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Celanese Corp. (CE)

Q2 2020 Earnings Call

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Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

Robert Koort

Analyst, Goldman Sachs & Co. LLC

Duffy Fischer

Analyst, Barclays Capital, Inc.

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Celanese Corporation Second Quarter 2020 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Abe Paul, Vice President of Investor Relations. Thank you. You may begin.

Abe Paul

Vice President - Investor Relations, Celanese Corp.

Thank you, Jesse. Welcome to the Celanese Corporation Second Quarter 2020 Earnings Conference Call. My name is Abe Paul, Vice President of Investor Relations. With me today on the call are Lori Ryerkerk, Chairman of the Board and Chief Executive Officer; Scott Richardson, Chief Financial Officer.

Celanese Corporation distributed its second quarter earnings release via Business Wire and posted prepared remarks about the quarter on our Investor Relations website yesterday after market close. 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 prepared comments. Form 8-K reports containing all of these materials have been also submitted to the SEC. Because we have published our prepared comments yesterday, we'll now open the line directly for your questions.

Jesse, go ahead and open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we will be conducting a question-and-answer session. [Operator Instructions] Thank you. Our first question comes from the line of John Roberts with UBS. Please proceed with your question.

John Roberts

Analyst, UBS Securities LLC

Q

Thank you. Nice quarter. You noted that Asia auto builds have recovered. Was your Asian Engineered Materials sales up year-over-year as well and do you think they'll accelerate in Asia after the Polyplastics deal?

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

Yeah, thanks, John. We are seeing – we have seen the recovery in Asia. I mean, Asia was up about 2%. But I think year-over-year, we really expect Asia to be pretty flat to 2019.

John Roberts

Analyst, UBS Securities LLC

Q

Okay. And then you've pivoted acetyls to emulsions and powders over VAM. Can you characterize the range of swing possible between VAM emulsions and powders in your mix?

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

Yeah, maybe just to give you an idea. I mean, so we actually moved about just over 15% more into emulsion as an example in the quarter. We moved kind of 1% more into VAM. We moved more acetic acid and other derivatives back into China since that was a little bit more robust market even though the margins were a bit lower. I mean, generally, we characterize it as we have the ability to move anywhere from 40% to 60% of our acetic acid into downstream derivative.

John Roberts

Analyst, UBS Securities LLC

Q

Okay. So, 20% range then. Great. Thank you.

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

Yes, yeah.

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

Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

Q

Thank you and good morning. Just want to square a couple of the outlook comments starting in the Acetyl Chain and you mentioned flat 3Q versus 2Q. And you also mentioned that you don't do and expect prices to improve until demand gets back to pre-COVID levels. And then later in the comments, you talked about 2021 being an

opportunity for demand levels to be greater than 2019. So, I wanted to make sure that comment was also meant to apply to acetic to the Acetyl Chain and if you think that sort of will be the trajectory?

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

Yeah, so in the Acetyl Chain, I mean, we do expect some volume recovery, modest volume recovery in Q3. We aren't expecting though a big change in pricing. As we said, there's still a lot of available capacity in the world. So, we think that puts a limit on the pricing. Look, we are seeing some improvement in methanol pricing in early Q3. We are seeing some improvement in acetic acid pricing, so maybe even slightly up margins at the beginning of Q3. But we don't really see the fundamentals yet to really think maybe that's sustainable for the whole quarter. You might remember in the second quarter we also saw a bit of an uptick in margins early in the quarter but that really flattened out as the quarter went on. So, right now, we're saying modifying recovery, pretty flat margin, but we do have some smaller turnarounds in Q3 in Cangrejera, Frankfurt, and Singapore which kind of offsets that modest volume recovery. So that's why right now we're calling it essentially flat. Again, we're seeing a little bit of margin expansion early in the quarter. But right now, we don't know that that's going to sustain. But clearly if it does, that will be a [ph] help (00:05:40).

Scott A. Richardson

Executive Vice President and Chief Financial Officer, Celanese Corp.

A

Yeah, and I think if you looked at...

Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

Q

[ph] Okay. And if I (00:05:42)...

Scott A. Richardson

Executive Vice President and Chief Financial Officer, Celanese Corp.

A

Oh, sorry, Vince, if you looked at...

Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

Q

No, go ahead, go ahead.

Scott A. Richardson

Executive Vice President and Chief Financial Officer, Celanese Corp.

A

... [ph] 2021 (00:05:45), it's still early on the Acetyl Chain. We don't have that long a visibility but we do – we are anticipating given conversations with customers that demand will be improved versus 2020, at least that's the current outlook. We'll have to see if it gets up to 2019 levels or not. We did see a fair amount of destocking in 2019 in the business. But that 2021 comment was probably a little more related to Engineered Materials.

Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

Q

Okay. And I did want to follow up on the destocking and the seasonality comment that you made for 4Q. I mean, obviously, recognizing 4Q in a normal year is a destocking quarter, it is obviously not a normal year when you look at sort of the volume of 2Q. And I recognize it's very hard to predict 4Q at this point, let alone August. But are you just sort of being conservative assuming that customers will destock in 4Q [ph] because that's (00:06:43)

what they always do or is it possible this year just because it's been such a strange year with such a soft 2Q that we don't actually have a down 4Q sequentially versus 3Q because customers demand still coming back and customers don't have the inventory levels to really do it. How are you thinking about that?

