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Celanese Corp. (CE)

Q3 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Celanese Corporation Third Quarter 2022 Earnings Call and Webcast. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal remarks. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the call over to Brandon Ayache, Vice President of Investor Relations. Thank you. You may begin.

Brandon Ayache

Vice President of Investor Relations, Celanese Corporation

Thank you, Darryl. Welcome to the Celanese Corporation's third quarter 2022 earnings conference call. My name is Brandon Ayache, Vice President of Investor Relations. With me today on the call are Lori Ryerkerk, Chairman of the Board and Chief Executive Officer; and Scott Richardson, Chief Financial Officer.

Celanese Corporation distributed its third quarter earnings release via Business Wire and posted prepared comments about the quarter on our Investor Relations website yesterday afternoon. As a reminder, we will discuss non-GAAP financial measures today. You can find definitions of these measures as well as reconciliations to the comparable GAAP measures on our website.

Today's presentation will also include forward-looking statements. Please review the cautionary language regarding forward-looking statements, which can be found at the end of the press release as well as the prepared comments. Form 8-K reports containing all of these materials have also been submitted to the SEC. Because we published our prepared comments yesterday, we'll go ahead and open the line directly for your questions.

Darryl, please go ahead and open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] We ask that you please limit yourself to one question and one follow-up question. One moment, please, while we poll for your questions. Our first question comes from the line of Josh Spector with UBS. Please proceed with your questions.

Joshua Spector

Analyst, UBS Securities LLC

Yeah. Hi. Thanks for taking my question. I guess now that you've owned the M&M asset for a few days here, wondering if you can give us some context on the performance this year from an EBITDA perspective. Also, maybe some historical context given, you know, DuPont embedded some corporate and it's not the full segment. How has that performed? And then, also, when you look at next year, you gave the comments of \$800 million to get to that business pre-synergies. What are the major lists that it takes to get there from the current run rate? Thanks.

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

Thanks for the question, Josh. That's actually a lot of questions. So let me see if I can navigate all that. So, you know, on third quarter performance, I mean, DuPont will be reporting shortly, obviously what they report, not apples-to-apples necessarily, because it does include Delrin as well. But I think it's fair to say in third quarter, much like the first two quarters, you know, M&M is not performing in line with our expectations of the business or even in line with how they performed in 2021.

And, you know, I think you saw that in the numbers we called out for fourth quarter. And I think if you think about fourth quarter, I mean, fourth quarter is typically a low quarter for us as well. We do get seasonality in the fourth quarter. We expect DuPont to see the same seasonality. I think we see some of the concerns we've had on DuPont's performance continuing, with the M&M asset in the fourth quarter as well.

So it's – you know, again, it's only been three days, but I would say, you know, as we've gotten to get a clearer view of M&M's performance, I think there's like couple reasons we see for their underperformance this year.

So, overall poor demand backdrop in Asia and Europe, not dissimilar I think in Europe from what we've seen, but I think we've had a little bit more upside in Asia on autos than they have seen. Competitive dynamics that is really impacting more of the standard business of which we believe they've had a bit more than versus the differentiated business. And I would say also, insufficient commercial flexibility to really pivot and respond to the markets and the need to do different things in the market, maybe as quickly as we have.

I think also their current contract for sourcing for nylon has been a bit challenging in this economic environment and I think it boils down to there's really been, a margin compression that occurred, especially in the nylon area. And surprisingly in some cases, they've — it's not that they haven't raised prices actually, the fact that they didn't adjust price downward, stay competitive and they've lost volume. They've also had some pretty significant foreign currency headwinds, which are different than we've experienced due to the fact that their foreign currency, they're a bit more exposed than we are with the way they write their contracts.



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So if we think about moving forward now into the rest of the fourth quarter that we've closed and moving into next year, you know, talk a little bit about how we'll address each of these. So on the foreign currency headwinds, that's an impact of almost over \$20 million for us alone in November and December on the M&M assets.

And so, I think we really – we're looking at how do we optimize our commercial practices to address the sales currency exposures, so what's denominated in local currency and what's in US dollars. We also can use some of our debt to look at converting more of our US dollar debt to lower rate currencies like the euro or the yuan or the yen, which will help us lower our borrowing rate, so we'll help the overall financial condition of the company.

I think when we look at key raw materials and the purchasing requirement, we will be able to exercise some of the flexibility we have within Celanese to really utilize some of the M&M polymer capacity. So if you think about it, M&M has a fairly large take-or-pay contract currently for raw materials for nylon. And so they've been producing a lot of material, but they've been building inventory. We can actually start buying that, using that inventory, using that excess production for Celanese, which will be net-net, better for both companies together.

I think also remember we called out at the time of the deal, there's actually the contract for raws has been renegotiated and a new contract will come in place at the first of 2023. This new contract has less take-or-pay requirements, so that will give us more flexibility and optionality going forward.

So it'll let us – I think about it, as it will really let us start – it's one element of starting to run this larger nylon portfolio, in a more integrated, flexible, commercially agile way, much like the transition we went through with palm a few years ago, much like the transition we went through with acetyls some year before that.

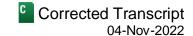
On the volume side, I think we have a lot of opportunities between M&M and the heritage Celanese assets to really deploy our combined commercial team to cross-sell not just nylon, but other products, including other Celanese products. So, as we've gotten to really look at where all of our products are going, there's only about a 20% overlap in terms of the companies that are buying from us. So that leaves a really large space for us to go into the companies that each other has been in and really start cross-selling the entire portfolio versus just what we had traditionally.

Pricing, again, you know, margin compression there. We actually think there's some opportunity in pricing to do it in a more differentiated way. So, if you really look, our analysis so far is M&M took a fairly common response on pricing to everything, whereas we like to look at it in a couple different tranches. So, for really differentiated products, we will always push pricing, because we have the opportunity to do that.

