

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

Yeah, thanks, Andrew (sic) [Angel], for the question. Look, we continue to look at all of our joint ventures. As I said, that was something we specifically looked at in our strategy, which is how do we further improve the performance of our joint ventures. And I would say, Polyplastic was unique in that it was a very passive investment, we have limited minority rights, so we didn't have much ability to influence the business decisions. And I would say, it also has a longer-term underperformance relative to some of our other joint ventures.

So, we will continue to drive our other joint ventures to improve performance. We don't have to have full ownership to do that. There are other ways to drive performance and we are considering other options to let us get further shareholder value from those joint ventures.

Angel O. Castillo

Analyst, Morgan Stanley & Co. LLC

Q

Got it. And then just – clarifying on just the organic investment and CapEx, as we think about 2021 and beyond, I believe in the past you have discussed CapEx as greater than \$500 million potentially. As we think about the proceeds from this, does this mean that we could actually return back to that level of CapEx or should we be viewing it differently?

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

I think in past calls, Andrew (sic) [Angel], we basically said we had expected initially in 2020 pre-COVID to be at about a \$500 million level of CapEx. We felt 2021 would be about the same level. So, assuming we continue to see recovery as we move through the year and into next year, we would still expect that level of CapEx next year to be the same as we've said before.

Angel O. Castillo*Analyst, Morgan Stanley & Co. LLC*

Great. Thank you.

Q

Operator: Our next question comes from Ghansham Panjabi with Robert W. Baird. Please proceed with your question.

Matthew T. Krueger*Analyst, Robert W. Baird & Co., Inc.*

Hi, good afternoon. This is actually Matt Krueger sitting in for Ghansham. I was just hoping that we could dig into a few of the details surrounding the timeline and the situation in how the equity investment sale came about. I guess why engage in the transaction now? Can you give a little bit of history around how the transaction kind of came to be?

Q

Lori J. Ryerkerk*Chairman, Chief Executive Officer and President, Celanese Corp.*

Yeah, Matt. Let me try to give you a little bit of color there. We have obviously been in discussions with our joint venture partners since the beginning, but we have been in, I would say, more focused discussions with Daicel over the last few years regarding Polyplastics and the performance of Polyplastics and ways to improve it. Really, in about fourth quarter of last year is when we started a more substantive discussion consistent with this announcement that we've just made, and that has come to fruition over the last nine months in our discussions with Daicel.

A

Matthew T. Krueger*Analyst, Robert W. Baird & Co., Inc.*

Great. That's very helpful. And then just as a follow-up, can you talk a bit about some of the potential post-sales stipulations or agreements that would be relevant for Celanese? For example, does the sale preclude you from adding capacity or investing in any specific product lines, regions, markets, et cetera?

Q

Lori J. Ryerkerk*Chairman, Chief Executive Officer and President, Celanese Corp.*

No. No. In fact, the opposite; there is nothing in this agreement that keeps us or Daicel from investing in any region or any product line around the world.

A

Matthew T. Krueger*Analyst, Robert W. Baird & Co., Inc.*

Great, great. That's very helpful. Thank you.

Q

Operator: Our next question is from Bob Koort with Goldman Sachs. Please proceed with your question.

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

Thanks. Good morning. Maybe following on that last one, Lori, is when you had the Polyplastics JV in place where there – did it inhibit you from marketing and selling product in any particular regions?

Q

Lori J. Ryerkerk*Chairman, Chief Executive Officer and President, Celanese Corp.*

A

Well, Bob, thanks for the question. So we, in fact, competed with Polyplastics. Polyplastics manufactured and marketed their own materials around the globe and Celanese separately manufactured and marketed around the globe. So that commercial – that competition situation doesn't really change at all with this agreement.

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

Q

And I know they were fairly large in POM and PBT, PPS. Based on your prior answer then, does that mean when you competed in those markets you did so from your own production, so this won't have any impact on where you produce and where you sell either?

Lori J. Ryerkerk*Chairman, Chief Executive Officer and President, Celanese Corp.*

A

Yes, that's correct.