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

Yeah, I would say, Vince, we're really assuming normal seasonality. I wouldn't say it's as much destocking as just slightly lower demand. Demands come off in fourth quarter for construction and some materials and other things. So, not really destocking as much as just normal reduction in demand. Now, look, we're keeping our options open. Maybe with the abnormal second quarter we have, we'll see people continue to run a bit stronger in 4Q. We've seen that in some years, but we're not assuming that at this time because again we just don't have the visibility that far out. So, we're just assuming a kind of a normal level of demand drop off associated with fourth quarter.

Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

Q

Okay.

Scott A. Richardson

Executive Vice President and Chief Financial Officer, Celanese Corp.

A

Yeah, Vincent, that Q4 demand in acetyl tends to be weather related. In construction, painting, coatings and in our emulsions business. So, we think that will probably come to fruition where we may not see as much of an impact is on the Engineered Materials side. We'll just have to wait and see. Even though we're bringing turnarounds forward into this year, we have enough flexibility in our volumes that if we don't see that destocking or that seasonality in EM, then we should be able to respond.

Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

Q

Okay. Very good. Appreciate the help.

Operator: Thank you. Our next question comes from Bob Koort with Goldman Sachs. Please proceed with your question.

Robert Koort

Analyst, Goldman Sachs & Co. LLC

Q

Thank you very much. Lori, I was wondering if you guys had, back at the last big investor day, talked about some aggressive but maybe not specific timeframe for some acetic and VAM expansions? Can you just give us an update in light of what's gone on this year, how that's changed your view, if at all?

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

Yeah, thanks, Bob. So, the acetic acid expansion was really around the reconfiguration, so the expansion at Clear Lake coupled with some productivity moves in Asia. So, as we said last quarter, we have delayed that project for about 18 months really in response to the reduced demand dynamics we've seen for acetic acid as well as the low oil price environment which makes Singapore look somewhat more attractive and closer to Gulf Coast natural gas pricing. So, that's the big move in acetic acid. We've also announced some expansions of VAM and VAE

facilities. Those continue on schedule consistent with what we've said before. So, we're really talking in the 2020-2022-plus timeframe because we really see the demand for those products. And as it applies now with Elotex and with others, we see a very robust future for VAM and VAE and other downstream derivatives of acetic acid. So, those continue on schedule. Acetic acid is delayed about 18 months.

Robert Koort

Analyst, Goldman Sachs & Co. LLC

Q

And in EM, I'm just curious given the pretty extreme volatility in a lot of polymer pricing, has that provided some opportunity? Is there some threat there from [ph] inter-material (00:10:05) substitution? Can you just sort of talk about your development efforts with customers there in light of all this volatility? What's that done to the whole process that you guys have in terms of the innovation and new product wins and that sort of thing?

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

Yeah, so I think there's been a number of opportunities that have come up in Engineered Materials. So, one opportunity was we've seen probably more so than price volatility, I would say, is around desire to have more certainty on supply chain. And so, we have seen inquiries from customers in wanting to get product within the region that they're going to use it to derisk some of their supply chain. So, that's been a few opportunities for us. And we also just see a lot of opportunity, consistent with what we've laid out as our strategy, so really more aggressive movement into electric vehicles. We've seen a lot more opportunities there especially for some of our recycled products like ECOMID and some of our flame-retardant nylon. We've seen more opportunities there for light-weighting. We just see electric vehicles which obviously is also getting a lot of help here in the COVID environment from stimulus packages and things especially in Europe and Asia. That has been a focus for us for the last 18 months now and we see it really developing to where, for example, the assessable market for us in electric vehicles is about 30% greater for Celanese products than it is in traditional vehicles. So, we've seen – 5G is another area more focused on medical pharma. That's provided some opportunity. So I think some of the strategic focuses that we've laid out in the last year, we've really seen strengthened through COVID, as well as some new ones developing around things like people wanting more materials that are resistant to the use of disinfectants and sterilization as well as more focus on pharma compliance. So, we actually see a lot of opportunities in Engineered Materials and are pretty optimistic about the level of project wins we had despite being in a COVID environment.

Robert Koort

Analyst, Goldman Sachs & Co. LLC

Q

Great. Thank you.

Operator: Thank you. Our next question comes from Duffy Fischer with Barclays. Pleased proceed with your question.

Duffy Fischer

Analyst, Barclays Capital, Inc.

Q

Yeah, good morning. Maybe just a follow up on EM. When you look across your suite of all the different polymers. With the weaker demand, have you seen any erosion or material erosion in pricing caused by that weaker demand?

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

I would say across the board on average, no. In fact, we probably saw a little bit of margin expansion in the second quarter with lower raw material. And we should see that raw material advantage continue because there's always a bit of a lag in raw material advantage. And so, while in some [indiscernible] (00:13:13) applications like consumer and industrial, there's certainly been in automotive. There's been a softer demand and some of that has maybe tightened up pricing and others like electrical and medical, we've seen higher demand and we've seen improved pricing. So, on average, I'd say our margin, variable margin has been pretty consistent quarter-to-quarter. And if anything, we're seeing just a little bit of margin expansion overall.

