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Celanese Corp. (CE)

Q1 2012 Earnings Call
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OTHER PARTICIPANTS

David Ian Begleiter  
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Edlain Rodriguez  
Analyst, Lazard Capital Markets LLC

Robert A. Koort  
Analyst, Goldman Sachs & Co.

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Analyst, Citigroup Global Markets (United States)

Nils Wallin  
Analyst, Credit Agricole Securities (USA), Inc.

Kevin McCarthy  
Analyst, Bank of America Merrill Lynch

Rob Walker  
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Frank J. Mitsch  
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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the First Quarter 2012 Celanese Earnings Conference Call. My name is Derrick (00:05) and I’ll be your operator for today. At this time all participants are in a listen-only mode. We will facilitate a question-and-answer session at the end of the conference. [Operator Instructions] As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the conference over to Mr. Jon Puckett, Vice President – Investor Relations. Please proceed.

Jon Puckett  
Vice President-Investor Relations, Celanese Corp.

Thank you, Derrick, and welcome to the Celanese Corporation First Quarter 2012 Financial Results Conference Call. My name is Jon Puckett, Vice President – Investor Relations. On the call today are Mark Rohr, Chairman and Chief Executive Officer; Steven Sterin, Senior Vice President and Chief Financial Officer. Also in the room today are Doug Madden, Chief Operating Officer, and Mark Oberle, Senior Vice President – Corporate Affairs.

The Celanese Corporation first quarter 2012 earnings release was distributed via Business Wire this morning and is posted on our website, celanese.com. The PowerPoint slides referenced during this call are also posted on our website. Both items were submitted to the SEC in a current report on Form 8-K.
During this call management may make forward-looking statements concerning, for example, Celanese Corporation’s future objectives and results, which will be made under the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. The limitations inherent in such forward-looking statements are detailed in the earnings release referenced during this call.

Celanese Corporation’s first quarter 2012 earnings release references the performance measures operating EBITDA, business operating EBITDA, affiliate EBITDA and proportional affiliate EBITDA, adjusted earnings per share and net debt as non-U.S. GAAP measures. For the most directly comparable financial measures presented in accordance with U.S. GAAP and our financial statements and for a reconciliation of our non-U.S. GAAP measures to U.S. GAAP figures, please see the accompanying schedules to the first quarter earnings release posted on our website, celanese.com.

This morning, Mark Rohr will briefly review the performance of the company and Steven Sterin will provide an overview of the business results for each segment and the financials. We will have a question-and-answer period with Mark, Steven and Doug following the prepared remarks.

I’d now like to turn the call over to Mark Rohr. Mark?

Mark C. Rohr
Chairman, President & Chief Executive Officer, Celanese Corp.

Thanks, Jon. And welcome everyone to today’s call. It’s a pleasure to be here and I’m honored to be joining as the CEO of Celanese and we all look forward to your questions after our remarks.

Before I get into a few details on this quarter, I’d like to highlight some recent accomplishments that we are particularly excited about. In March, we received key government approvals to produce ethanol for industrial use at our Nanjing facility. This is a significant milestone as we move the coal-based ethanol opportunity closer to reality.

Additionally, continued advancements in TCX catalyst technology have allowed us to expand the capacity of this plant by 30% to 40% without capital addition, getting us to about 275,000 tons. We have begun construction and anticipate this unit will be operational in the middle of 2013.

Also want to mention the completion of the acquisition of several product lines from Ashland’s for our emulsions business. I’m very impressed with the new product improvements we’ve made in this segment and this acquisition help us – helps us to continue to advance the value of this business. As we end the quarter, Moody’s Investors Services and Standard and Poor’s Rating Services both raised our outlook to positive.