Scott A. Richardson*Executive Vice President and Chief Financial Officer, Celanese Corp.*

A

Yeah, Bob, I think it's important to know they operated as an independent company both from a manufacturing and from a commercial perspective.

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

Q

Got that. Thank you, Scott.

Operator: Our next question comes from John Roberts with UBS. Please proceed with your question. Thank you.

John Roberts*Analyst, UBS Securities LLC*

Q

Thank you. Did Celanese supply raw materials to Polyplastics and do you supply raw materials to KEP as well?

Scott A. Richardson*Executive Vice President and Chief Financial Officer, Celanese Corp.*

A

There is very little overlap of commercial relationships, John.

John Roberts*Analyst, UBS Securities LLC*

Q

Okay. And then, are you willing to share with us how much did Polyplastics' earnings decline in the first half of 2020 if it's there? So we can pull that out if you're already reported equity numbers.

Scott A. Richardson*Executive Vice President and Chief Financial Officer, Celanese Corp.*

A

No, we haven't stated that number as of yet, John. So, we'll provide a little more color on that in the next week's call.

John Roberts*Analyst, UBS Securities LLC*

Okay. Thank you.

Q

Operator: Our next question comes from Duffy Fischer with Barclays. Please proceed with your question.**Duffy Fischer***Analyst, Barclays Capital, Inc.*

Yeah, good morning. First question is just how will this affect – I think it's Nantong in China, the JV between KEPCO and Polyplastic, will that stay the same or does the management there change?

Q

Lori J. Ryerkerk*Chairman, Chief Executive Officer and President, Celanese Corp.*

Duffy, thanks for your question. That stays the same. This has no impact on that.

A

Duffy Fischer*Analyst, Barclays Capital, Inc.*

Okay. And then, the second one is just, you guys weren't cash poor before this. Obviously, getting this cash, you'll spend some to offset dilution. But should we think about this accelerating or maybe lowering the bar for investment returns going forward? That extra \$800 million or so seems to be stranded in today's environment unless there are some deals that you're working on. Could you maybe just put a little bit of color around where that \$800 million may end up going over the next year and a half or so?

Q

Lori J. Ryerkerk*Chairman, Chief Executive Officer and President, Celanese Corp.*

Duffy, I think you know us well enough to know we're pretty prudent stewards of our capital and we will – and we have been and will continue to look at all sources of M&A whether they be transformative or bolt on. That continues as it always has, and we will be looking to deploy for organic growth, for M&A or for share repurchases if neither of those are available to us in the short term. But we do think it provides us some great opportunities going forward.

A

Duffy Fischer*Analyst, Barclays Capital, Inc.*

Great. Thanks, guys.

Q

Operator: Our next question comes from Jeff Zekauskas with JPMorgan. Please proceed with your question.**Jeffrey J. Zekauskas***Analyst, JPMorgan Securities LLC*

Thanks very much. What was the normalized multiple of sales or EBITDA in the transaction?

Q

Scott A. Richardson*Executive Vice President and Chief Financial Officer, Celanese Corp.*

Yeah, Jeff. The EBITDA for Polyplastics is not a public number, so I can't comment specifically on that. However, we do show our share of equity earnings in our financials. So, you can use some fairly conservative estimates

A

around tax rate and depreciation to kind of back into that EBITDA multiple and it works out to be somewhere between 20 and 30 times EBITDA. One of the important elements of this transaction as well is that Daicel assumes all outstanding debt of Polyplastics.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Is that included in the \$1.575 billion price?

Q

Scott A. Richardson

Executive Vice President and Chief Financial Officer, Celanese Corp.

Yes. That is included in that price.

A

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

How much is the debt?

Q

Scott A. Richardson

Executive Vice President and Chief Financial Officer, Celanese Corp.

It is also not a public number, so I can't comment on that.

A

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

And you're going to try to make the transaction neutral to earnings per share over the next 12 months. Is that the idea?

Q

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

Yes. That's correct, Jeff.