Duffy Fischer

Analyst, Barclays Capital, Inc.

Q

Okay. And then, if we just move to tow, the pandemic influence on cigarettes in your tow business, I mean I don't know but it's a respiratory disease. I can't imagine smoking cigarettes is enjoyable trying to wear a mask. Have you seen any influence on demand for either cigarettes or your tow business because of COVID?

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

No, not at all. We have not seen any impact on demand or any impact actually on smoking trends. In fact, if you look at China, China through June is showing a 2% increase in demand for cigarettes, and anecdotally, even in the US, if you see some of the reports coming out like Altria is reporting only a 2% decline this year versus what they thought would be a 4% decline in smoking. So, I would say in some areas of the world, it would appear people have more time in their hands and are using that time to smoke more not less as kind of strange as that seems in this period. So, we're not seeing any impact in demand if anything a little bit of an uptick.

Duffy Fischer

Analyst, Barclays Capital, Inc.

Q

Great. Thanks, guys.

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

Thank you.

Operator: Thank you. Our next question comes from P.J. Juvekar with Citi. Please proceed with your question.

Eric B. Petrie

Analyst, Citigroup Global Markets, Inc.

Q

Hey, Lori. It's Eric Petrie on for P. J.

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

Hi, Eric.

Eric B. Petrie

Analyst, Citigroup Global Markets, Inc.

Q

In the Engineered Materials, can you discuss your project pipeline? You were talking about moving some 4,000 last year to 5,000 this year. So, is that on track or has that slowed down with lower auto builds?

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

No. I mean actually, our Q2 is on track in terms of project wins with what we expected, despite the COVID challenges. And I would say, even if you look at kind of value per win which is where we're trying to focus this year which is more on value, that's actually been flat year-on-year which we think in the COVID environment is also good that we're getting good value out of our product. I would say our Engineered Material folks are just doing a fantastic job being creative, finding ways to actually increase the amount of contact we have with our customers even if it's remotely, being able to use a remote environment to get higher level contact with our customers, and using some really creative mechanisms like webinars to really not just touch existing customers, but also do prospecting for new customers. And so, we have found customers still want solutions. We're still in the business of providing solutions. Our folks are really focused on that. And in addition to the ones we called out, we've had several great examples of project wins in this quarter. I mean just to maybe, just put a little color around it, in medical grade POM, we had a pretty big win there for an auto injector application in Europe. We signed a development agreement with an app – for an application of our VitalDose EVA which came up pretty good, upfront development fee. We have a new high voltage connector application for electric vehicles for our flame-retardant nylon, which we also signed this quarter. And then we actually have quite a lot happening in the 5G space as folks are looking for better signal integrity, which is a great application for primarily LCP but also PPS, and then for light-weighting applications, which is maybe more around [ph] LFT (00:17:17) and other polymer. So, we're really excited about the wins that we're seeing in non-automotive space, but of course, [ph] we called out (00:17:26) we also had big wins this quarter in the automotive Tier 1 space as well.

Eric B. Petrie

Analyst, Citigroup Global Markets, Inc.

Q

Great. Thank you for that insight. And then turning to the Acetyl Chain, you expect some volume improvement in the third quarter but no pricing. So, [ph] just due to raw materials (0:17:43), you're expecting to remain benign for methanol and ethylene or could you talk a little bit about those raw material push on pricing versus a demand pull?

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

So second quarter raw materials was I would say kind of at an all-time low. It was lower sequentially from Q1 across all areas. I mean, methanol was very low in all regions. I mean, we're seeing 20% declines in the US and Asia in terms of pricing. Ethylene was very low at 15% declines in the US, 25% in Europe. Natural gas was low. I mean, everything was really low in Q2. As I said, to an earlier question, we are seeing maybe some slight movement upward in terms of raw material and also acetic acid pricing in Q3. But we saw that also in early Q2 and it didn't sustain. So, our assumption now for Q3 is we may see some movements with pricing. We may see some movement with raws. They tend to move together. So, we aren't really expecting much margin compression, but we're not expecting margin expansion either. So, that's our assumption going forward. If we see sustainable movement, there may be an opportunity for margin expansion, but we've not baked that into our numbers.

Eric B. Petrie

Analyst, Citigroup Global Markets, Inc.

Q

Okay. Thank you.

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

Thanks, Eric.

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

Q

Hey, good morning, nice quarter. Lori, what do you think the Acetyl Chain can get back to once maybe a post-COVID volume number or [indiscernible] (00:19:27) maybe a pre-COVID volume if you can get back there at some point in time and then – and what do you think needs to happen in terms of margins and pricing and to sort of get to that run rate?