Balancing growth objectives with debt reduction and cash distribution in a way that moves us to investment grade is important to me and to the Celanese leadership team. For the quarter, I’m pleased to report net sales of $1.63 billion, an increase of 3% over the prior year period and 1% over the fourth quarter. Diluted EPS from continuing operations came in at $1.15 per share. That’s an increase of $0.28 per share or approximately $0.32 – 32% over 2011 and it’s an increase of $0.54 per share and approximately 89% over the fourth quarter.

Adjusted earnings per share, which excludes these tax credits and other charges and adjustments, was $0.72 per share. These earnings are down $0.24 per share from the first quarter of 2011 and up $0.14 per share or 24% sequentially.
Our year-over-year earnings were impacted by weakness in the Acetyl chain that is a reflection of soft demand in China and Europe, which ultimately led to oversupply in Asia outside of China. Demand, prices and margin were all impacted as a result. We saw similar softness in some advanced engineering materials market segments contributed by weak automobile builds in Europe, which is classically a very strong segment for Celanese.

Weakness in the industrial and electronic sectors also were seen that were beyond our expectations. In addition to these economic impacts that I mentioned, we continue to see strong raw material inflation trends. They keep pushing the need to drive product pricing. In 2011, we saw our raw material cost increase $280 million year-over-year and we expect raw materials to rise another $100 million to $110 million this year. Some of this inflation pinched our margins this quarter, and while I believe we are taking steps to overcome these costs, it nonetheless represents a challenge for us.

In spite of these near-term challenges, we are working hard to deliver on our earnings commitment for the year, and to be honest we have seen some favorable trends. But to help overcome this slow start, we have focused on items we can control. So let me give you a few examples. First, we are concentrating our customer-facing efforts to make certain we are taking advantage of every opportunity to drive profit and growth. We have done a good job of this historically but I'm challenging our leadership team to get even closer to our end markets so we can better anticipate their needs and meet them.

Second, we need to run our plants to drive profitability and, if our margins are below a level that makes sense, we'll take actions needed to improve our financial performance. We have gotten ourselves in this situation during the first quarter and have idled our 600,000-ton Singapore facility as a result.

And third, we have historically focused on productivity and cost initiatives across the company to maximize value. We now have an increased focus on variable costs and process technology improvements and I believe we can further enhance our performance this year and create value for our stakeholders that will offset some of the market volatility.

By focusing our team on things they can control, my goal is to not only continue to generate great results but to accelerate the trajectory of earnings growth and shareholder returns as we go forward.

With that, I will now turn the call over to Steve Sterin.

Steven M. Sterin  
CFO, President-Advanced Fuel Technologies & SVP, Celanese Corp.

Great. Thanks, Mark. Let’s review the first quarter performance and the year’s outlook for each of our segments, starting with Advanced Engineered Materials on slide eight of the earnings presentation. Despite recessionary trends in the European economy, the AEM business delivered significant revenue and earnings growth sequentially. Net sales increased to $317 million – $25 million, or approximately 9% above Q4 – primarily due to higher seasonal volume as demand improved sequentially in the auto and industrial goods sectors in both North America and Europe. Operating EBITDA increased to $94 million, up $21 million or approximately 29% from the fourth quarter, due to the higher volumes and growth in our affiliates.

Looking ahead to the second quarter, we expect earnings growth on increased volumes across the business, particularly with our industrial customers in both North America and Asia. North American auto builds are also expected to reflect good growth and should drive higher volumes. Additionally, affiliate earnings are expected to increase sequentially.
Let's now turn to Consumer Specialties on slide nine. Net sales were $264 million, down $42 million from the fourth quarter, primarily due to the previously announced production interruption as well as normal seasonality in the quarter that resulted in a 17% reduction in volume sequentially. Our operations team did a great job of managing through the interruption. And as a result, we were able to provide more products to our customers in the quarter than we originally anticipated. Pricing increased 3% sequentially and partially offset the decrease in volume. Operating EBITDA was $66 million, down $7 million from Q4.

