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# Celanese Corp. (CE)

J.P. Morgan U.S. All Stars Conference

## CORPORATE PARTICIPANTS

### Lori J. Ryerkerk

*Chairman, Chief Executive Officer & President, Celanese Corp.*

### Scott A. Richardson

*Executive Vice President & Chief Financial Officer, Celanese Corp.*

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## OTHER PARTICIPANTS

### Jeffrey J. Zekauskas

*Analyst, JPMorgan Securities LLC*

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## MANAGEMENT DISCUSSION SECTION

### Jeffrey J. Zekauskas

*Analyst, JPMorgan Securities LLC*

Hi. Good afternoon. Good morning. Good evening. My name is Jeff Zekauskas, and I analyze chemical companies headquartered in North America for JPMorgan. It's my pleasure today to speak with Lori Ryerkerk, who's the CEO of Celanese, and with Scott Richardson, who's the CFO. Lori became CEO in 2019 after a long career in the energy industry, and Scott became CFO early in 2018.

The format today is a fireside chat. And if you in the audience have any questions, you can either use your portal to chat a question in that's tied to the conference or you can send me an email. And what I'll try to do is I'll try to weave your questions into my own dialogue. I think what we'll do is Lori will begin with an opening statement, and then we'll proceed. Lori?

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### Lori J. Ryerkerk

*Chairman, Chief Executive Officer & President, Celanese Corp.*

Thank you, Jeff, and good afternoon to all of you joining from Europe and elsewhere from around the globe. It's really great to be here virtually with all of you today. And Jeff, again, thanks for inviting us. You've known Celanese for a long time now, and it's really nice to be able to sit down here with a familiar face. We are thrilled to be here, both Scott and I, and participating in our third straight JPMorgan All Stars Conference. This conference has become a really core part of our strategy over the last several years to increase engagement with European investors.

Prior to COVID, we've been making it to Europe twice a year or more specifically to meet with our European investors, and we've been really pleased with everybody's interest in Celanese, in what we do and in how we generate shareholder value. For obvious reasons, our outreach this year was curtailed. So, we were excited to hear this conference would still go on in a virtual format. COVID-19 and the resulting demand destruction has clearly presented major challenges for our business.

But one positive outcome is that it has really solidified, I think, for the market the fact that Celanese isn't the same company it was a decade ago during the last financial downturn. As far as the portfolio, the company hasn't really changed. We still have three major businesses in Engineered Materials, Acetyl Chain and Acetate Tow. However, due to really purposeful actions over the years, the company is better positioned today than at any time before to continue to leverage shareholder value.

We're more diversified in both geography and product portfolio. Our cost structure is leaner as we have built leading scale at our lowest cost facilities while delivering productivity year-in and year-out. And a number of years back, we created some unique operating models in our businesses that continue to deliver differentiated performance. And finally, our balance sheet is the strongest it's ever been and it provides us tremendous financial optionality.

So, let me stop there, as I'm sure we'll have a chance to get into many of these points in more detail during our discussion. So, thanks again, and it's really great to be with you today, Jeff.

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## QUESTION AND ANSWER SECTION

**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Q

Okay, good. Thank you so much. The acetyls industry is changing, in that Celanese is the largest company in the Acetyls Chain globally and British Petroleum is second, and the BP assets are in the process of being sold to INEOS. Do you have an opinion about why BP might have sold and why INEOS might have bought and what the implications for the acetyls industry might be from that change?

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Yeah. Look, it's probably a question you need to ask BP. But I would say over time, BP has had varying interest in chemicals. A number of years ago, they were going to get out completely. Then, they decided to get back in in a big way. And now, they've decided to get out again. Having come from big oil myself, I would just say in some ways, the Acetyl Chain is a bit more specialized than what big oil companies typically like to do. And I think it was a good opportunity for them to monetize that investment with INEOS. As far as INEOS goes, look, we've – at any given time, we've been a customer, we've been a supplier, we've been a competitor of INEOS. We think they're a very capable company. So, we have a good competitor in this space. But I don't really see it changing the landscape very much in terms of how the acetic acid business and the derivatives business is run around the globe.