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

Yeah, thanks, Mike. We still feel like kind of foundational level of earnings for the Acetyl Chain is in that \$175 million to \$200 million a quarter, so kind of that \$700 million to \$800 million per year. We feel pretty comfortable with that. I mean even if you look at where we are right now in this quarter at, say, \$116 million, we had an 11% volume loss due to COVID if you remove the Elotex acquisition which was 5%. So, that's about \$40 million right there and then we had another kind of \$20 million in price margin which I'd say was tied to those really low volumes and utilization particularly looking at VAM. So, if you look at that, we're still – we still feel like we're in that \$175 million to \$200 million range kind of without the extreme impacts that we saw from COVID on volume and that resulting impact on margin. So, I really think it just takes back to getting to more normal levels of utilization. If you look at utilization, this quarter, I mean this is really the lowest of the trough conditions. If you look at China, Chinese utilization was below 60%. Global utilization was only mid-60s. So, I think really to get back to that level of foundational earnings, we need to get back to the kind of 70% and higher level of utilization and it's really about recovering Western Hemisphere demand because that's really where we saw the weakness in the second quarter.

Michael Sison

Analyst, Wells Fargo Securities LLC

Q

Got it. And then when you think about 2021, you've accelerated some turnarounds, you have some cost savings. How much sort of growth do you have [ph] somewhat in your control (00:21:30) as you head into 2021 as sort of an anchor for some profitability improvement?

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

Yeah, so if we move into 2021, we're really looking if demand continues at the current trajectory, we're really then in 2021 nearing the levels we saw in 2019. As you noticed earlier with my optimism about our project model in EM, I mean we are having a lot of new project wins, new opportunities that we've developed that we think in the EM space will let us, again, assuming the demand recovery continues, let us exceed the levels that we had in 2019 based upon the new projects that we're seeing being developed. So, again, really around the EV space. Also, elective surgery, we had bit of a – almost I'd say a \$10 million surprise this quarter from elective surgery deferral. I mean, we knew they were being pushed out, but we expected them to come back. Yet, at the end of second quarter, we really haven't seen them come back. That was about a \$10 million hit in the second quarter.

Even in the third quarter, while we think elective surgeries come back, we aren't expecting much of that to come back in the third quarter. Because there are some inventories that need to be taken down at the – those suppliers. And so, that recovery really comes in fourth quarter and we think into 2021. So, we think that will be an upside going into 2021 as well. Acetyl inventories are generally pretty low, so we think as we see demand recovery, that will pull through to volume and margin in acetyl. And then as you said, we kind of have a \$70 million to \$80 million help next year from less turnaround.

Michael Sison

Analyst, Wells Fargo Securities LLC

Q

Great. Thank you.

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

Matthew DeYoe

Analyst, BofA Securities, Inc.

Q

Hi, thanks. So, the last few EM deals targeted nylon compounding, but I'm assuming that opportunity is a bit tapped out now. So, where do you see future cash deployment headed from a polymer technology standpoint?

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

Yeah, I mean, so we have targeted nylon. I mean, we've put a lot of money into nylon acquisitions a few years ago. And so, we've really been working to kind of exploit that part of our portfolio and that new capability that was the rationale behind those acquisitions. And I think quite frankly, there's a lot of runway left for us in nylon and especially in some of what we think are unique and good offerings we have around recycled nylon. So, again, our ECOMID series as well as our flame-retardant nylon. So, we actually think there's a lot of growth left in nylon with our existing assets, if you will. So, as we go forward, we'll continue to sell that as long – as well as our other polymers as you think about M&A going forward, our capability going forward. I mean clearly, there are some other polymers that may be of interest to us. We continue to look for ways to further expand our capability within some of the polymers that we have as well as expand our reach maybe to polymers that are focused on other end use sources or other geographies that we haven't penetrated completely.

Matthew DeYoe

Analyst, BofA Securities, Inc.

Q

Okay. And then you talked about the European compounding footprint consolidation you put at the press release. I may have missed it, but did you highlight any savings or synergies from that rationalization or optimization? Should we expect anything there or is it kind of like a [indiscernible] (00:25:18)?

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

Yeah, no, look, absolutely. I mean it's a bit tied to your previous question. I mean, when we did a series of acquisitions over the last few years, we assumed a certain level of synergies associated with being able to optimize footprint, further improve our compounding capability and skills, as well as the polymers that we acquired. And so, it usually does take us a few years to really get our handle on the business and what's happening and see where those opportunities are. So, this announcement of the consolidation of facilities in Europe and establishing a clear Compounding Center of Excellence at Forli, I'd say it's just really the natural

progression from those acquisitions that we made a number of years ago. And so, there's clearly productivity that comes with that as well as we think improvement in development capability, customer support, supply chain optimization, et cetera. I would think of it in terms of we typically only do projects that have greater than 20% return. This one falls into that category and it will have a two to three-year payout.

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

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Q

Thanks very much. What's been the growth rate in medical applications in your Engineered Materials business so far this year?

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

So, Jeff, I think that the medical application has been relatively flat year-over-year with some growth in some applications but clearly offset by the decline we've seen this year in elective surgeries and what that has been. Again, I don't think that's a long-term trend. I think as we have in previous years, we will continue to see mid-digit growth year-on-year in medical. But I think – so I think this is just a timing impact in terms of elective surgery. But because of that change in elective surgery this year, I would say relatively flat year-to-year.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Q

You have a relatively mild volume forecast in Acetyl Chain for the third quarter relative to the second quarter. Is that because of Celanese's own either restructuring activities or plant turnarounds or does it have to do with the rate of the growth of the acetyl industry itself? Maybe you could talk about the growth of the industry in the second quarter versus the growth of the industry in the third quarter?