A

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Okay, great. Thank you so much.

Q

Operator: Our next question comes from Kevin McCarthy with Vertical Research Partners. Please proceed with your question.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Yes, good afternoon. My question relates to Polyplastics' sales mix. Can you comment on the proportion of sales into Japan versus non-Japan markets? And also from a product point of view, how much is polyacetal versus other resins?

Q

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

Yeah. Kevin, I'm afraid I can't. I mean, Polyplastics markets globally, sells globally and does that independently from Celanese. So, I don't actually have those figures.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Okay.

Q

Scott A. Richardson

Executive Vice President and Chief Financial Officer, Celanese Corp.

Yeah, I think the only thing to add, Kevin, is they do have capacity not just in Japan. And in fact, you can look at publicly available plants that exist and it's probably half or slightly more than half of their capacity actually exists outside of Japan.

A

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Yeah, maybe that's a good segue to my second question then. I think they've got capacity in Malaysia and, as you indicate, other places as well. And so will Celanese – or would this deal necessitate reinvestment by Celanese in Asia where you might have been relying on Polyplastics for certain business functions presently?

Q

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

No, because, again, Kevin, Polyplastics produced and marketed independently of Celanese. So, we really – it really was a passive investment which is one of the big reasons for the change is because we're not able to apply our commercial model in any way to anything produced within Polyplastics.

A

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Okay. Thank you very much.

Q

Operator: Our next question comes from Mike Sison with Wells Fargo. Please proceed with your question.

Michael Sison

Analyst, Wells Fargo Securities LLC

Hey, good morning. Congrats on the deal. Just curious, Lori, if you think about where you want to deploy the cash, are you looking for certain polymers that maybe don't have certain technologies, any geographic areas, maybe just as you sort of recharge the M&A battery here, where do you think you want to go with the cash?

Q

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

Yeah. Thanks, Mike. Look, we're looking to deploy cash wherever it's the highest value to shareholders. Now, consistent with what we've said in the past and if you look at some of our EM investments, that's been towards additional polymer capability, additional compounding capability, recycle capability, additional geography. If you look at addition – work we've done in AC, for example, in Elotex, where we've gotten additional downstream and chain capability. So we continue to look across all of those area for future M&A.

A

Michael Sison*Analyst, Wells Fargo Securities LLC*

Q

Got it. And then just a quick follow-up on the accretion, are you able to just start buying back the \$500 million today or whenever you're allowed to?

Lori J. Ryerkerk*Chairman, Chief Executive Officer and President, Celanese Corp.*

A

Well, we'll begin buying back after the close.

Michael Sison*Analyst, Wells Fargo Securities LLC*

Q

Got it. Great. Thank you.

Operator: Our next question comes from P.J. Juvekar with Citigroup. Please proceed with your question.

P.J. Juvekar*Analyst, Citigroup Global Markets, Inc.*

Q

Yes. Hi. Good afternoon. Lori, question on the big picture. Mark Rohr was openly talking about buying something big, may be potentially through an RMT transaction. So how did you guys decide from going from buying something big to maybe divesting something? What led to that change in thinking?

Lori J. Ryerkerk*Chairman, Chief Executive Officer and President, Celanese Corp.*

A

I wouldn't actually say those are related nor are they mutually exclusive. So, again, we just continue to look for the highest value to return to the shareholder for the assets and the cash that we have. And so, as far – again, we did our strategy work last year, we really took a look at our portfolio and said where are the underperforming portions of our portfolio and what can we do to unlock that value for redeployment into higher return areas. So, again, I wouldn't say they're related nor are they mutually exclusive.

P.J. Juvekar*Analyst, Citigroup Global Markets, Inc.*

Q

Okay. And then when you look at M&A pipeline, would you say you're in the first or second innings of this M&A discussions in Asia? Or would you say that they're advanced and they can close sooner, so to close that gap quickly? Thank you.

Lori J. Ryerkerk*Chairman, Chief Executive Officer and President, Celanese Corp.*

A

P.J., I was having a little problem with my audio. Would you mind repeating the question? Because I'm not sure I heard it correctly, so sorry.