**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Q

There were some documents one could see, and it looked like that the asset INEOS was buying was much less profitable than your asset. So, it may be that their first priority is to raise the profitability of the acetyl chemicals that they've bought. And so, that may be their priority. Is it the case that the industry at this point needs more acetyl capacity? I know that you were thinking of building more acetic capacity in Clear Lake. You've postponed that. Can you talk about the reasons behind that decision?

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Yeah. So, I think if you look at the industry, you have acetic acid and then you have VAMs [ph] next up and then (00:05:59) you have a lot of downstream derivatives. And I think if you look at utilization around acetic acid, you would definitely say there's not a need for more capacity now. Let's tie that to the investment we were making in Clear Lake. The Clear Lake investment in acetic acid expansion was basically a net zero capacity added. It was being done for reasons of productivity. So, it was adding additional capacity in the Gulf Coast, which would let us slow down or shut down capacity in Asia which, given at the time we did the project, the dynamics of oil versus gas, was a much more expensive capacity.

So, I think in general, we don't think acetic acid market needs more capacity at this time, and you see there's not really anything been done around the globe. If you look at VAM, BP is in fact finishing up a VAM expansion in South Korea with their JV there. But I think even there, we don't see a lot of other work going on in VAM builds. And we had some minor debottlenecks ourselves. I think you'll see that continuing. And downstream derivatives, emulsions and other things, continues to see robust demand. And so, although we don't see a lot more being built there, we think there's still some opportunities there for debottlenecking and that sort of thing going forward.

**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Q

Yes. So, when Celanese conceptualizes itself over a longer period of time, it sounds like what you wish to do is really lower the cost of your operations, but you're not exactly intent on having much, much more global market share, given that your future expansion in the US may be offset by shutdowns in other – or curtailments in other geographies. Is that a correct way to characterize your strategy?

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Yeah. No, that's correct. Look, everybody likes top line growth, but we want profitable top line growth. And we actually find the strength of our model is not necessarily in more molecules into the total market. It's about the flexibility to move our molecules between different geographies, the flexibility to move it from the very front of the chain whether it's CO and methanol all the way down now to redispersible powder and really respond to the market that exist and making sure we can sell the most profitable products at whatever part of the chain is profitable then. So, it's a model that's really dependent on flexibility. So, in that way, it's very different than a commodity market, where you really try to maximize your volume and kind of hope for good market pricing. We really try to get into whichever part of the market and the chain is currently most profitable, whether it's product or geography, and that's how we really maximize our returns.

**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Q

Yes. I know that INEOS had contemplated building a 300 million metric ton VAM plant in Hull in the UK. Now, they're going to have to contend with more leverage from taking on the BP asset. But over time, do you think the probability of that facility being built is higher now [indiscernible] (00:09:20)?

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

It's a question for them. We don't really see the need for that in the market right now. [ph] York (00:09:30) is an import market, but it's being well-served and competitively served from other parts of the globe. There's not a

huge need for additional capacity, but we'll have to see what their economics look like, I guess. We do know we have indications that it's been delayed now for some time, but...

**Jeffrey J. Zekauskas**  
*Analyst, JPMorgan Securities LLC*

Q

Sure.

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

A

Well – and I think just to add to that, like Lori said earlier, with the acquisition that they've just done of BP's assets, they do have a new VAM expansion starting out in Korea. So, they will have some new VAM capacity available to them as they complete the acquisition.

**Jeffrey J. Zekauskas**  
*Analyst, JPMorgan Securities LLC*

Q

Yes. I think when you originally contemplated expanding acetic acid in the United States, I think you said it might cost \$425 million. And when we talk to other chemical companies in the United States that are planning to expand capacity, they talk about inflation in their costs. Is that something that you see or are those initial estimates still pretty good?

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

A

No. So, I think what we've said is we anticipate that expansion to cost \$400 million. We haven't seen any reason to increase that. Now, we have delayed that expansion...

**Jeffrey J. Zekauskas**  
*Analyst, JPMorgan Securities LLC*

Q

Sure, yeah.

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

A

...here during COVID really in response to what's going on with global oil markets and the fact that that's made our Asia assets more competitive. So, we've seen that opportunity to kind of expand that. We spent some money already upfront on engineering. But as we look at that project going forward, we have not seen really any inflation in what we believe it will cost us to build it.

**Jeffrey J. Zekauskas**  
*Analyst, JPMorgan Securities LLC*

Q

Yes.