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

Yeah, so I mean we did see some good recovery in volumes quarter one to quarter two as we saw Asia really coming back earlier, but we saw a lot of decline obviously in the Western Hemisphere in quarter two. Now, as we move into quarter three, we do expect, as like I said, modest volume growth in the Western Hemisphere. But we are being probably a bit conservative here in terms of what we think volume growth will be in the third quarter just based on what we're seeing as the trend so far.

Scott A. Richardson

Executive Vice President and Chief Financial Officer, Celanese Corp.

A

Jeff, if you look at Q2 on a year-over-year basis, we were down somewhere in the 20% range. If you look at Q3 year-over-year, that's probably more like 10% to 15%. So, that modest increase driven by some slight recovery in the Western Hemisphere.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Q

Great. Thank you so much.

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

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Q

Good morning. If I look at your acetate tow earnings in the first half of the year, your equity earnings from the JVs in China are up double-digits in percentage terms while the consolidated sales are down, looks like 22% or so. And so, my question is that seems a lot more pronounced than the underlying demographics, has that mix shift been more acute for Celanese for some reason? If so, why is that the case and do you expect it to continue?

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

Yeah. So, Kevin, I mean I think it's – there was a onetime event. We had a large contract which came off at the end of 2019, which actually shifted volume to our affiliate and took it out of our own earnings. And so that you're seeing that shift. That was something that was planned. We've called it out in past quarters. So, it really is that shift into affiliate of volumes coming from our affiliate versus coming from, if you will, Celanese production.

Scott A. Richardson

Executive Vice President and Chief Financial Officer, Celanese Corp.

A

Yeah, Kevin, if you can go back to our Investor Day in 2018, we telegraphed this that this would be coming.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Q

Understood. Thank you for that. And then second question relates to your acetyls business in Asia. In the prepared remarks last night, you referenced the expansion of some supply deals in Nanjing as well as Singapore. And so maybe a two-parter, was there any benefit associated with that in the second quarter? And then longer-term, does that have any bearing on your flexibility to rationalize assets in Asia if and when you eventually proceed with the expansions that you had planned in the United States.

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

Yeah. And so, look, I mean, these are contracts that have come up in a normal way for renewal. I mean, we've been happy renegotiating them in this environment that we've been able to get some additional productivity working with our supply partners. And so, we're happy about the security of supply this gives us in both Nanjing and Singapore going forward, as well as some additional flexibility we get in these locations going forward to really help us better manage our Acetyl Chain. So, there will be some productivity out of both of those contracts going forward. Most of that though will occur in future years in 2021 and beyond.

Scott A. Richardson

Executive Vice President and Chief Financial Officer, Celanese Corp.

A

And it does not limit our flexibility, Kevin, to continue with our reconfiguration project in Clear Lake when we start that back up again.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Q

Very good. I appreciate the color.

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

Hassan I. Ahmed

Analyst, Alembic Global Advisors LLC

Good morning, Lori.

Q

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

Good morning.

A

Hassan I. Ahmed

Analyst, Alembic Global Advisors LLC

A quick question around the Acetyl Chain and the interplay between product pricing and raw material pricing. I mean, if I remember correctly, historically, you guys talked about raw material volatility actually being a favorable – being favorable for that business line, right? And if we take a look like you rightly said through the course of the first half of the year, ethylene pricing came under tremendous pressure, methanol pricing came under tremendous downside pressure, and everything was kind of going down in a straight line. And now, we've seen some buoyancy in ethylene, some buoyancy in methanol, but there are enough sort of industry folks out there that expect that buoyancy to be short lived. So, the question really is, are you expecting raw material buoyancy going forward? And would that or would that not be a favorable environment for the AC business?

Q

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

Yeah. So, look, we have been a very low raw material pricing. I mean, we've been very low oil – low oil tends to draw low raws. And normally when we be low oil, low raws, we actually expect some margin compression in acetyls. We're actually – we're very pleased in Q2. That is really great work by our folks in the Acetyl Chain and constantly pushing the envelope around activations and movement of products throughout the trains, throughout the geographies that we were able to maintain our variable margins and not have any compression. Usually when we see raws going up, we would expect some margin expansion. But I think the way you characterize it is correct. There are some buoyancy but we are not convinced that that will remain. Again, we saw the same buoyancy at the beginning of Q2 but then saw raw materials go to some of the lowest that we've experienced in a decade. So, although we're seeing some buoyancy at the beginning of Q3, we don't still see any fundamentals that would lead us to believe that that is sustainable for the quarter.

A

Scott A. Richardson

Executive Vice President and Chief Financial Officer, Celanese Corp.

And that buoyancy we like, Hassan, as you mentioned, I mean, that up and down allows us to -- we will flex our assets that are based upon different raw materials and different feedstocks in different regions. And just that uniqueness of the model in acetyls, that up and down, that volatility, we tend to be able to make margins on.