P.J. Juvekar*Analyst, Citigroup Global Markets, Inc.*

Q

Sure. So I think you were saying that you would replace those earnings through potentially M&A in the next 12 months. I'm trying to figure out where you are in that process. Are you in the first or second innings of this M&A

process where you're beginning the discussions? Or are you in close to closing some deals here in the next six months?

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

Oh, okay. Thanks, P.J. Got it. So, really, we plan to replace those earnings in the short term with share repurchases. Obviously, in 2020, still in the midst of the COVID crisis, we don't think this is a great environment for M&A, although maybe there'll be something opportunistic. But we really are looking more for M&A into 2021.

P.J. Juvekar

Analyst, Citigroup Global Markets, Inc.

Q

Thank you.

Scott A. Richardson

Executive Vice President and Chief Financial Officer, Celanese Corp.

A

Yeah. And just to clarify one point from an answer that I gave earlier. The purchase price of \$1.75 billion (sic) [\$1.575 billion] is all cash. In addition, Daicel assumes all the debt. So I just want to make sure that was clear.

Operator: Our next question comes from Matthew DeYoe, Bank of America. Please proceed with your question.

Matthew DeYoe

Analyst, BofA Securities, Inc.

Q

Hi. Thanks. So, as Duffy mentioned, you're not exactly cash poor, so what would we consider to be a safe assumption for maybe base repurchase activity for any given years, Lori, i.e., more a normal operating environment ex any of these new proceeds?

Scott A. Richardson

Executive Vice President and Chief Financial Officer, Celanese Corp.

A

Yeah, I think, look, our history says we've been with the cash generation that we have and the fact that we don't have a need to pay down debt. We have tended to be kind of between \$500 million and \$1 billion of repurchases, depending on how much M&A is in front of us. And if we have a lot of M&A, then that number may be lower than that, free cash flow is strong and there's no M&A, it could be higher than that, but that's typically where we've been the last few years.

Matthew DeYoe

Analyst, BofA Securities, Inc.

Q

Yeah. Okay. And so, if we look towards the end of 2021 and we still have that additional \$800 million in cash on the balance sheet, it sounds like you're going to buy back stock regardless next year, but this \$800 million balance, would you be disappointed if that's still just sitting in cash by year-end? Will you look to act ahead of that or is it really just kind of dependent on deal flow?

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

Well, as I said in my opening remarks, we don't intend to sit on cash for a long period of time. We don't think that's the best use for the shareholders. And as we've also said in the past, our preference in terms of use of cash, in

terms of highest value is organic growth followed by M&A and then share repurchases. So, if this is a dynamic situation and we'll just continue to see where we are at any given point to make that decision.

Scott A. Richardson

Executive Vice President and Chief Financial Officer, Celanese Corp.

A

Yeah. And our board did increase our share repurchase authorization by \$500 million up to now \$1.5 billion. So, we have a lot of flexibility to deploy cash for repurchases if needed.

Matthew DeYoe

Analyst, BofA Securities, Inc.

Q

Fair enough.

Operator: Our next question comes from Ben Isaacson with Scotiabank. Please proceed with your question.

Ben Isaacson

Analyst, Scotia Capital, Inc.

Q

Thank you. Just trying to understand a little bit more about the rationale for the transaction and how much of this was related to the structure of ownership and your influence versus the absolute portfolio of assets. Maybe asked a different way, was there a consideration that you acquire the 55% from Daicel?

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

As I said earlier, we've been in discussion for years with Daicel around different ways of structuring the venture, different ways of ownership. Both sides have looked at acquiring it and, at the end of the day, we felt this was the most value accretive to shareholders.

Ben Isaacson

Analyst, Scotia Capital, Inc.

Q

And as a follow-up, can you talk about the materiality of the underperformance? With this out of the EM portfolio, do we expect to see a meaningful boost to your EBIT margins, all else equal?

Scott A. Richardson

Executive Vice President and Chief Financial Officer, Celanese Corp.