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

A

And we continue to look for opportunities to bring that cost down.

**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Q

So, what I wanted to do is I just wanted to talk – to touch on the industry structure in acetyl chemicals for a moment. If you think about say the polyethylene industry, it's a 100 million ton industry, and maybe VAM in terms of production is only 6 million or 7 million tons on a global basis. And you are, I don't know, 15% or 20% of that. Your market share in VAM in the United States is about 40%, and maybe there are four producers, and in Europe, maybe there are three and your market share is more than 50%. Does it turn out that your market share position and the small number of producers in acetyl chemicals is one of the reasons why you like the business?

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Well, I would say we like it because it's part of the chain. It is part of the optionality that we have in the entire acetyl business. And I would also say really VAM is moved globally. So, it's really more relevant to look at the global market share which is, as you said, about 20%. It's actually quite a fragmented market. There's a few large players, but there are lots of smaller players as well, especially in Asia. So, it's actually quite fragmented once you get past the first few big players. And again, it's a global market. That's how we look at it. But really our attraction to VAM is where it sits in the Acetyl Chain, so right after acetic acid and before we get into all the derivatives like emulsions and powders. It really allows us that flexibility and that optionality.

**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Q

Yes. Over the past few – so, over the past few years, there's been a flood of ethylene capacity that's come into the United States or been built in the United States, a flood of polyethylene capacity. Why is it that there's no flood of acetic acid capacity or VAM capacity? What is it about VAM and acetic acid that makes it more resistant to this large expansion into low cost raw materials in the United States?

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Well, partly – I mean, it's just the full supply-demand dynamics. If you look at utilization globally, it's still kind of in that 70% to 80%. So, that would suggest that there's not a need for a lot of additional capacity. I also think if you look at building acetic acid plants, you don't just need to build an acetic acid plant. You need to have a source of methanol, which means you need to build a methanol plant, and you need to have COs, so you have to build a CO plant. So, the cost of entry for building a new grassroots acetic acid plant is actually quite high, maybe as compared to an ethylene cracker is expensive but...

**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Q

Sure.

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

[ph] ...you basically need ethylene – ethane (00:14:23). So, I think the cost of entry is quite high for acetic acid. The technology is a little different. But I really think it's really more just supply-demand dynamics. We know there was a lot of overbuild that happened in China a number of years ago. And although the industry continues to grow, it is still not really taking up all of that spare capacity that was built in China many years ago.

**Jeffrey J. Zekauskas**  
*Analyst, JPMorgan Securities LLC*

Q

Yes.

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

A

Yeah, Jeff, and these plants – as you quoted earlier, these are expensive plants, and historical margins in this space at times has been thinner. And so, I do think when you look at that, the hurdle to invest is fairly significant because of the high capital cost relative to the amount of volume that you end up getting in what is a fairly finite demand set.

**Jeffrey J. Zekauskas**  
*Analyst, JPMorgan Securities LLC*

Q

Yes, yes. One of the areas where there has been some expansion over the past few years has been China. And then there was a period of time where there seemed to be environmental constraints that led to the shuttering of some capacity or the curtailment of production. Is that something that's still going on today or has the world changed and China is more willing to expand?

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

A

So, I – look, I think China is still committed to improving their environmental footprint. I think that will include the shuttering of some older plants. I would say, right now, China is focused on other things, as is the rest of the world, with coming out of COVID and trying to get their economy back on track. But I think we'll continue to see that trend in China that less environmentally-friendly technologies will be shut down in favor of others.

We actually see that a bit today even in VAM, where we have a green VAM available to the market and we have existing producers coming to us to buy green VAM in order to shut down their less environmentally-friendly technologies. So, I think that's going to continue. I think it may look like it's been a bit paused here in the last year because of all the other issues China and the rest of the world have been dealing with. But I don't see any reason to think that longer term that trend won't continue.

**Jeffrey J. Zekauskas**  
*Analyst, JPMorgan Securities LLC*

Q

Yes. One of the themes of – that's emerged from listening to Celanese over a longer period of time is you talk about the strength in your export capability and your ability to find profitable markets as business conditions change. Can you give us an idea of how you do it or why you're such a good profitable exporter relative to your competitors? What is it that you can do that they can't do?