Looking forward to the second quarter of 2012, we had originally expected $20 million to $25 million of operating EBITDA, which shift from Q1 to Q2 due to the interruption. We now expect between $10 million and $15 million of incremental EBITDA in Q2 on a sequential basis. Also, dividends from our Acetate China ventures, which are typically received in the second quarter, are expected to be modestly higher than last year's $78 million. As a result, we expect segment earnings in the first half to be higher than the same period last year and full-year earnings to be slightly higher than 2011.

Turning now to Industrial Specialties on slide 10, this business' performance reflects continued success in geographic growth and development of new innovative applications. Net sales increased to $309 million – $37 million or approximately 14% above Q4 – driven by strong volume growth in North America and Europe as demand increased for our innovative applications, primarily in paint, coatings, adhesives and paper. Our recent expansions and the acquisition in emulsions also benefited Q1.

Pricing declined sequentially primarily in Europe and Asia due to product mix. Q1 earnings also benefited from favorable raw material costs. Operating EBITDA increased to $34 million – $4 million or approximately 13% above Q4.

As we look ahead, we expect second quarter volumes will increase globally due to higher demand for our innovative products, including the continued benefit from styrene-butadiene replacement in paper and carpets. Our pricing initiative should reflect the value of our applications as well as actions taken due to higher raw material prices. As a result, second quarter earnings are expected to be up over Q1.

Let's now turn to Acetyl Intermediates on page 11. Net sales were up slightly to $852 million. Operating EBITDA was $83 million, a $12 million decrease from Q4, due to slower expected demand in Europe and Asia outside of China.

Additionally, we experienced a significant spike in ethylene and other oil-based raw materials in the quarter. We do not believe current margin conditions are appropriate or reflective of the value of our acetyl products. As a result, toward the end of the first quarter we took action and idled our 600,000-ton Singapore acetic acid plant. We've also announced price increases for our acetyl products. We are seeing initial positive signs from our actions, as margins improved toward the end of the first quarter and into the early part of the second quarter. We anticipate our actions will provide improved performance for this business in the second quarter.

Strategic affiliates' performance is highlighted on slide 12. In the first quarter, we reported $51 million of earnings from our strategic affiliates, a 10% increase over the prior-year period. We also received a special cash dividend from one of our Asian strategic affiliates during the first quarter, some of which reflected dividends from prior earnings.

Let me remind you that due to accounting rules our results do not reflect $37 million of proportional equity Affiliate EBITDA, as they are reported on a net income basis in our EBITDA. You can find further detail on our affiliate performance and this proportional share on table eight of our earnings release.
Turning to slide 13, our adjusted free cash flow was $112 million in the first quarter of 2012, or more than double Q4’s amount, in part due to higher dividends from our strategic affiliates in Asia and lower interest expense. We delivered these results even with a higher pension contributions on a sequential basis and the payment of our annual bonuses in the first quarter.

Our 2012 outlook for adjusted free cash outflows is highlighted on slide 14. Our forecast for capital expenditures includes our previously announced accelerated industrial ethanol projects. We expect to continue to generate strong cash flows that position us to create value for our shareholders and that reflects our ongoing fiscal discipline. Additionally, the board recently approved a 25% increase in our dividend, which will be effective in August of this year.

With that, I will now turn the call over to Jon for Q&A.

**Jon Puckett**

*Vice President-Investor Relations, Celanese Corp.*

Thanks, Steven. We have a lot of people on the line today. So we would ask that you ask one question with one follow-up and then get back into the queue. So with that, Derrick, I’ll turn the call over to you.

**QUESTION AND ANSWER SECTION**

**Operator:** [Operator Instructions] And our first question is coming from the line of David Begleiter from Deutsche Bank. Please proceed.

**David Ian Begleiter**

*Analyst, Deutsche Bank Securities, Inc.*

Q  
Good morning.

**Mark C. Rohr**

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

A  
Good morning, David.