For more standard grade products, there may be places where you, in fact, have to reduce pricing in the current environment in order to maintain the same volume. And I think for us – and then cross-selling is another opportunity. But I think for us, it's really instead of having one rule about we want to maximize margin percent or we want to maximize revenue or maximize volume, for us, it is always looking at value. How do we maximize the margin dollars being achieved from the products that we have out there?

And then, finally, and I know this is one answer, finally on inventory, M&M has built a pretty large excess of finished goods in inventory over 2022. As they've seen some drop-off in market share and as they've continued to produce because of their raw material contract, that is burdening our November and December EBITDA, as we start trying to take measures to get that inventory more in line. But, longer term, it will allow us to manage our inventory levels, again more like POM, so that our pricing and our cost becomes more contemporary with each other. So we don't see as much kind of disconnect between cost and pricing as we go forward.

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So, again, we'll take these actions now. We've already started all of that. But it will take some time, I'd say, to get the business performing to our expectations. So if we look at next year, if we look at the, I'd say, \$800 million of EBITDA that we aspire to for next year and that we're really pushing the team to achieve on the M&M assets, I mean, it is a big lift. I mean, it's coming from about what we think is going to be around \$500 million this year for the M&M assets in EBITDA to \$800 million. That looks really big.

I would remind you, though, that with the Celanese EM portfolio, we went from \$571 million last year in 2021 to \$800 million this year. So it's not that much bigger than we've already demonstrated that we know how to do. And we already have a lot of actions underway and how we're going to do that. We're going to be helped by 4% higher auto builds next year. I think that's pretty consistently called out by everyone.

And we've already been prequalifying the M&M nylon into our applications, our heritage Celanese applications. So we have a great start on that. Tom has already been meeting with all of the business teams in M&M to really do the deep-dive so we really can understand the nature of underperformance, what the opportunities are for next year. So I'd say, we're off to a very strong start. Yes, \$800 million is a lift, but again, not unachievable given our demonstrated performance in our own portfolio.

Joshua Spector

Analyst, UBS Securities LLC

Very helpful. Thank you.

Operator: Thank you. Our next question comes from the line of David Begleiter with Deutsche Bank. Please proceed with your questions.

David Begleiter

Analyst, Deutsche Bank Securities, Inc.

Thank you. Lori, Q4 EPS is analyzing at roughly \$7 per share. Could you or Scott help us bridge us to the \$14 upper-end of the range for next year?

Lori J. Ryerkerk

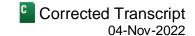
Chairman & Chief Executive Officer, Celanese Corp.

Yeah. I mean, again, I don't think you can look at Q4 and multiply that times four and get to a number for next year in terms of EBIT. Q4, we are seeing a lot of headwinds, a lot of challenges in Q4, again because of the really slump we've seen in China with paintings, coatings, and constructions, with the ongoing COVID-19 lockdown. The situation in Europe where we've also seen the drop there. The US has held up pretty well, but I think in some of the destocking that we've seen, especially in acetyl and the fact that acetyl is that is basically bumping and bouncing around its cost curves, these are conditions that we don't believe can last forever.

So while we think first quarter may be challenging, we do see line of sight would be somewhat better than fourth quarter, again, because we have a lot of things coming in with M&M that we're having to manage in the fourth quarter. But I think by first quarter, we start to see realization of some of the synergies. We'll have had a chance to start making some of the moves I just talked about. And then we really do expect the second half of the year to be back around in that \$13 to \$14 range.

And again, a big portion of that is the lift I just described on M&M, but we have continued growth in our own Engineered Materials business. In addition to the 4% higher auto builds, we will see a GUR lift next year. GUR is sold out for EVs, lithium-ion battery separator films. That demand is only going up, so that will allow us to raise

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margins and GUR next year. LCP margins are also going up next year as we see high demand into 5G applications.

Next year, we'll get the full benefit from Santoprene and KEPCO. In Santoprene, we do expect it to be back to the levels we had called out at the time of the deal in terms of returns on Santoprene.

And then medical, which we saw this quarter return to pre-COVID levels, we are predicting continued growth in medical, both in terms of orthopedics, but also in terms of the other applications like VitalDose and medical devices. So we see a lot of growth opportunities next year in the M&M portfolio, in our heritage Celanese portfolio. And we do see strengthening across – the opportunities strengthen across the Acetyl Chain as we move on through the year.

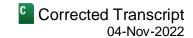
I would also say we will have a good uplift next year in our Tow earnings. As we talked about last quarter, we have been doing a lot to really restructure our Acetate Tow business. We are starting to run it more like we do a derivative of the Acetyl Chain. And much like we saw when we started doing that with VAM and emulsions, that allows us to build in more optionality and more flexibility, which will increase our earnings.