A

No, look, our base business EBIT margins have been improving over the course of last several quarters as we've talked about as we've driven margin expansion as well as continue to drive synergies from the M&A deals that we had. Given the fact that we don't recognize the revenue here from this, for the overall segment, you'll remove the earnings but there will be no revenue correspond. So, at the overall segment basis, earnings will – or the percentage will come down, obviously. But, from a base business perspective, we continue to improve that EBIT margin.

Ben Isaacson

Analyst, Scotia Capital, Inc.

Q

That makes sense. Thank you.

Operator: Our next question comes from Jim Sheehan with SunTrust. Please proceed with your question.

James Sheehan*Analyst, SunTrust Robinson Humphrey, Inc.*

Q

Thank you. You listed 5G as a future growth opportunity. How would you quantify your current offerings for that market and do you intend to grow that organically or through acquisitions?

Lori J. Ryerkerk*Chairman, Chief Executive Officer and President, Celanese Corp.*

A

So we currently provide quite a bit of material into the 5G market for not so much – for internal pieces, antennas for handset, for transmission equipment, all of those various areas. We've been growing that organically and our current plan is to continue to grow that organically.

Tom, do you want to add anything to that?

Tom Kelly*Senior Vice President-Engineered Materials, Celanese Corp.*

A

No, I think that's right. I think, with the portfolio of products we already have, we're all set to meet the needs of the 5G industry going forward.

Ben Isaacson*Analyst, Scotia Capital, Inc.*

Q

Thank you.

Operator: Our next question comes from Aleksey Yefremov with KeyBanc. Please proceed with your question.

Aleksey Yefremov*Analyst, KeyBanc Capital Markets Inc.*

Q

Thank you. Does this transaction mean that you could restart some or all of your organic growth projects? I imagine you feel more confident in your balance sheet position after this deal.

Lori J. Ryerkerk*Chairman, Chief Executive Officer and President, Celanese Corp.*

A

We certainly could. I would tell you the big event one that we deferred, which is the Clear Lake project, wasn't moved simply for cash flow; was also moved because of the change we saw with the drop in oil prices therefore making our core facilities more attractive. So we don't have a near-term plan. We still are expecting an 18-month delay in Clear Lake. We still think that makes sense for all the reasons I just described. And so that was – that's really the only big one out there.

If you recall, at the time when we talked about the capital reductions we took, they were based on right-sizing of projects, changing the projects; Clear Lake being the big one. We are continuing to advance major reliability projects, other growth projects, and improvement projects like our supply chain improvement project that we think have near-term returns. So we probably won't see a meaningful change in our capital investment profile for 2020.

Scott A. Richardson*Executive Vice President and Chief Financial Officer, Celanese Corp.*

A

Yeah, Jim (sic) [Alex], I think that's a really important point. We paused the projects in Q1 because of the economic environment we're in not because of liquidity concerns on the balance sheet.

Aleksey Yefremov

Analyst, KeyBanc Capital Markets Inc.

Q

Okay, understood. Thank you. And if we think about the M&A side of capital deployment, should we think about you focusing mostly on engineered materials on the acquisition side or asset yields could be just as big?

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

I said earlier, we're looking at M&A for Engineered Materials and also for asset yields. We're looking at any number of areas that we're looking for what we think will yield the highest return to shareholders.

Aleksey Yefremov

Analyst, KeyBanc Capital Markets Inc.

Q

Thank you.

Operator: Our next question comes from David Begleiter with Deutsche Bank. Please proceed with your question.

David I. Begleiter

Analyst, Deutsche Bank Securities, Inc.

Q

Thank you. Lori, just on the M&A pipeline, I know there's not much happening right now, but in terms of 2021 pipeline visibility, is that based on – do you have a good line of sight to potential targets in 2021 or do you not at this time?

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

I would say we have good line of sight to potential targets, both transformative and bolt-on M&A. Now, as we all know, it can sometimes take a while to work through these and they take time. I'm just saying, in the current environment, I think it's unlikely anything can happen in 2020, but we certainly have line of sight for what we think will be attractive M&A going forward.