**David Ian Begleiter**

*Analyst, Deutsche Bank Securities, Inc.*

Q  
Mark, could you just address some of the 2013 targets that your predecessor put out there in terms of both EBITDA and EPS?

**Mark C. Rohr**

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

A  
Yeah, David, I think 2013. So if we look sort of at our business model today and look at the steps we are taking that will drive profitability, things like the Spondon shutdown, the Nantong expansion and then a couple of them, bringing the new ethanol plant online, the advances we’re expecting in our base businesses, we can see numbers that push us into the mid-$5 kind of range, before we do anything else to drive profitability. I want to remind you that when you look at the cash generation of Celanese, we could add as much as $10 a share of cash at that time, too. So we’re looking for ways to put that cash to work. I think originally, and I’ll – as Steve had commented – I think originally the team came out with a range in the $6 range and I certainly think that’s still possible but we’ve
got six pretty tough months in here and so we’re really putting together the case now to support that. And right now we can see $5.50 or something like that. Steven?

Steven M. Sterin  
CFO, President-Advanced Fuel Technologies & SVP, Celanese Corp.

Yeah, as Mark said, we can – got good line of sight to $5.50 and given the current slower economic market conditions, but the $6 that we’ve always talked about also included some assumptions on use of cash, David, as you recall. And if we look at where we should finish this year and next year with cash flow, given our strong cash generation, we should be in the neighborhood of $1.5 billion of cash that we’ll continue to deploy in a fiscally responsible manner to drive earnings growth and return to shareholders and also help drive long-term growth as well.

David Ian Begleiter  
Analyst, Deutsche Bank Securities, Inc.

Thank you. And, Mark, just on the Singapore shutdown, is that shutdown still ongoing and why, as a low-cost producer, are you taking down capacity and perhaps supporting some higher-cost producers to be sustained here?

Mark C. Rohr  
Chairman, President & Chief Executive Officer, Celanese Corp.

Yeah, the plant is still idle as we speak, David. And I think if you broadly look at, Singapore is a competitive plant but I just want to say that there was a lot of disruption in Asia outside of China this first quarter. We had a lot of acid going into that market as slowdowns occurred in some of the base markets around the world. And so it was really a situation that we felt that we should just stop participating in that market and really start signaling our intent not to sell material at these prices.

I think that has been a good financial move for us, when we look at it. So I think we’ve gotten some good response pretty quickly from our customers relative to that. So that’s the situation we’re in. As soon as we can see a situation where margins have returned and demands return in a balanced fashion, then we will bring it back up, but until then we’ll keep it idle.

Steven M. Sterin  
CFO, President-Advanced Fuel Technologies & SVP, Celanese Corp.

Yeah. The – I will add just one comment. Our Singapore plant is a low-cost facility; it’s one of the lower-cost out there. It’s not the highest – but it is our highest-cost facility in our network. So particularly when AOC is weak, we’ve in the past talked about that fact and that we will manage our capacity. If we find margins unacceptable then we’ll bring that plant down to maximize the profitability of the business.

David Ian Begleiter  
Analyst, Deutsche Bank Securities, Inc.

Thank you very much.

Mark C. Rohr  
Chairman, President & Chief Executive Officer, Celanese Corp.

Thanks, David.

Operator: Your next question is coming from the line of Edlaim Rodriguez from Lazard Capital Markets. Please proceed.
Edlain Rodriguez  
Analyst, Lazard Capital Markets LLC

Thank you. Good morning. Just one quick question on AEM, like in terms of visibility, like how much do you have in there? And so far are you seeing any improvement in demand in the key end markets for AEM?

Steven M. Sterin  
CFO, President-Advanced Fuel Technologies & SVP, Celanese Corp.

Yeah. It’s one of the businesses where we’ve got a little bit longer outlook, Edlain, on the order books. And as we moved into the second – so in the first quarter we saw weakness, principally in Europe automotive. You’ve seen the numbers by now, auto builds were down low double-digits in Europe, so that affected us in the first quarter. And we also saw weakness in I would say broad industrial applications as Europe moved into what appears to be a recession in the first quarter.