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

A

Well, the big difference is our footprint. If you look at most of our competitors, they either exist in just one or two portions of the chain. So, maybe they have methanol and acetic acid or maybe they have acetic acid and VAM or they only have VAM and derivatives or just derivatives, whereas we have everything from CO all the way to redispersible powders. So, that is very different than our competitors, in that we have built a network that allows us great optionality where to take profit in the chain. We also exist in all three geographies. Most of our competitors are concentrated in one geography or maybe one and a little bit in another.

So, again, we have – we have three acetic acid plants. One is based on natural gas, one is based on oil, and one is based on coal. And so, they're three very different economics. So, we're able to flex production depending on raw material pricing. So, our optionality, I would say, is far greater than anybody else in our space – or in any one of those spaces because nobody exists across all of those spaces. And that's – and we run it that way. We make decisions every day about how much to run, where to run, where to export, where to import. We make those decisions on a daily basis.

And I would say that's also different – going back to your question about BP, in my [ph] oil (00:18:55) experience in larger companies, they tend to say, hey, we're going to maximize production, we should run the facility full. We don't do that. We decide what is the market and where do we want to run and how do we want to run. So, I would say we run our business much more like a trader would run their business, which is day-to-day decision-making, versus I have a monthly plan, I'm going to meet that plan. Ours is a much more flexible model. And I think that's really what differentiates [ph] – just (00:19:20) if you look at the margins that we achieve even in a down-cycle, I think it's really what differentiates us from our competition.

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**Scott A. Richardson**

*Executive Vice President & Chief Financial Officer, Celanese Corp.*

A

Yeah, Jeff, and I think one thing I'd add to that is think about every day we're on – from a commercial perspective, we're following the sun. Our team in Asia wakes up, and while they're focused on their local markets, they're always doing that with an eye to what's going on and what the – the decision that they're making there and what impact that's going to have on the fact that these products move around globally.

And so, that competitive intelligence and that landscape of always having the global market in mind and then communicating that, handing that off to the European team when they wake up and then handing that off to the US team, it is a constant 24-hour operation that's occurring and really daily. And those decisions are being made daily and that team tries to stay very, very tight as they work together, and it's a very mature commercial organization that is very synergistic in how it operates globally.

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**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Q

So, in the second quarter in your Acetyls Chain, volumes were down maybe mid-teens year-over-year, but that was a quarter of quarantine and recession. How does the third quarter look in terms of VAM volumes and acetic acid volumes year-over-year and sequentially? Is the world very different for you or is it similar?

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**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Well, definitely, the world's improved in the third quarter versus the second quarter. And I think even in the second quarter, we called that out. We anticipated a pretty strong improvement from second quarter to the third quarter. Look, we're still down roughly 5%, maybe a bit more year-on-year. So, that's definitely a big improvement though over second quarter. So, third quarter, we're about, let's call it, 5% down year-on-year. And we've seen improvement in auto. We've seen – although that's a small market for us for AC. We've seen improvement also in construction. It continues to be very strong. So, that's good. I would say the thing though that may be a little bit different than what we called out in the second quarter is when we had Hurricane Laura, although our facilities all recovered well, we did shut down in Clear Lake.



**Jeffrey J. Zekauskas**  
*Analyst, JPMorgan Securities LLC*

Q

Sure.

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

A

And since we were shut down in Clear Lake, we made the decision to go ahead and advance a catalyst change we had for our VAM unit scheduled for next year. We moved it into this year. We've been seeing some catalyst deactivation prior to the turnaround. So, since we had the unit down and we knew what the outlook was for VAM, we said, let's go ahead and take that catalyst change now. So, that catalyst change – so, we've had better volumes is what I'm saying, and of course, we've seen a bit of an uptick in raw material pricing. But that – so, the better volumes offset a little bit by the lag in raw materials and about another \$0.05 to \$0.10, let's say, by the decision to move our catalyst change forward.

**Jeffrey J. Zekauskas**  
*Analyst, JPMorgan Securities LLC*

Q

I think when you reported your second quarter earnings, you thought that your EBIT sequentially in your Acetyls Chain would be roughly flat.

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

A

Yeah.

**Jeffrey J. Zekauskas**  
*Analyst, JPMorgan Securities LLC*

Q

Is it now better than that or is it coming in pretty much as you've thought?