Historically, we've run that Tow business, really focused on customer value, quality and reliability of supply. When China went independent, that reliability of supply became less important to our customers, because there was an overhang in other regions. Now, that it's timed up again. We're at kind of 90% utilization in Tow outside of China. And so that with the raw material and the energy volatility has given us an opportunity now to really go in, put in new contract structures that allow us to better accommodate changes in raw material and energy pricing, really enhance the business models in Tow, take some costs out of Tow by integrating it into the acetic acid team, while still maintaining that reliability of supply and that strong customer focus that we've had. So the result is we will be seeing much improved profitability in 2023 along with greatly improved flexibility.

| David Begleiter Analyst, Deutsche Bank Securities, Inc. | Q | |
|---|--------------------|--|
| And do you have a forecast for Tow next year, an early look at the improved profitability? | | |
| Lori J. Ryerkerk Chairman & Chief Executive Officer, Celanese Corp. | A | |
| No. What I would say is, if you look at what we called out for Tow in 2023 in the Investor Day, above that. | we will be at or | |
| David Begleiter Analyst, Deutsche Bank Securities, Inc. | Q | |
| Very good. Thank you very much. | | |
| Operator: Thank you. Our next question comes from the line of Ghansham Panjabi with Bai with your questions. | rd. Please proceed | |
| Ghansham Panjabi Analyst, Robert W. Baird & Co., Inc. | Q | |

Thank you. Good morning, everyone. I guess, first off, Lori, just in your prepared comments, you were talking about inventory destocking. And, is it as simple as we just went from a world of just too little to too much very

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quickly? And so that's what's exaggerating some of the weakness that you're seeing. And then, related to that, can you just give us a timeline into your visibility that this will last through the first quarter, if not longer?

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

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Yeah. Look, Ghansham, thanks for the question. I think you have it exactly right. I mean, I think we went from everybody being worried about not being able to get molecules and kind of buying whatever they could get their hands on to, all of a sudden, all the production issues were resolved, demand started going down and people realized there was availability and they have hyper-cross inventory and tankage. They want to bring that down before the end of the year. And, they assume that the molecules will be there. Just like when we see prices rising, people start buying because they think it will be more expensive tomorrow. Right now, they see prices falling, so they quit buying because they think it will be cheaper tomorrow.

But I think a few things behind why we've gotten into this. I mean, we are seeing improved logistics. We are seeing improvement in port congestion and the ability to move materials around the globe. We are seeing improved product availability. There's been less outages and disruptions in the last quarter than we've been having over the previous few years. We are seeing a weaker demand outlook both again because of paints and coatings, which I talked about specifically in Europe and China, but also just some seasonality that we see in this area. And again, falling prices, I think, is a big effect on people's mental view of what they think.

So I do think this is likely to extend into first quarter 2023. Typically, when we see that flip is as we get through Chinese New Year, then we start to see demand coming up again and we start to see activities coming up again. And then as you get warming in the Western Hemisphere, you start to see it coming up. So that's why I feel pretty confident saying, we expect to see this start to turn the other direction sometime after the first quarter.

Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.



Yeah. The one area where we don't see a lot of excess inventory, Ghansham, is in automotive. And I think that's an area we're focused very closely on. We don't have that value chain that's full, so we're not seeing big destocking. We're seeing some level of seasonality here in the fourth quarter that's more like normal. But we do expect the fact that auto has been at relatively low levels from a build standpoint the last two years that to kind of hold flat or slightly increase as we work our way into next year. So that's an area that we feel good about, that we're not going to see major weakness as we work our way into the first half of next year.

Ghansham Panjabi

Analyst, Robert W. Baird & Co., Inc.

Okay. Thanks for that. And then maybe for you, Scott, on the \$1-plus billion of discretionary free cash flow that you've targeted for 2023. What are the levers you can pull to deliver on that number in the scenario that, the weakness you're anticipating through 1Q pushes a bit longer to the middle of the year? Thanks.

Scott A. Richardson

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Executive Vice President & Chief Financial Officer, Celanese Corp.

Yeah. I think as we've scenario planned that out Ghansham, we feel very confident in our ability to get to that level under a variety of different outcomes that could be there. And a lot of that is, the working capital build that we've had over the last 18 months has been fairly sizable. We've seen a similar build in the M&M business. And therefore, if we were to see a deeper decline in the first half of next year that would likely be a much heavier collection of that working capital.

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So we feel very strong about that. We continue to analyze, I think we've talked on these calls in the past about a quarterly review of capital and looking at what our businesses need both in the near-term and long-term to better match that capital spend. We brought that capital down on a combined basis already expecting around \$600 million of capital next year. We lowered the capital this year down to \$550 million and so those are levers that we'll continue to evaluate depending on where the demand landscape is.

Ghansham Panjabi

Analyst, Robert W. Baird & Co., Inc.

Thanks, Scott.

Operator: Thank you. Our next question comes from the line of Jeff Zekauskas with JPMorgan. Please proceed with your questions.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Thanks very much. You gave an idea of acetic acid prices in China as being close to \$400 a ton. Can you give us some reference prices and trends in VAM across your geographies?

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

Yeah. I think that's one of the big differences we saw in third quarter Jeff, as we saw VAM in China, which had still been running quite attractively, I'd say, kind of \$1,400 a ton or \$1,500 a ton, really come down to about \$1,000 a ton at the – by the end of the third quarter, which is, we believe, pretty much at the cost curve in China. So that's been a big change and, again, tied directly to paints and coatings as a large percentage of our emulsions go into paints and coatings. I mean, to give you an idea, we saw about a 15% – 15% to 20% drop in emulsion demand globally in the third quarter.

In Europe, I think we're also starting to see some compression of margins for acid and VAM. I don't have the exact number for VAM right now in Europe on the tip of my tongue. But in Europe – or, I mean, sorry, in the US, it's holding up a bit better, although we start to see some softening there.

Again, I think the softening outside of China is more on destocking necessarily than absolute demand. But in China, which I think is the easiest reference price, we see VAM coming down to about \$1,000 per ton, which, again, is probably right at the cost curve for VAM in China.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

And then just to follow up, in -1 think in Scott's script, he said that he's confident in paying down debt in 2023 across a wide variety of macro scenarios. And then you said that in the most challenging one, you have a detailed playbook. Can you give us an idea what the detailed playbook is and what a most challenging scenario would be like?

Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.

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Yeah, Jeff. I think there are two times, I think, over the past 15 or so years where we've had to really pull back hard with a heavy focus on near-term cash and I think that was coming out of the economic crisis, 2008 and 2009 and then again, in the early days of COVID in 2020.