David I. Begleiter

Analyst, Deutsche Bank Securities, Inc.

Q

Very good. Just on Engineering Materials CapEx, the last couple of years, it's been about \$105 million. How much of that has been Asia versus the rest of the world?

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

I think it's been – I don't have the numbers here in front of me, but I think it's about 50/50 Asia versus the rest of the world, as we've been trying to grow our capability out in Asia.

David I. Begleiter

Analyst, Deutsche Bank Securities, Inc.

Q

Thank you.

Operator: Our next question comes from Frank Mitsch with Fermium Research. Please proceed with your question.

Frank J. Mitsch

Analyst, Fermium Research, LLC

Q

Yes. Good afternoon and let me add my congrats on the transaction. Given that Polyplastics had a very large presence in Japan, one would assume that would also apply to the Japanese auto producers. Can you talk about, in the future, your positioning with the Japanese auto producers both in Japan and outside of Japan and how this transaction may impact that?

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

Frank, I'm going to ask Tom to comment. I think we historically have not had a large presence with Japanese automakers. It's a very crowded market, I would say, in Japan, so I don't necessarily see that changing. But we are very well-positioned in other parts of Asia as well as other parts of the world.

Tom Kelly

Senior Vice President-Engineered Materials, Celanese Corp.

A

I think that's right. We've had – we've got a solid commercial team on the ground in Japan that works with the tiers there, and then obviously, we work where [ph] the J3 are (32:46) located outside of Japan. We work with those tiers and OEMs well, but I think Lori's got it there. I don't think it's going to materially change our position because our position is actually pretty weak.

Frank J. Mitsch

Analyst, Fermium Research, LLC

Q

Oh, okay. Thank you. And, Scott, let me ask the margin question a little bit differently. If I take a look at Celanese's base EM business, the EBITDA margin, and I take a look at Polyplastics' overall business EBITDA margins, is it fair to assume that Polyplastics' EBITDA margins would be below Celanese base EM EBITDA margins?

Scott A. Richardson

Executive Vice President and Chief Financial Officer, Celanese Corp.

A

Yeah, I think you can pull that out from the financial statements that are public within Daicel's statements, Frank.

Frank J. Mitsch

Analyst, Fermium Research, LLC

Q

Got you. Thanks so much.

Operator: Our next question comes from Hassan Ahmed with Alembic Global. Please proceed with your question.

Hassan I. Ahmed

Analyst, Alembic Global Advisors LLC

Q

Afternoon, Lori. Lori, wanted to revisit the strategy part of the question. You obviously said that you guys have been in conversations with Polyplastics since Q4 of last year, and that was post a strategic review of the portfolio. Could you just tell us if there are, A, other divestiture candidates that have been identified, how you're thinking about the metrics when you consider those divestitures? And part and parcel with this, how should we think about you guys maybe even potentially, doing the opposite, i.e., entirely consolidating a joint venture? Are there any plans as you've done the strategic review?

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

So, as we went through our strategic reviews last year, Hassan, we looked at all options around our joint ventures. And again, they're all structured differently and we have different levels of oversight and control, if you will, on our various joint ventures. In some, we produce end market for the joint ventures; in some, we get a share of the joint venture or we market a portion. So, every one was different. I would say Polyplastics is the one that was most passive, the one we had least control over. And, therefore, we felt a better candidate for divestiture.

But we look at all options around our joint ventures as well as our other operations. And again, the criteria is just always on focus [ph] at least (35:22) on what is the best way to get shareholder value for that investment. So, in this case, to maybe talking about it very simply, we felt even taking the money and repurchasing would give us a better return than what we were getting out of the venture itself. But, obviously, that's very different by venture and whether you're looking at adding or subtracting, that's really the criteria we always use, which is what produces the best shareholder value.