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

A

I'd say it's closer to what we thought. Maybe because of this catalyst change, even slightly down. But again it's – the offset of the gas, we've seen better volumes, but we have the catalyst change and raw materials have been going up and there's always a couple months lag. So we'll see the benefit of those raw materials, but we'll see that benefit really probably in fourth quarter.

**Jeffrey J. Zekauskas**  
*Analyst, JPMorgan Securities LLC*

Q

Different companies are reporting sort of a different tempo demand, in that they'll be selling products. We're in different geographic areas and it seems that there's plenty of capacity. There's no real tightness. And yet in other geographies or in other applications what they'll find is that they're entirely sold out. It's difficult to get material to their customers. Can you talk about the Acetyl's Chain and various pockets of tightness or looseness, if there is a difference in different geographies or end markets?

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

A

I think definitely there's a difference in geographies. But what I would say is that, the Acetyl Chain really runs on a global basis. So, we are able to move products around the globe as needed. So we haven't really that – I'm trying

to think we haven't really seen any instances where we have had trouble supplying our customers. Now we plan for it. We try to keep an outlook in advance. As with the VAM downtime we've had, now for the catalyst change, we made sure that we secured enough product so that we would continue to be able to supply our contract customers during this time. So, yes, I think there is always region to regional variability. But I would say that the beauty of a global model is we're able to at least make sure our contract customers that we can meet their demands during this time.

**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Q

Can you talk about the flavor of demand growth in China versus Europe versus the United States in the Acetyl Chain in the third quarter?

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

So, I think in all regions, it's really been led by construction. So, the demand for paints and coatings and bonding agents and all that sort of thing definitely has been leading demand growth. I would say China is really back to pre-COVID levels across all the sectors. The US has come back strongly, but still kind of 90% to 95%. And Europe's been a little bit slower, but also coming back. Auto, although we don't sell a lot of Acetyl Chain materials into auto. It's pretty small number for us.

**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Q

Yeah.

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

It's come back more strongly, so that helped. And then, I would say, like packaging, which is the other big area. Packaging remained pretty strong during second quarter [indiscernible] (00:25:56) ordering a lot from Amazon. So packaging had stayed pretty strong through second quarter and continued strong into the third quarter. And industrial, I would say is the sector where you really see China is back, industrial is still coming back in the US and Europe.

**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Q

So I think in the United States, in VAM, in October, Celanese has a turnaround. Dow has a turnaround. Lyondell has a turnaround. Maybe it's two-thirds of domestic VAM. Should the market tighten up in the late third and fourth quarter in VAM?

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Yeah. So, we do not have a VAM turnaround in the fourth quarter. We have an acetic acid turnaround in the fourth quarter in Clear Lake. So, we – like I said, we have taken the VAM outage here at the end of the third quarter in order to change our catalyst. But our unit is...

**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Q

Yeah.

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

...will be back on and ready to go before the end of the month. So, I don't think there will be a lot of tightness in the market. Again, our turnarounds in acetic acid, we have the ability to move those molecules around, so...

**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Q

In Europe in this quarter, have you been operating your Frankfurt facility at lower rates of utilization in VAM? Has that tightened up the European market at all?

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Yeah. So, we did with lower demand, we were experiencing in Europe and recognizing that Europe is one of our more – our higher cost locations for producing VAM. We took the opportunity of a lower demand environment across the globe to controllably shut down our Frankfurt facility. But it is coming up again in preparation for fourth quarter. And also to cover some of the VAM outage we have in Clear Lake. So it is coming back up. We just simply did that, take it as as we constantly do, to take advantage of our lowest cost facilities during periods of low demand.

**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Q

Everybody looks at different Bloomberg prices. And sometimes they're good and sometimes they're not so good. But if you look at some of the Bloomberg VAM prices, they seem to have jumped in China recently. Is that a good indication of the way the market is evolving or is that not so representative?

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

It certainly is representative for China. I mean, look, globally, we do see VAM prices moving up again for all the reasons we talked about, lots – a lot of strength in construction, in painting and coatings. I think the question there is as we move into the fourth quarter, a lot of construction is very weather dependent. So we're still waiting to see in the fourth quarter how much seasonality we see based on weather. So [ph] I can't call the (00:29:09) weather, but we'll have to see as we get more into fourth quarter. But I think certainly, a lot of pent-up demand for commercial construction and things during COVID and we're seeing that impact on VAM pricing globally now.