And that really focuses around cash collection and harvesting of cash, which as I mentioned before, we feel very comfortable with as we work our way into the first part of next year. And then, it's a heavy focus on capital and what capital needs. Our manufacturing teams have done a great job being able to flex as needed even on large capital projects.

If you recall, we paused the Clear Lake acetic acid expansion back in 2020 and then we're able to utilize that time to lower the overall cost of that project, but significantly, reduce the capital. And we were able to bring our CapEx spend, which was expected to be north of \$500 million in 2020, down to around \$300 million.

And so, we are in process, as I mentioned earlier, I'm looking at where those levers are for 2023, both across our legacy portfolio as well as the M&M CapEx spend so that we can focus really around near-term productivity as well as cost reduction. And if there are projects that can be paused, we will do that.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Great. Thank you so much.

Operator: Thank you. Our next question comes from the line of Vincent Andrews with Morgan Stanley. Please proceed with your questions.

Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

Thank you and good morning, everyone. Lori, I think in the script, you said the \$13 to \$14 plus of EPS for next year did not assume a recession, because you're not seeing that in your order book. Can you give us a sense of what a recessionary range for 2023 would be, if we do indeed go into recession? Is it \$12 to \$14, \$10 to \$12? What would you think on a high level?

Lori J. Ryerkerk

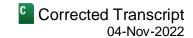
Chairman & Chief Executive Officer, Celanese Corp.

Yeah. Look, Vincent, I don't really have a number for that. I think if we just look at current demand conditions and especially at auto, I think everybody is pretty consistent in thinking auto is continuing to go up next year. I don't find that surprising. That's consistent with what we're hearing from customers. I mean, we've had three years of very low auto production. We think there's still a lot of pent-up demand. We think supply will continue to be the determining factor for auto. So supply of chips and other materials is what will be the determining factor.

Now, obviously, as interest rates go up, there may be some regions where that has some impact. But quite frankly, we think auto, which especially with M&M, is now a significant part of our portfolio again, is really an upside for next year.

And so I think, in that way, this – if we do go into recession, I mean, it's a little bit different this time in that usually in a recession – I mean, a couple of things. Usually in a recession, you see energy starts to come down, and then prices, which in this case, energy is staying up because of geopolitical concerns. So that's a little bit different.

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We're seeing full employment, especially here in the US, which is why I think we're not seeing some of the impacts in the US, because although people are being hit by inflation, there is full employment. So it doesn't feel as hard as most recessions where you see a lot of layoffs and people without jobs.

And then I think the third thing is auto. I mean, auto is usually one of the leading indicators of a recession and a drop in demand for autos. I mean, in fact, we see it going the other way in this recession. So we haven't really modeled what I would call a recessionary scenario, and – because we just don't see it happening, even if technically, mathematically, it's calculated as recession. We don't see that.

Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.

The other thing I would add to that, Vincent, is with the synergies that we have, we've already increased our synergy number for year one and expect to have between \$135 million of full achieved synergies next year. And if we see continued demand decline in non-auto segment, then we'll look for ways at which to flex and accelerate further synergies. So we do feel very confident of being able to get to that range that we put in the prepared comments.

Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

Okay. And as a follow-up, the prepared comments had a discussion on what you've already done with the plant footprint, particularly the Acetyl Chain, with some reductions. But how are you thinking about – how you're going to run the chain in 2023? And I guess, in particular, how is the Clear Lake expansion coming? And how could that play a role in 2023?

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

Yeah. So, I think if we look at this year, we have already reduced our rates in the Acetyl Chain in China and in Singapore down to 50% or 70% of our capacity. And we did that because we see demand. We don't want to build a lot of inventory and we've seen demand come off. So, we've already taken that step.

In some areas, we've gone down to as little as 30% of operating capacity, like in emulsions where we've seen the big drop there. So, I think we've been really proactive in managing our response, that's obviously a cost savings, but we're really focused on aligning our actions with the customer demand.

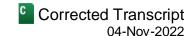
Similarly, in Frankfurt, given the high cost, energy cost in Frankfurt and the softening demand in Europe, we've reduced our palm rates at Frankfurt again to align our demand with our – the customer demand with our own production.

And we've made the decision for the VAM plant in Frankfurt to go ahead and keep that unit down until we see demand coming back. I mean, the good news is all of these steps were taken. This is still economic capacity, it would still make money if we ran it, but we just don't see enough demand. So we can optimize our chain better by moving molecules around the globe and using lower cost capacity, particularly in the US Gulf Coast, to meet some of these global demands now that we have less global demand.

And so you're going to continue to see actions like that as we go into 2023. What I would say is, look, VAM is ready in Frankfurt. When we start to see this come back, hopefully, by the end of the first quarter, we'll be able to



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start that unit up. Everything else is just a matter of lifting the rate, so that's a day of decision to do it. So that's easy.

And on Clear Lake, what I would say about Clear Lake is, we are on track to mechanically complete and start up the unit in the first half. We intend to do so. Again, the justification for that project was productivity. We called out about \$100 million a year in productivity. So even if we see no need to run additional capacity in the Gulf Coast, we will run that unit for productivity and get the \$100 million savings – run rate savings, I should say, the first year will obviously be that much, but run that unit for productivity. And then we have the option. If we see something similar happen as we saw happen in 2021 where we see a run-up in demand or if there are operating issues around the globe, we can start running that unit at higher rates and get even additional margin from that.

Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

Thanks so much.