But as we look forward to the second quarter, North America and Asia appear stronger on a sequential basis, so our early look is leading us to believe that we’re going to have sequential earnings improvement in that business.

Edlain Rodriguez  
Analyst, Lazard Capital Markets LLC

Okay. And just from a [indiscernible] (17:43) for the auto industry, are you expecting – what are you seeing in terms of number of shortage in nylon too that seems potentially could impact auto builds globally? Is that a concern to you at all?

Steven M. Sterin  
CFO, President-Advanced Fuel Technologies & SVP, Celanese Corp.

Edlain, what’s your first sentence?

Edlain Rodriguez  
Analyst, Lazard Capital Markets LLC

I mean the potential impact of a shortage of Nylon 12.

Steven M. Sterin  
CFO, President-Advanced Fuel Technologies & SVP, Celanese Corp.

Okay.

Edlain Rodriguez  
Analyst, Lazard Capital Markets LLC

That could impact auto builds. Is that a concern to you?

Steven M. Sterin  
CFO, President-Advanced Fuel Technologies & SVP, Celanese Corp.

Yeah, Edlain, we actually think it’s an opportunity. If you look around the industry, and you read the same things we do that are out in the public domain, clearly there is a concern about it. Early indications are it doesn’t affect auto production. And frankly, given some of the products that we have and the capabilities where we see it as an opportunity for us to place some of our products and we are in the process right now of doing it. So near term, no issues. It’s one of those things it sounds like it’s a stay tuned as the industry wrestles with it, but we believe that
there will be some expedited specifications that will have to be granted in order for the industry to continue to produce.

Edlain Rodríguez  
Analyst, Lazard Capital Markets LLC

Okay. Thank you.

Mark C. Rohr  
Chairman, President & Chief Executive Officer, Celanese Corp.

Thanks, Edlain.

Operator: Your next question is coming from the line of Bob Koort from Goldman Sachs. Please proceed.

Robert A. Koort  
Analyst, Goldman Sachs & Co.

Thank you, good morning.

Good morning, Bob.

Robert A. Koort  
Analyst, Goldman Sachs & Co.

Could you guys address – just remind us about your raw material situation in AI? Seems like, if I recall, you had some favorable methanol and ethylene contracts. Are those still in existence and what’s the outlook there? And then when you go into your intermediates, what are the raw materials – specifically you cited some benefit there – what was helpful to that division?

Douglas M. Madden  
Chief Operating Officer & Executive Vice President, Celanese Corp.

Yeah, so if you look at AI specifically, let me kind of first take you around the world and share with you how we think about it. We saw the pressure on raw materials, as Mark and Steven said. We’ve said contractually in North America where we are able to have contracts that allow us to pass through generally a good amount of that. I think probably about 50% that’s private contracts.

Europe is a little bit more freely negotiated, although we do have some protection, probably more exposure there. You see that principally in ethylene, and I think as a general statement where we have seen the real run-up is on the ethylene side, so the downstream derivatives that consume it through our chain.

And then in Asia, as you know, it’s a more transactional environment, so you are driven there not only by raw materials but frankly by supply and demand and where do you see the pinch that we are referring to, particularly in Asian margins dropping, is when you have a supply-demand imbalance but you’ve got escalating raw materials. So typically those are businesses that have lagged because of that a quarter or two in the recovery of it. But generally speaking, we continue to push and to press for – for price increases out in the marketplace.
Robert A. Koort  
Analyst, Goldman Sachs & Co.

And on the intermediate side, or the downstream industrial specialties, what was giving you help there?

Douglas M. Madden  
Chief Operating Officer & Executive Vice President, Celanese Corp.