**Scott A. Richardson**

*Executive Vice President & Chief Financial Officer, Celanese Corp.*

A

And we've also seen feedstocks move up over the last quarter as well. So ethylene prices have moved up. And so, that's – it's not surprising that you would see pricing start to move up as feedstocks move in combination with the demand landscape as Lori talked about.

**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Q

So, that's true. I mean, obviously, so methanol has really moved up – has moved up in the United States and spot ethylene prices have moved up in the United States. I know that you issued, I think \$0.10 a pound price increase

in VAM just the other day, and some of your competitors have followed, at least in part. In general, do you feel like you're ahead of the raw material price inflation or behind or keeping pace? How do the margins feel in that business in this changing raw material environment?

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

So, Jeffrey, so we had a number of price increases in a few weeks ago, but they were very targeted and very regional.

**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Q

Yeah.

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

And so, actually representing pretty small volumes. More recently, we've come out with a more broad price increase, and that really is reflecting the increase in demand and the increase in raw materials. I would say we're kind of keeping pace with raw materials or maybe slightly behind, and slightly behind just because when the demand was softer even a few weeks ago or a month ago, there really wasn't room to push pricing even with rise in price. Now, we're seeing demand tightened up a little bit. We're seeing more demand coming on and that that's allowed us to push pricing to be consistent. So, we will – we may see a little bit of margin compression, if you will, here at the end of the quarter. But as we do with acetic acid, we'll recover that as we go forward. There's always just a little bit of [indiscernible] (00:31:15) compression as markets move, or expansion as markets move on the other side.

**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Q

Is it too far out to compare what might happen in 2021 in the Acetyl Chain to what happened in 2019? In other words, in the Acetyl Chain, will it take till 2021 or 2022 or 2023 till you think you're back to the level of EBITDA that you were in, in 2019, or it's too difficult to know?

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

I would say we fully expect to get back to 2019 volume and margins sometime in 2021. I don't know if we'll get it for the full year impact, but we fully expect to be back at those levels within the year of 2021. It's probably too early to say if it's first half or second half. A lot will depend on how much seasonality we see here in the fourth quarter.

**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Q

Sure. So maybe what we should do is flip over to engineering materials. Engineering materials year-over-year had a tough year-over-year comparison of the second quarter. Maybe your volumes were down, order of magnitude 25%. But there's lot of auto exposure there. Can you talk about what the third quarter has been like for engineering materials?

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Yeah. Well, we were pretty optimistic about the third quarter. In the second quarter, we expected to recover kind of half of that volume. So think about being kind of low- to mid-teens, right, that we would be down third quarter year-on-year. We actually – that's actually looking more like 10% now. So a little bit better even than we had called out previously for Engineered Materials. I would say the two areas – every region, every sector has recovered pretty well. The two areas I would say that we're still lagging in is, one is auto and it really has to do with fleet sales. So think about it, people aren't renting cars because they're not traveling. So rental car companies are not renewing their fleets. And so businesses, people working from home, they're not renewing their fleet. So that still is a bit of a drag on auto sales is the amount of materials that went into the fleet itself.

And then, the other one is medical. So many aspects of medical have been good, but a major aspect of medical for us which is small volume with high margin is for artificial joint. So artificial hips, artificial knees and with COVID, hospitals were shut down for any kind of elective surgery, joint replacement is considered elective surgery. So we really didn't see that volume in the second quarter. We hope it do would pick up in the third quarter. It's not really picked up. And so, we think it's going to be – we don't think that volumes go on. We just think it's delayed because we think people still want those surgeries. But it looks like that's going to be more towards the back end of the year or even into the next year. And so, again it's not a giant volume impact, but it is a mixed impact because that's a higher margin business with us.

**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Q

Okay. Can you talk about the demand behavior in the different geographies for Engineered Materials in the United States, in Europe and in China?