A

Hassan I. Ahmed

Analyst, Alembic Global Advisors LLC

Very clear. And as a follow-up, again, sticking to the Acetyl Chain, recently, we obviously saw a large incumbent exit that business and I guess a new entrant would eventually be coming in. And one of the reasons cited for the exit was that the company talked about how they had kind of under-invested in that business over the years and

Q

they wanted to focus on their core business. How are you guys thinking about the evolution of the market, with I guess that large incumbent leaving, new entrants coming in, and some of the statements coming out as reasons behind that exit.

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

Yeah, look, INEOS is an experienced player in the business. We don't see any meaningful change in terms of the industry dynamics or competitiveness of the industry within INEOS replacing BP. So, we don't see any change. Look, I think there's a lot of reasons that transaction took place. I think INEOS will be a good steward of the business. And while they have an interest in expansion, I also don't believe that these margins, anybody's going to be interested in investing in these businesses [indiscernible] (00:36:10) level of margin.

Hassan I. Ahmed

Analyst, Alembic Global Advisors LLC

Q

Very helpful. Thanks so much, Lori.

Operator: Thank you. Our next question comes from Ghansham Panjabi with Baird. Please proceed with your question.

Ghansham Panjabi

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

Q

Hi, good morning, everyone.

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

Good morning, Ghansham.

Ghansham Panjabi

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

Q

Yeah. So, Lori, I just wanted to follow up on some of your recent comments on – just kind of stepping back over the last three years in particular. The Acetyl Chain has been very opportunistic in kind of flexing its global network and optimizing margins along the chain of molecules. I guess the question is, are opportunities going to be as plentiful in a diminished sort of global demand growth scenario where there's considerable excess capacity as you pointed out?

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

Yeah. Look, as we've said before, I mean, we really think our acetyl model is unique. It's unique in the breadth of the portfolio in terms of going all the way from methanol, [ph] all the way down (00:37:06) to redispersible powders. And it's unique in the fact that we have three very distinct routes from raw materials in these products. [indiscernible] (00:37:18) and in different geographies and that gives us a lot of optionality that others in the industry just can't replicate. And so, we think that opportunity continues through every scenario going forward. Look, acetyls will tend to grow at the rate of GDP. We tended to maybe even outpace that a little bit given the optionality, given our focus on end use customers and some of the derivatives in the Acetyl Chain. So, I don't see that changing going forward. We think acetyl continues to be a high margin business, maybe considered a commodity product, but we do not operate it in a commodity way.

Ghansham Panjabi

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

Q

Okay. That's helpful. And then just kind of thinking through the past few months. I mean, obviously, the pandemic has impacted each of the major regions differently. Just looking through the lens of Celanese, are the Western Regions recovering in line with maybe what you experienced in China or is it still too early to tell?

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

I think it's a little too early to tell. I mean China has had a fast recovery. Within China, I would say what has not fully recovered yet in China is exports from China. And you may recall last quarter, we called out one of the things we're looking for on recovery is when do China exports get back to previous levels because that's a good indication of Western Hemisphere recovery. So, starting to see some exports again but clearly not up to full level. I think the US, we're seeing – we saw pretty good signs of recovery especially in auto. How sustainable that is, well, I think we'll have to see what happens with COVID and do we see the economy continue to open up, do we see it start to contract again. I mean that's our concern going forward. I think Europe's been a little more sluggish initially but seems to be coming out of COVID a bit stronger, so maybe we see that continuing. So, I think it is very mixed by region both at the pace and also [ph] both about (00:39:21) uncertainty in the future. And I think we continue to watch the same things. We're looking for signs of Western Hemisphere recovery, a lot of which can be measured by what are exports doing in China.

Ghansham Panjabi

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

Q

Got it. Thanks so much.

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

Thanks, Ghansham.

Operator: Thank you. The next question comes from David Begleiter with Deutsche Bank. Please proceed with your question.

David I. Begleiter

Analyst, Deutsche Bank Securities, Inc.

Q

Thank you. Good morning. Just in Engineered Materials, why were volumes down in June and how are they trending year-over-year in July?

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

Yeah, I would say June volumes were up, actually up from May and July is up from June and August is trending pretty consistently with July at this point. We don't really have any visibility at this point, at this point on September. But steady monthly, good progression from May through July.

Scott A. Richardson

Executive Vice President and Chief Financial Officer, Celanese Corp.

A

Yeah, David, for the quarter in Q3, we're kind of looking at 10% to 15% down year-over-year if that's helpful. And it's a little different. Typically, August, we would see volumes come down versus July. We're not seeing that dip in the order book just given the differences that we're seeing this year.

David I. Begleiter

Analyst, Deutsche Bank Securities, Inc.

Q

That's helpful. Thank you. And just, Lori, you mentioned Ibn Sina having the big earnings decline in Q2 due to the low oil prices. They've come back a little bit. So, how do you think about Ibn Sina's earnings in the back half of the year at a little bit higher oil price?

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

Yeah. So, look, we did see Ibn Sina come down in the second quarter due to low oil prices. Again, Ibn Sina is a quarter delayed so that's low oil prices in Q1. Obviously, those low oil prices continued in Q2 which we will now see show up in our Q3 earnings. And then Q4 who knows, hopefully, a bit back up as we start to see oil going up again.

David I. Begleiter

Analyst, Deutsche Bank Securities, Inc.

Q

Very good. Thank you very much.