Hassan I. Ahmed

Analyst, Alembic Global Advisors LLC

Q

Understood. Understood. And as a follow-up, over the years, there have been multiple conversations with investors about maybe the full value of these joint ventures not being appreciated as far as valuation goes and the like. Again, I'm just trying to sort of think 10, 15, 20 years out, is the goal basically simplifying the structure of Celanese as a company so that, I guess for lack of a better way of putting it, the financials maybe are not that complex per se just because of the presence of these joint ventures and certain things can be disclosed, certain things can't as, obviously, we were even discussing about certain debt metrics not being publicly available for certain JVs.

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

No, I don't think that's really been a consideration. It's really been focused on value and whether we felt an asset was performing appropriately or not. And so, in this case, where we felt like the asset was underperforming, it became a candidate for divestiture. But there's not really – I don't really have a strategy because I want to simplify the portfolio to make it easier for folks to understand. I'd be really happy if you all just want to take that 36x and apply it across the portfolio, it would be great.

Hassan I. Ahmed

Analyst, Alembic Global Advisors LLC

Q

Very helpful, Lori. Thank you so much.

Operator: Our next question comes from Arun Viswanathan with RBC Capital Markets. Please proceed with your question.

Arun Viswanathan*Analyst, RBC Capital Markets LLC*

Q

Hey, thanks for taking my question and congrats on the transaction. I guess, first off, I just wanted to get back to that last point. So, obviously, a very healthy multiple in the 20 to 30 times EBITDA range. And looking across to your portfolio of five other JVs there in EM, obviously, sometimes that gets missed in valuing the company frankly because of it sitting in equity income.

So, I guess, is there any sense of urgency to unlock a little bit more value here especially given your comment earlier that this was one of the more underperforming ones? Potentially, you could you could realize even greater value for the remaining stakes. And I guess I'm just curious would that be actually more advantageous given the structure and, again, in your earlier comments on inability maybe to realize full value with the others. Thanks.

Scott A. Richardson*Executive Vice President and Chief Financial Officer, Celanese Corp.*

A

Yeah, Arun, this is not a topic we haven't touched on before. We did have said that there has been concern around not getting full value given that they come in and are reported on after tax basis. And that is – while not necessarily a consideration for doing a deal, it is something we're finding ways to continue to get the value lifted so that investors see the benefits of these ventures has been important.

We've been able to do that in some of our other ventures and we've been very open about how we have restructured them. We obviously changed you haven't seen the Ibn Sina joint venture a few years ago. We built a POM plant there to change our percentage of what we get from that.

So, this is not a new phenomenon for us. We have not to-date found a way to do that at Polyplastics until now and this just comes in the form of monetization of the venture. But just given the attractiveness of it, we felt like it just made a lot more sense. We're going to continue to look at ways to do that with our other ventures and we always have and have always had very active discussions with our partners about doing that because our interests align around that.

Arun Viswanathan*Analyst, RBC Capital Markets LLC*

Q

Okay, thanks. And then just – again, just as a follow-up here though, was there anything particular to this transaction that allowed for a greater lift-up in the purchase price from the partner or was it just that that appears to be fair value on both sides?

Lori J. Ryerkerk*Chairman, Chief Executive Officer and President, Celanese Corp.*

A

Yeah, I...

Arun Viswanathan*Analyst, RBC Capital Markets LLC*

Q

[indiscernible] (40:07) like an earn-out or anything particular, yeah. Thanks.

Lori J. Ryerkerk*Chairman, Chief Executive Officer and President, Celanese Corp.*

A

No, no. There's nothing like that in the deal. I guess you'd really have to talk to Daicel, but this was the negotiated value.

Arun Viswanathan

Analyst, RBC Capital Markets LLC



Thanks.

Operator: We have reached the end of the question-and-answer session. At this time, I'd like to turn the call back over to Abe Paul for closing comments

Abe Paul

Vice President - Investor Relations, Celanese Corp.

Thank you, Rob. We thank you for your questions and listening in today. As usual, we are available after the call for any further questions you might have. Rob, feel free to close this call out at this time.

Operator: Thank you. This includes today's conference. You may disconnect your lines at this time and we thank you for your participation.

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