Same thing. Remember, in that model we typically had lagged on the way up; we lag on the way down as well, and they saw a couple of things. One is they saw some price movement in the quarter on a year-over-year basis and certainly sequentially. And we got some raw material benefits that were lagging as well principally out of Q4 sequentially into Q1.

Steven M. Sterin  
CFO, President-Advanced Fuel Technologies & SVP, Celanese Corp.

Yeah, [indiscernible] (21:39) one of the raw materials and on a sequential basis you saw that [indiscernible] (21:43) prices were a little bit lower than some of the published data. So the business tends to hold it for a short period of time.

Robert A. Koort  
Analyst, Goldman Sachs & Co.

And I'd ask on methanol, is there any contract exploration with Southern, can you talk about what your situation there is?

Mark C. Rohr  
Chairman, President & Chief Executive Officer, Celanese Corp.

Unchanged.

Steven M. Sterin  
CFO, President-Advanced Fuel Technologies & SVP, Celanese Corp.

Long-term contracting has got multiple years left on it.

Operator: Your next question will be coming from the line of P.J. Juvekar from Citi. Please proceed.

P.J. Juvekar  
Analyst, Citigroup Global Markets (United States)

Good morning, Mark.

Mark C. Rohr  
Chairman, President & Chief Executive Officer, Celanese Corp.

Good morning, P.J.

P.J. Juvekar  
Analyst, Citigroup Global Markets (United States)

Just a quick question.
Mark C. Rohr  
*Chairman, President & Chief Executive Officer, Celanese Corp.*

Hey, P.J., get a little closer to your mic if you can. We are having trouble hearing you.

P.J. Juvekar  
*Analyst, Citigroup Global Markets (United States)*

Sorry about that, can you hear me?

Mark C. Rohr  
*Chairman, President & Chief Executive Officer, Celanese Corp.*

Yes, that's good, P.J. Thank you.

P.J. Juvekar  
*Analyst, Citigroup Global Markets (United States)*

Thank you. A quick question for you on the strategy. So far, Celanese in acetyl used to run as a low-cost player and maximize volumes, but with you arrival it seems like maybe you're focusing more on margin improvement rather than market share. Is there a change in strategy that I sense?

Mark C. Rohr  
*Chairman, President & Chief Executive Officer, Celanese Corp.*

Well, it's important that Celanese maintain its position as a low-cost producer. And so we're investing a lot of money to keep that position. We just went through a gut check to validate that, looking at every site around the world versus our capability and we still firmly believe we command that position. I think the real question for me is do you want to keep pushing that cost curve or do we simply want to just run this business to make sure we maintain that position but drive profitability, and that's currently what we're focused on. So I don't think you should look at this as a sea change. We're not going to over time maintain our percent of market share, but you should look at it as we're going to make investments to extract higher value from acid and through the acetyl chain. And if that means that we need to idle one plant or re-direct product in a different direction, we will – we will certainly be doing that, P.J.

P.J. Juvekar  
*Analyst, Citigroup Global Markets (United States)*

Okay. And then a quick question for Steve about the $10 million charge. It's an outage which is part of ongoing business. So I was wondering why you decided to call that out if it was not due to natural disasters like flood or hurricanes? And secondly, in fourth quarter you had mentioned that the charge would be more like $20 million and you took $10 million here. So can you just talk about the outage charge?

Steven M. Sterin  
*CFO, President-Advanced Fuel Technologies & SVP, Celanese Corp.*

Yeah, P.J., when we have a significant outage that's caused by some form of disaster, actually it was due to lightning, that we think we have either an insurance or legal claim that we can make against that, we will exclude the direct charge, which is the $10 million you are referring to. And then when we receive the insurance proceeds or the legal settlement, we exclude that as well. So that's what the $10 million is. So that's the direct cost that we've had to incur as a result of the strike.
Set that aside for a minute and the $20 million to $25 million is different. That was the volume impact that we expected to see on an EBITDA basis shift from the first quarter to the second quarter, which we obviously don't adjust that. That shows up as it shows up. The good news is we were able to get about $10 million more volume out in the first quarter than we thought we would be able to. We got the plant up and running a little bit faster than anticipated. So the first quarter had that volume benefit and then as we move forward to the second quarter, we will make up the rest of the $25 million, so on a sequential basis you'll see volume improvements in that business because of the outage.