Operator: Thank you. Our next question comes from the line of Kevin McCarthy with Vertical Research Partners. Please proceed with your question.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Yes. Good morning. Lori, can you speak to a bridge between the rough run rate of \$500 million that you referenced for M&M this year to the target of \$800 million that you have for 2023? I appreciate that you've owned it just a few days and I imagine it's difficult, but in formulating that \$800 million number, what are you baking in for, things like price cost spread or normalization of volumes or perhaps the cross-selling or other company-specific actions that you mentioned? Any broad strokes related color there, I think will be really helpful.

Lori J. Ryerkerk

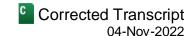
Chairman & Chief Executive Officer, Celanese Corp.

Yeah. Look, I don't have a bridge, as you said, we've only owned it three days, so we're still working on what are we learning, what can we immediately go do about it. So we're really been focused on, not worrying so much about what happened in the past, but, okay, how can we do this differently in the future?

But I would say it's really more based on our own experience of what levers to pull. I mean, there are some things like foreign currency, that was about \$20 million in November/December that we think we can go rectify, maybe not in November/December but in next year. And so, you annualize that, I don't know, I just make up a number here, so that's \$50 million or something. And then if you look at volume, they've lost about 15% market share. If we can through pricing and through cross-selling recover that, that's a fairly large number.

Remember, the DuPont number in 2021 for EBITDA was 7-some-ish — \$750 million-something like that, so in the \$700 million. So just recovering the volume that they had sold and taking care of some of the other factors that didn't exist in 2021 like the currency, I think pretty quickly gets us back to \$800 million. So those are the things that we're focused on. And then as Scott said, we will start to see some synergies as early as January 1. We will have some synergies from office closures where we have overlapping office sites like Seoul and Singapore and others.

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So, there are synergies that will come in there as well. I mean, obviously we'll account for those separately. But I think – and then we have the new raw material contract that will come into play in January, which will give us flexibility, which will also be a source of value for us.

So, I wish I could give you a better bridge. We just don't have it to that level of detail yet, because at this point, we're really trying to identify what's the 10 levers to go pull, let's get those in actions, and then we'll quantify them all

But, again, just based on our own experience, based on where DuPont was in 2021, we feel this is the lift we can make to get to \$800 million, if we get the organization really focused on it and really pushing towards it.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Fair enough. And I appreciate the color there. My second question is more in the spirit of clarification and maybe housekeeping for Scott. What is the amount of transaction-related amortization that's embedded in the incremental D&A of \$350 million that you referenced? And moving forward, would you intend to include that or exclude that from your adjusted EPS in 2023?

Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.

Yeah. So of that \$350 million, Kevin, the best way to think about right now is about a third of that would be base business depreciation and then two-thirds amortization. And that's an estimate right now. We'll be working through that here in the fourth quarter and we would not be adjusting that out of our adjustments. So we'll include that. We will certainly provide color as to what that amount is, but we don't plan to adjust it out.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Okay. Excellent. Thank you.

Operator: Thank you. Our next questions come from the line of Mike Leithead with Barclays. Please proceed with your questions.

Michael Leithead

Analyst, Barclays Capital, Inc.

Great. Thanks. Good morning, guys. First, just two quick ones on acetyls. First, the sequential decline in EBIT for Acetyl Chain in 4Q, obviously prices are down, volumes are down. But can you just help us with – if in 4Q, there's any sort of one-time, either fixed cost absorption hit as you're running your assets lower, or high cost inputs running through that shouldn't carry forward into 2023?

And second, you mentioned industry margins being unsustainably low. I guess, when you look at previous times kind of we've gone through this in the industry, what's sort of the usual time before that resolves itself or you see supply demand start to balance itself out?

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

А

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Yeah. There's really no, I'd say, one-time things. I mean, we've just seen deterioration through third quarter in terms of pricing and in terms of demand, again, specifically China, Europe, less so in the US, especially as I called out that drop in emulsions demand now that is like 15% to 20% down globally versus where we've been.

So, I could only describe the fourth quarter conditions as now, kind of, sub-foundational. Again, we think – mostly it's seasonal. We think it's destocking. There is an end to destocking, because people – so I don't think it can get much worse, let's be honest.

And one of the reasons is when we see it in our order books, I mean, orders have stabilized again. Now, at this lower level, but they've stabilized again. And so that's why we're saying look, we think that continued through the first quarter. And then, as we move back into the construction season, hopefully, we see some movement in China on COVID, but we've said that before. And as maybe people gain more confidence in Europe and again, construction season comes back, we do expect towards the end of the first quarter to start seeing recovery into more of a foundational level.

Michael Leithead

Analyst, Barclays Capital, Inc.

Great. That's helpful. And then, second for Scott, I just want to dig in on the M&M currency exposure issue. I think, obviously, you have pretty good visibility into the M&M country mix ahead of close. So was it a net hedging issue at M&M or a mismatch of sales and COGS currency? Just trying to get a sense of what was different when you got under the hood there.

Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.

Yeah. I think, we expect the annual impact this year to be about \$100 million, which is not unlike the impact that we have in totality at Celanese today. And so it's a little higher weighting than what we see in our base Engineered Materials business. And I would kind of chalk it up to two things.

One, a lot more cost in dollars in terms of what moves through and then more sales in local currencies where, as Celanese typically would sell in some of those countries on a dollar basis. So those are the two things we're looking at, from a business risk perspective of where we can make changes and where we can combine, the power of, the kind of in-country businesses that we have going forward.

And I would also say, there are certain things that, at the enterprise level, we can do to help mitigate that. Lori alluded to some of those earlier and we'll be looking at that as well. And hopefully, we should get some run rate benefit in the early part of next year from those actions.

Michael Leithead Analyst, Barclays Capital, Inc.

Great. Thank you.

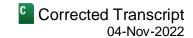
Operator: Thank you. Our next question comes from the line of Mike Sison with Wells Fargo. Please proceed with your question.