Operator: Thank you. The next question comes from the line of Frank Mitsch with Fermium Research. Please proceed with your question.

Frank J. Mitsch

Analyst, Fermium Research, LLC

Q

Thank you so much. I appreciate some of the commentary with respect to the second quarter and the third quarter. I was wondering if I could get a little more granular in terms of the monthly progression that you saw through the second quarter and how has July actually been coming in in terms of your volumes?

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

Yeah, so I mean for both EM and for acetyl, I would say the same trend is true. I mean we definitely saw July being stronger than June and we're seeing August coming in pretty consistent with July both in terms of volume and margin.

Frank J. Mitsch

Analyst, Fermium Research, LLC

Q

And the fact that August is coming in consistent with July would be more positive than you've seen in prior years, is that correct?

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

Yeah, no, that's correct because usually we see the impact especially in Europe of extended vacation periods and we are anecdotally hearing some workplaces in Europe are not shutting down in August like they typically do

because they've already been down for so long and so we think that's pulling through in a bit more strings in August than we typically see.

Frank J. Mitsch

Analyst, Fermium Research, LLC

Q

Very, very helpful. And you suggested that the industry operating rates in the second quarter for acetic acid were in the mid-60s and VAM was in the mid-70s during the second quarter. Where are those numbers now?

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

They aren't significantly moved from Q2 in terms of overall global operating rates.

Frank J. Mitsch

Analyst, Fermium Research, LLC

Q

Thanks so much.

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

Yeah.

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

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Q

Good morning. Thanks for taking my question. Just curious you talked previously about the opportunity for about \$0.50 from productivity/supply chain investments as well as \$0.50 from buybacks. Could you just update us on the possibility of realizing that over the next year-and-a-half or so?

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

Yeah. So, I am completely confident in our ability to achieve the \$0.50 from productivity. Year-to-date, we're at \$135 million of productivity. So, two-thirds of the way already to the \$200 million target that was associated with that \$0.50. So, feel very confident we'll get that \$200 million. Just to put it in perspective where that comes from, so about a third of that productivity comes from optimization of our footprint and other manufacturing optimizations. About a third comes from raw material and logistic productivity. And then about a third from revenue optimization, SG&A, and kind of everything else. So, given that it's a very balanced way we get productivity, feel completely comfortable, we'll achieve at least that \$200 million target. And you might recall, we also have another \$30 million to \$40 million of onetime cost savings in 2020 that we expect to get this year, which will be even a bit more help. So, things like travel reduction, additional manufacturing savings associated with slowdown, with shutdowns, and corporate functions, et cetera. So, feel very comfortable in that \$0.50. I mean, on the \$0.50 share buybacks, clearly, our balance sheet is in a good position right now. And so, we feel like that's certainly achievable. But let me hand it to Scott.

Scott A. Richardson

Executive Vice President and Chief Financial Officer, Celanese Corp.

A

Yeah. So, Arun, we did a little over \$100 million in the first part of the year, which will get us some of that. We announced \$500 million as part of the Polyplastics deal, which will make that an accretive transaction. So, we'll get a little bit more from that. And then you've got the balance of the \$800 million from that deal that will be deployed either through M&A or additional repurchases into next year. So, between all of that, we should exceed that \$0.50 that we had originally called out as we get into the middle part of next year.

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Q

Great. Thanks. And maybe you could just get your perspective on acetic and VAM pricing as you go through the rest of this year and maybe even the next year. I mean, is it fair to assume that there's going to be limited opportunity there just given low operating rates and maybe methanol remaining relatively low as well. How are you looking at kind of overall pricing opportunities in the AC chain? Thanks.

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

Yeah, so I think if we look at the entirety of the AC chain, I think pricing will tend to move across. I think we won't see a lot of margin pressure but I'm not sure given the low capacity utilization, we'll also see a lot of opportunity for margin expansion. And so, while we may see pricing go up, I don't – if raws go up, I don't think we'll see a lot of additional margin there. I think there's probably a little more opportunity in VAM and downstream of acetic acid as those tend to have slightly higher utilizations already. And especially now as we move remain in a strong construction season through Q3, there may continue to be some opportunities there on pricing. But again, as we move into Q4, that tends to fall off a bit.

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Q

Okay. Great. Thanks.

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

Yes.

Operator: Thank you. Our next question comes from William (sic) [Matthew] (0:47:14) Blair with Tudor Pickering Holt. Please proceed with your question.

Matthew Blair

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

Q

Hey, Lori, it's Matthew Blair with TPH. I'm just wondering how you're thinking about free cash flow targets for 2020. At one point, you were aiming for about \$900 million then COVID hit, but you still have \$418 million year-to-date. You've also outlined the extra \$400 million of tailwinds from things like productivity and lower CapEx. So, do you think something like, I don't know, \$1.0 billion to \$1.2 billion of free cash flow in 2020 is a good range?

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

Yeah, look, we've previously – before COVID, we were looking at a range of \$800 million to \$900 million of free cash flow. As we went into COVID, we've obviously clearly been fixated on free cash flow and making sure we take steps to try to preserve free cash flow. We did identify the \$400 million that you referenced of additional

steps we can take on free cash flow. But again, we've also had a pretty large EBIT decline associated with COVID volumes and margins. So, we still think we're that given our strong first half performance, that we will be north of the \$800 million mark on free cash flow that we had laid out earlier.