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Yeah. Sure. So China, I would say is really back to pre-COVID levels. In auto, electronics, consumer goods, it's really back to pre-COVID levels. I mean, in fact to the 2019 type levels. In the US, like I said earlier, autos probably about 90%, 95% hitting on the platform. Electronics is good. Still a lot of demand for phones and devices and laptops for kids during home schooling. Consumer has come back really strongly. If you think about it, I guess everybody was home for six months looking at their old appliances and decided it was time for a new washer and dryer.

**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Q

Right.

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

So that sector has come back as well. Industrial still lags just a little bit as we still see companies back – coming back up to full production. I think what's really different compared to maybe 2008-2009 is, 2019 was a pretty tough year in Engineered Materials for us as well because we saw a lot of destocking especially in auto. With that destocking in 2019, we went into COVID with not a lot of inventory in the system and you see that with some goods like cars, but also maybe televisions and other things were they kind of hard to get right now. So what we're seeing is as demand has come up, demand has immediately come up for us, as well as people, as there wasn't a lot of inventory in the chain. And so, we think that that continues and if the economies continue to

recover, then we also would expect towards the end of the year and as we move into next year to maybe even start seeing some restocking in some of these value chains.

And then in Europe, I would say Europe is lagging the US a little bit. So autos probably more 80% to 90% just depending on the platform. EVs are really strong in Europe which is good for us because we've – have a presence on EVs in Europe. There I would say consumers coming back maybe not as robustly as the US, electronics still doing well there as well, and medical and pharma like I said it's been good. It continues to be good with the exception of orthopedic devices. As I said, anything tied to elective surgery is definitely lagging both in the US and in Europe.

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**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Q

So I think when you reported your second quarter earnings you said something to the effect that in the third quarter you hope to make up about half of the EBIT drop that you had in the second quarter. And it sounds like your volumes are better so is your – your view of the profits and profitability of that business in the third quarter a little bit more positive?

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**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Yeah. Look, I would say we're actually still about where we thought we would be. And again, look at Acetyl's, yes, we've had better volumes, but we've had the offset of raw material, margin provision and the offset of the catalyst change in Clear Lake. And in Engineered Materials, volumes are better, but we've had the mixed impact of medical not coming back as quickly. So I would say kind of net, we're really still about where we thought we would be in second quarter, but for slightly different reasons.

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**Scott A. Richardson**

*Executive Vice President & Chief Financial Officer, Celanese Corp.*

A

Okay. I think it sets us up maybe even better as move our way into the fourth quarter and next year because that base level of demand coming back, and as Lori talked about, we do believe we'll see a bounce back in that medical and orthopedic business. So we don't think it's gone for good. It will come back. And when you have that all [indiscernible] (00:38:21), it actually – the prospects of getting back to 2019 overall demand levels at some point in 2021 certainly looked better today than when we last talked in July, Jeff.

---

**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Q

So, the – Celanese often has a seasonally-light fourth quarter. Is the shape of the global economy is sufficiently different this year that the seasonality of the fourth quarter may be more muted or even non-existent? Can you look out far enough and give us an idea of what the – what fourth quarter prospects may look like?

---

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Yeah. So, I would just say I think it's too early to tell. So let's talk about seasonality for Celanese. So about half of that seasonality is in Acetyls, and it's really related to construction and it's really related to weather. So, if we have a mild early winter, maybe we don't see as much impact because we know there are some pent-up demand in construction. But we don't know yet on that – yet how that's going to turn out. The other half is in – really is in engineering materials and its related to two things. One, in the Western Hemisphere, typically in the last half of the fourth quarter, we see some slowdown by people who make things from our material because they take a lot

of the autos traditionally, have taken a couple of weeks off, [indiscernible] (00:39:52) Christmas, to New Year's. A lot of [ph] auto (00:39:56) production companies take off time for the holidays.

So we've seen some slowdown associated with kind of holiday periods in the Western Hemisphere. And we typically have seen some destocking in the fourth quarter as people manage inventories to their year-end close. Now, we know we went into this period with pretty low stocks already, so there's always that possibility we won't see as much destocking. There's also the possibility we won't see as much vacation as people have already had a lot of time off. So maybe companies – but, again, it's too early to tell. What I would say is, look, October is looking really solid for us. And – but most of the fourth quarter impact happens in November or December, and we really don't have a clear outlook for that yet.

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**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Q

I think in some of your public comments concerning engineering materials in 2021, you've said that you think that engineering materials volumes from 2021 might compare favorably to 2019. Do you still believe that?