Michael Sison

Analyst, Wells Fargo Securities LLC



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Hey. Good morning. In terms of your outlook for 2023, does that assume the normal foundational adjusted EBIT for the Acetyl Chain in that, I think, it's \$1 billion to \$1.1 billion range.

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

Yeah. Mike, obviously, we were a little hesitant when we give 2023 guidance. But we – so what I would say is, so for 2023, if we think on the low end of what we're thinking of, for acetyl, I would say, we're assuming first quarter is some foundational and then recovering. So if you think about that, second quarter is probably foundational, third quarter or fourth quarter.

Let me just talk about foundational a little bit what that means. So we always meant foundational was meant to capture the low end of the typical range. We didn't really capture recessionary conditions. As I said, we're kind of seeing that in acetyl.

And so, again, we believe fourth quarter this year and early 2023 will be sub-foundational. And then, we have some seasonality in the fourth quarter. So again, it's for a year average. But I think, if you analyze even Q4, what we're calling out for acetyl, that's \$900 million and that's sub-foundational. So I think if you look at what is foundational really mean, it's probably more in the \$1.1 billion to \$1.2 billion area with \$1.2 billion being after we finished the Clear Lake expansion.

Michael Sison

Analyst, Wells Fargo Securities LLC

Got it.

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

So just for some clarity. So I would say, next year, it's kind of on average for the year at that foundational level or a little bit lower at the lower end. As we all know, this market can move very quickly if we have some industry outages or anything else that causes, because we are still at pretty high utilization in the Acetyl Chain. So – but that's how we're thinking about next year and how we're thinking about it relative to foundational earnings.

Michael Sison

Analyst, Wells Fargo Securities LLC

Got it. And the base adjusted EBIT – or, I'm sorry, the base Engineered Materials business, the 2022 – you're close to the \$800 million adjusted EBIT, I think you mentioned you felt there could be some growth. And maybe just maybe talk about what type of growth and where you'll see it from and if you have any specifics? Great.

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

Yeah. So the growth that we're expecting there is double digit. I would say, it's the things I called out earlier, Mike. I mean, it's the growth in auto. It's the margin lift in GUR due to full utilization. It's the margin lift in LCP due to high utilization and growing 5G applications. It's getting the full value from Santoprene, now that we've had the opportunity to take pricing actions and other actions to get Santoprene working so and getting the full value of KEPCO for the year, as well as kind of double-digit growth that we've been seeing in medical. So I'd say those are the biggest factors driving that double-digit growth in margins for the heritage Celanese EM business.



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Michael Sison

Analyst, Wells Fargo Securities LLC

Great. Thank you.

Operator: Thank you. Our next questions come from the line of John McNulty with BMO Capital Markets. Please proceed with your questions.

John McNulty

Analyst, BMO Capital Markets Corp.

Yeah. Thanks for taking my questions. So maybe a question for Scott. When you look to better match the interest lines and the debt to kind of counter the FX impacts. I guess, can you speak to, at least based on current rates, what that might mean for your interest expenses? Does it send it up a bit? Does it send it down? I guess, how should we be thinking about that?

Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.

Well, I think in those currencies where we have exposure of any size, I think we would – it would lower the overall interest expense. However, John, we're going to be careful with when we do that. Obviously, those currencies have depreciated pretty substantially this year. And so, there's a balance between interest expense versus then depending on when you move that over, you end up having ultimately more leverage as that currency move. So we're going to be balanced in how we look at that, but we do see some opportunities as we get into the next year to help with some of that business exposure.

John McNulty

Analyst, BMO Capital Markets Corp.

Got it. Fair enough. And then on the M&M front, in terms of the – it sounds like they've been really running pretty hard just because they kind of had to with take-or-pays and what have you. I guess, can you quantify what the inventory build is versus kind of what you view as normal and how much we could see in terms of working capital released just out of that asset alone?

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

Yeah, I don't know that we have those numbers. And again, we're going to be taking some steps in the fourth quarter that will continue into next year to use DuPont materials, to replace our own purchases of polymer and different things. So I don't think we have a really firm number on that yet.

Scott A. Richardson

 ${\it Executive Vice President \& Chief Financial Officer, Celanese Corp.}$

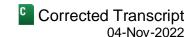
Yeah, John, normal is different, as we go forward because you're putting these two portfolios together. And so we're looking at what is the optimal mix. It's going to be different by region as well depending on where our business has historically been from mainly a nylon standpoint. But we're really looking at how we can leverage the power really of both portfolios that we're bringing together right now.

John McNulty

Analyst, BMO Capital Markets Corp.



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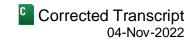


| Fair point. Makes sense. Thanks very much for the color. | |
|--|--|
| Scott A. Richardson Executive Vice President & Chief Financial Officer, Celanese Corp. | A |
| Thanks, John. | |
| Operator: Thank you. Our next question comes from the line of P.J. questions. | Juvekar with Citi. Please proceed with your |
| P.J. Juvekar Analyst, Citigroup Global Markets, Inc. | Q |
| Yes. Thank you, Lori and Scott. You talked about acetyls and you alw globally through utilization of different plants. A question on the Frank there is a chance that it becomes a stranded asset? And, what kind of your large footprint there in Europe as well as in Germany? | fort plant. It's your highest cost. Do you think |
| Lori J. Ryerkerk Chairman & Chief Executive Officer, Celanese Corp. | A |
| P.J., just a clarification, you're talking about the Frankfurt VAM plant of | or POM plant? |
| P.J. Juvekar Analyst, Citigroup Global Markets, Inc. | Q |
| VAM plant. Sorry. | |
| Lori J. Ryerkerk Chairman & Chief Executive Officer, Celanese Corp. | A |
| VAM. Okay. Thank you. I just wanted to be – clarifying, get the right of | question. |
| P.J. Juvekar Analyst, Citigroup Global Markets, Inc. | Q |
| Yeah. Yeah. | |
| Lori J. Ryerkerk Chairman & Chief Executive Officer, Celanese Corp. | A |
| Look, we have five VAM assets globally. Historically, Frankfurt has no | ot been our highest plant – cost plant. So let |

Look, we have five VAM assets globally. Historically, Frankfurt has not been our highest plant – cost plant. So let me just be clear on that. And even today, we could run it and it could run at a profit, but it's just volume we can get somewhere else more cheaply right now, because of the very high prices that we had been seeing in terms of European energy. And that, quite frankly, when it gets cold, we expect to see those prices again.