Matthew Blair

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

Q

That's helpful. Thanks. And then the release noted that turnaround costs in 2021 would be meaningfully lower, can you share any numbers around that and in particular any details by segment?

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

Yes. So, on turnaround, we will be meaningfully lower in 2021. If you look at where we are earlier this year, again pre-COVID, we thought turnarounds were in the \$70 million to \$80 million for 2020. We've now pulled in the Frankfurt POM which is \$20 million to \$30 million. So, this year, our total outlook for turnarounds will be in the \$90 million to \$110 million range. In 2021, that goes back to \$20 million to \$30 million. [ph] And I would say (00:49:20) \$20 million to 430 million is pretty evenly split between EM and AC.

Matthew Blair

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

Q

Thank you.

Operator: Thank you. The next question comes from John McNulty with BMO Capital Markets. Please proceed with your question.

Bhavesh Lodaya

Analyst, BMO Capital Markets Corp.

Q

Hi, good morning, Lori. This is Bhavesh Lodaya for John.

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

Hi.

Bhavesh Lodaya

Analyst, BMO Capital Markets Corp.

Q

First, on your commentary for the third quarter. So, it looks like sequentially, EM is expected to see strong growth. And then the rest of the segment will be more balanced with their own pluses and minuses. So, if we add the \$60 million of EBIT or so to the EM and keep the rest unchanged from sequential 2Q level, we are looking at, call it, \$260 million of EBIT for the next quarter. So, the question is, is it as straightforward as that or obviously any matter supply this could impact that. But are there any other moving pieces which can cause this target to move materially?

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

Yeah, so we are really suggesting for Q3. The recovery will be in EM. We expect to recover about 50% of the decline. We saw Q1 to Q2, we expect to recover going back into Q3. We also get some help from not having a

[ph] bishop turnaround (0:50:38) in Q3 but that's offset by some further decline in Ibn Sina. And again, in AC and tow, we expect them to be relatively flat with Q2 performance.

Bhavesh Lodaya

Analyst, BMO Capital Markets Corp.

Q

Got it. And then if we move to the 2021 comment. So, you mentioned that you expect demand growth for 2021 to be beyond 2019 levels, is the implication that you could see higher earnings as well in 2021 versus 2019 levels, are those pricing and other headwind remain kind of like the big unknowns?

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

Yeah, so I think we expect for AC, demand level is probably similar to 2019. For EM, we would expect assuming the demand trajectory continues, level similar to 2019 with maybe some upside due to the project wins that we are having this year in fairly robust sectors like EV, like 5G, like medical, that we think may give us some upside next year versus 2019.

Scott A. Richardson

Executive Vice President and Chief Financial Officer, Celanese Corp.

A

Yeah, Bhavesh, I think the timing of when we see the full recovery will kind of determine exactly where the overall annual earnings end up. If we finish this year and start next year at demand levels similar to 2019 at the beginning of the year, then yeah, I think that's a decent assumption. However, if we see things still kind of ramping back to those levels as we begin the year, you may not get to that level till somewhere in the middle part of the year. So, just the level of visibility we have still to where we'll see that recovery and when we'll see it get back to those levels is still a little bit uncertain.

Bhavesh Lodaya

Analyst, BMO Capital Markets Corp.

Q

Got it. Got it. Thanks, Lori and Scott.

Abe Paul

Vice President - Investor Relations, Celanese Corp.

A

Hey, Jesse, we'll go ahead and make the next question the last one for the call.

Operator: Thank you. Our final question comes from the line of Jim Sheehan with SunTrust. Please proceed with your question.

James Sheehan

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Good morning. Thank you. Can you comment on acetic acid inventory levels in China? And also, the reports of high water levels on the Yangtze River impacting shipments from Nanjing, are you seeing any shipment delays because of this?

Lori J. Ryerkerk

Chairman, Chief Executive Officer and President, Celanese Corp.

A

Yeah, so inventory levels generally globally are reasonably low for acetic acid. I mean, there has been some build in other products made from acetic acid in China associated with the lack of exports. So, we have yet to see how

that play out. I will say on the Yangtze, we have not seen any impact at all to our operations associated with high water levels or otherwise. We've not had any supply chain problem.

James Sheehan

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thanks. And can you comment on political proposals to raise the US corporate tax rate to 28%? How much impact might that have on your effective tax rate?

Scott A. Richardson

Executive Vice President and Chief Financial Officer, Celanese Corp.

A

Jim, we're still working through those and I think it's really too early to say. Obviously, we have a pretty global network. And so, you won't see a straight flow through to all of our earnings. So, we will continue to look at that and a lot would depend upon where demand levels are broadly from a global perspective.

James Sheehan

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thank you.

Operator: Thank you. We have reached the end of our question-and-answer session, so I'll turn the floor back over to Mr. Paul for any additional or closing comments.

Abe Paul

Vice President - Investor Relations, Celanese Corp.

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

Operator: Thank you. Ladies and gentlemen, this does conclude today's teleconference. Once again, we thank you for your participation and you may disconnect your lines at this time.

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