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**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Yeah, we do. I mean, despite COVID and in the early days of COVID, obviously, figuring out how to connect with our customers, how the key projects playing a big challenge. But I would say we really see new volumes for next year coming back. We've had some really good successes with existing customers as well as new customers in developing, signing new contracts for next year. So we're really quite optimistic about volumes for next year, for Engineered Materials and certainly would expect them to be at or better than 2019 levels.

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**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Q

So, does that mean in your core engineering materials operations you should make more in 2021 than you did in 2019 with your volumes higher asset base.

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**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Well, that – yes, that would be our expectation. And [indiscernible] (00:41:53) to clarify because that's certainly in our core operations.

---

**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Q

Yeah.

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**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Obviously, the sale of Polyplastics has kind of a...

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**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Q

Yes.

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

...minus \$44 million to our EBIT. So in our JV earnings. But certainly in our core operations, we would expect from an earnings standpoint to be at or better than our 2019 levels.

**Scott A. Richardson**

*Executive Vice President & Chief Financial Officer, Celanese Corp.*

A

Yeah. And Jeff, as Lori mentioned earlier about that's proactively bringing turnarounds into this year. We do expect to see a fairly good benefit and tailwind from a lot less of those costs hitting during 2021 versus 2020.

**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Q

If I remember correctly, I think there was an \$80 million turnaround benefit that you might achieve in 2021. It sounds like though you have little bit more turnarounds. So, is the number now a little bigger than \$80 million or it's still \$80 million?

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Yeah. I think it's probably kind of \$80 to \$90 million going forward. That – that's just the benefit we will get in 2021 versus 2020.

**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Q

You'll also have more available capacity. Will that make a difference...

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Right.

**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Q

...because of the less turnaround or how much of a difference might that make?

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Well, I mean, we hope so. I mean, again, we've certainly been able to meet all of our demand this year. So, if demand continues to expand quarter-on-quarter as we've been experiencing then – that will be more capacity, we'll have to sell into the market. So, that really [ph] fill the (00:43:27) demand. But definitely we will have more capacity available, if the demand is there.

**Scott A. Richardson**

*Executive Vice President & Chief Financial Officer, Celanese Corp.*

A

Yeah. And it gives us more flexibility. So even if demand doesn't robustly change and we don't need that capacity to service more demand, it allows us to flex operations more as well. So we'll be able to take rates higher at our



lower cost facilities and move product around. So it overall gives us benefits whether or not we see that recovery in demand.

**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Q

Sure. Will the Polyplastics sale close by the end of the year? I know there have been all kinds of delays for regulators given COVID conditions or are we still on track to close the deal and go forward from there?

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

No, we're still on track to close the deal on Polyplastics before the end of the year.

**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Q

And the plan is still to repurchase roughly \$500 million worth of stock from the proceeds in a relatively prompt way?

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

A

Yes. Yeah. I know [ph] that's still the (00:44:36) plan. I mean, we want to make sure that the deal is accretive and non-dilutive, so that \$500 million of share purchases, make sure on an EPS basis that we're slightly accretive. And then we – we'll apply the other \$800 million or \$1 billion hopefully towards M&A. We continue to work that quite rigorously, may not be in this year time period, but over the next, call it 18 to 24 months. If we find there's just nothing available to us right now that's attractive because [indiscernible] (00:45:10) only going to do a deal if it's a good deal. Then maybe we'll look at more share repurchases in the future. But initially it will be the \$500 million.

**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Okay. Well, thank you very much for sharing your business trends and your plans and we look forward to seeing you next year. And with that, we'll close...

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

Great. I believe we'll be in person again. Yeah.

**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Okay, good. I hope.

**Lori J. Ryerkerk**

*Chairman, Chief Executive Officer & President, Celanese Corp.*

Thank you, Jeff.

**Scott A. Richardson**

*Executive Vice President & Chief Financial Officer, Celanese Corp.*

Great. Thanks.

**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Bye now.

**Scott A. Richardson**

*Executive Vice President & Chief Financial Officer, Celanese Corp.*

Bye-bye.

**Jeffrey J. Zekauskas**

*Analyst, JPMorgan Securities LLC*

Bye now.

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