So I don't really see a possibility of it becoming a stranded asset. I mean, it's only been about three months ago we were running every single plant we had all out and still not able to meet the demand. So I do think demand is going to come back and I think we will need all the plants we have. And, Frankfurt VAM has always been a very profitable plant. This is just the unique situation with the European energy prices we're seeing, coupled with the fairly rapid drop in demand that we've seen because of other – the geopolitical factors, the China COVID and then winterization kind of all coming together at the same time. So I don't really see any possibility that becomes a stranded asset.

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Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.

Yeah, P.J., I would just add, this theme of the power of our network is very important, whether it's VAM, whether it's acetic acid, whether it's palm. And now as we bring M&M in, nylon, PBT, et cetera. We have created, we believe, a lot of value over time by flexing these networks. And having those assets in Europe are great assets. And so bringing that concept and leveraging that as we bring these portfolios together with M&M is something that we're going to be working hard here in the fourth quarter to see how we want to operate as we get into next year for that business as well.

P.J. Juvekar

Analyst, Citigroup Global Markets, Inc.

Okay. And then secondly, you mentioned, you made a lot of comments on M&M, and we appreciate that. One of the things you say in your prepared comments is that, that business had lagged in pricing since 2021. So maybe is that a one-time step-up in pricing that maybe we have underappreciated?

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

Yeah. Look, I think, I talked a little bit about this earlier. I think their total pricing hasn't necessarily lagged. I think it's really distinguishing between the differentiated business where you had room to move pricing. And the more standard business where, in fact, we've seen a lot of price pressures from competitors, where in fact, maybe it would have been better to take down pricing and not lose so much market share.

So I think it's just a more fine-tuned approach to pricing that we want to take. I wouldn't necessarily say it just means prices will go up. It will really be about trying to maximize the margin dollar contribution versus any other signal.

P.J. Juvekar

Analyst, Citigroup Global Markets, Inc.

Great. Thank you.

Operator: Thank you. Our next question comes from the line of Hassan Ahmed with Alembic Global. Please proceed with your question.

Hassan I. Ahmed

Analyst, Alembic Global Advisors LLC

Good morning, Lori and Scott. I'm just trying to sort of get a better sense. I know, it was asked earlier of what you actually feel trough EBITDA would be. I mean, I know that the guidance that you guys gave for Q4, obviously, a seasonally weak quarter. So obviously Q4, one can sort of extrapolate that.

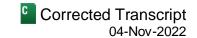
To me, it just seems like Q3 was the worst of everything, right? I mean, you had destocking, high sort of energy prices, be it in Europe and the like, acetic prices coming down as hard as they did. So, I mean, is it fair to assume that the \$600-and-change-million in quarterly EBITDA that you guys generated in Q3 is possibly the right run rate annualized number to think about in terms of trough EBITDA?

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

A

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Sorry, Hassan, I'm just trying to understand your question better. The \$600-and-change-million in EBITDA for acetyls?

Hassan I. Ahmed

Analyst, Alembic Global Advisors LLC

No, no. Just, I mean, overall as a company, what do you think your trough EBITDA number would be?

Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.

I mean, I'll be honest with you Hassan. I mean, we really look at each environment differently. I mean, troughs, recessions, et cetera. I mean, it's hard to put labels on different things.

I mean, at the end of the day, I think the – what we stated, we're pushing towards to get to for next year, just given the current condition, would suggest that somewhere in that Q3 range is probably somewhere close to that. But I think every situation is different, it's really about making sure that we are managing the business on a daily basis to maximize earnings and maximize cash flow and value creation.

Hassan I. Ahmed

Analyst, Alembic Global Advisors LLC

Fair Enough. Fair enough. And now, just moving on from that, more specific on the Acetyl Chain, you talked about pricing being around \$400 a ton, hitting sort of the cost curve side of things and the like. So, two things. One is, are you in the industry seeing sort of shutdowns at these levels? That's the first part of it.

The second part of it is that in your prepared remarks, you obviously talked about operating rates for you guys in China and Singapore being 50% to 70%. The emulsions business, reducing the tons sold by 15% and the like, yet your volumes sequentially were only down 4%. So, just trying to reconcile that as well. So two parts. One, shutdown. And two, why your volumes weren't weaker than what your commentary suggested?

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

Yeah. So I would say, we saw the decline through the quarter. So the start of the quarter was actually at a much higher pricing. The average price for third quarter – or the average [indiscernible] (52:28) China asset for third quarter was around \$430 a ton and now we're down around \$400 a ton. So, we continue to see pricing decline. So I'd say, the start of the quarter was stronger than we started to see it pretty rapid.

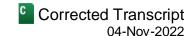
And I think that's why you didn't see the volumes drop so much. The actions we've taken to really cut our rates have happened here at the very end of the quarter and going into October. So, I probably wasn't clear on that. And so, I think that's why you don't see it as much in the volumes.

But again, around \$400 a ton – to your first question though, I would say, we have seen others take actions to slow down, as we have, but not yet to shut down. But given the just pricing, I mean, we are still the most economic producer of acetic acid in China. We know this is at the cost curve. So we know others are struggling. I think given – if this goes on longer, you may see people continue to slow down raise or shut down, even if only temporarily.

Hassan I. Ahmed

Analyst, Alembic Global Advisors LLC

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Very helpful. Thank you so much.

Operator: Thank you. Our next question comes from the line of Matthew Blair with TPH. Please proceed with your questions.

Matthew Blair

Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

Hey, Lori. You mentioned that in autos, your build rates are outpacing industry averages, especially in North America and Europe. Could you talk about your total autos build rate and how that compares to global averages and overall the reception that you're getting with EV penetration?

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

Yeah. I think – so on autos, I think IHS thought we're at 6% growth rate. We have seen – we think it's a little bit less than that. But I think we have outpaced auto builds pretty significantly across all of our businesses.

I'm trying to remember the number off the top of my head, but let me answer the EV question first. So EV, we're proud – for the legacy EM business, we're – more than 10% of our volume into auto goes into EV. And obviously, from a value standpoint, it's much higher than that because these tend to be high-end applications. The majority of that is lithium-ion battery separator films, so GUR, which is what we will see margin expansion in next year because it is sold out and limited.

You compare that for the industry, these make up about 8.5% of the fleet – of the build today. So, even just in the EV space, we're several percent higher than the rest of the industry. And as I said, everywhere else, we see that we continue to outpace the industry. So industry growth rate, just getting – so Europe was down in the third quarter. North America was up a bit. We were a bit better in both of those than the industry. And in Asia, I think maybe to give you an idea, Asia saw strong industry growth, about 21% in Asia, 30% in China.

And with the additional volume from KEPCO, the growth in EVs, the project pipeline, the GUR expansion, the stuff we've done on Asia localization, we were up well, really 27% globally, a lot of that in Asia, and all of our regions were up about 20% versus last year.

And again, we think that's on chip availability, but it also shows the strength of our project pipeline in our portfolio and the fact that we tend to be stronger in EV and stronger into high-end applications, which have not been as challenged as maybe some of the other models.

Matthew Blair

Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

Sounds good. I'll leave it there. Thank you.

Brandon Ayache

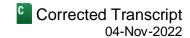
Vice President of Investor Relations, Celanese Corporation

Darryl, we'll go ahead and make the next question our last one, please.

Operator: Thank you. Our final question comes from the line of Matthew DeYoe with Bank of America. Please proceed with your questions.



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Matthew DeYoe

Analyst, BofA Securities, Inc.

Good morning, everyone. As we look at the cadence for M&M of next year, you had kind of mentioned a fairly sharp inventory correction that's working through the pipe. Do you expect that will continue into next year? And I guess how much of this \$800 million do you think will come from second half earnings versus first half earnings, if we try to think about the arc for that business?

Lori J. Ryerkerk

Chairman & Chief Executive Officer, Celanese Corp.

Yeah. I think, look, just given the time it takes – we start actions immediately. These are already started and – but all of these things take some time. And so I would definitely expect the heritage M&M business earnings to be more heavily back-end-loaded in the year than in the first part of the year. Just to give us time to kind of work through the changes we need to do, get all of the commercial teams coming from M&M onto the pipeline model, which will be happening here across the first quarter. Definitely, more of a second half load than first half.

Scott A. Richardson

Executive Vice President & Chief Financial Officer, Celanese Corp.

Yeah. And the inventory pulldown likely more first half, Matthew, as we work to get that material into the legacy Celanese assets.

Matthew DeYoe

Analyst, BofA Securities, Inc.

Understood. And I guess if I could just squeeze one more in. In the past, you talked about rationalizing foreign capacity on the startup of Clear Lake, but that talk kind of waned. And I wasn't sure if that was because the macro was better or you had rewritten some of the raw material contracts in Singapore. So I guess with the macro where it is, should we think about rationalizing foreign capacity still on the table? And if it's not, are the productivity savings of the \$100 million still reasonable if the macro remains soft?

Lori J. Ryerkerk

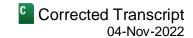
Chairman & Chief Executive Officer, Celanese Corp.

Yeah. Look, let me start with the last question first. The productivity of \$100 million is still stable even in a softer macro. It was really based on running two units not quite as full. It had catalyst savings and other things in it. So that continues to exist. We didn't need any growth. And we will always run Clear Lake more full due to the raw material advantages there.

So I don't think the project credits associated with the Clear Lake expansion are not at risk again, because they were baked on productivity. As I said earlier, if we see an upswing in the market and we can run it even fuller, that's just actually additional credit that we'll get at that time.

And in terms of the global footprint, and we talked about this, gosh, probably over a year ago or so, we really, with the change in the contracts we've got in the Singapore utilities, other contracts that we have in China, we like having optionality. That optionality to move things around, depending on what's going on to accommodate or when we have turnarounds and those sorts of things, by shifting production to other parts of the world, that has more than paid off for us. And so we like having that optionality in our footprint. So I wouldn't expect any major changes in that going forward.

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Matthew DeYoe

Analyst, BofA Securities, Inc.

Thank you for that.

Q

Operator: Thank you. We have reached the end of our question-and-answer session. I would now like to turn the call back over to Brandon Ayache for any closing comments.

Brandon Ayache

Vice President of Investor Relations, Celanese Corporation

Thank you, Darryl. We'd like to thank everybody for listening in today. As always, we're around if you have any follow-up questions. Darryl, please go ahead and close up the call.

Operator: Thank you. This does conclude today's teleconference. We appreciate your participation. You may disconnect your lines at this time. Enjoy your weekend.

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