**Operator:** Your next question will be coming from the line of Nils Wallin from CLSA. Please proceed.

**Nils Wallin**  
Analyst, Credit Agricole Securities (USA), Inc.

Good morning and thanks for taking my question. In the past Celanese has said there were some raw material or maybe footprint available – availability issue at Nanjing. So given the new ability to produce your industrial ethanol when the plant gets scaled up above your initial estimates of about 200,000 tons, will you be able to produce at that higher level? Will you need to source raw materials from somewhere else or what would be any sort of constraint?

**Mark C. Rohr**  
Chairman, President & Chief Executive Officer, Celanese Corp.

No, Nils. We can produce. We've got sufficient assets to produce the ethanol. Is that your question?

**Nils Wallin**  
Analyst, Credit Agricole Securities (USA), Inc.

Yes, yes.

**Mark C. Rohr**  
Chairman, President & Chief Executive Officer, Celanese Corp.

Yes.

**Steven M. Sterin**  
CFO, President-Advanced Fuel Technologies & SVP, Celanese Corp.

Yeah, if you look at the overall balance, as Mark said, we've got the base raw materials we need to produce the product. You know, we've got the fixed amount of syngas. So what we will do is we'll actually cut back on the production of other products like acetic acid and make ethanol, which will on a net basis improve the profitability of the site.

**Nils Wallin**  
Analyst, Credit Agricole Securities (USA), Inc.

Thank you very much.

**Operator:** Your next question will be coming from the line of Kevin McCarthy from Bank of America Merrill Lynch. Please proceed.

**Kevin McCarthy**  
Analyst, Bank of America Merrill Lynch
Yes, good morning. With regard to your decision to idle the 600 kilotons of acid at Singapore, I seem to recall that historically you were running a somewhat heavier feed slate there. Is that still the case, and if so is there any opportunity to retrofit that or do some operational work while the issue is -- while the plant is down? I'm just trying to understand better whether this decision was taken as a function of unit cash margins or the market being loose in Asia.

**Douglas M. Madden**  
*Chief Operating Officer & Executive Vice President, Celanese Corp.*

Yeah. Kevin, I think we shared with you in the past when we look across the system we run a slate of different feed stocks into their -- across our system, some natural gas, some that could be oil-based, some that's coal-based. In the case of Singapore, it's an oil-based feedstock. It is a heavier feedstock. You're absolutely right and your memory is great. As we take a look at it, there's been some pressure. We've all seen the run up in oil and where that has gone. So some of that is there and then on the other part of that is, as Mark has explained, is we saw the oversupply condition, the oversupply situation as well that weren't meeting our expectations on the margin. Relative to the second part, yeah, we look at that site and we're developing today some options about what we think we can do. Nothing near-term, nothing imminent, nothing that can be done in the short-term, but we continue to look at different options there that give us even better optionality for the site and over some period of time we hope that we can do something there.

**Mark C. Rohr**  
*Chairman, President & Chief Executive Officer, Celanese Corp.*

Kevin, this is Mark. I mean, the big pinch that we saw in end of first quarter really related to just a sloppiness in that market and Doug kind of outlined and saluted the feedstock basis here, which isn't as stable as it has been perhaps in the past, but that wasn’t the primary reason. The reason was the market was just so sloppy that we pulled it out.

**Kevin McCarthy**  
*Analyst, Bank of America Merrill Lynch*

Okay, it sounds like if spreads to methanol widen back out in Asia, you would turn the keys again and restart it. Is that fair?

**Mark C. Rohr**  
*Chairman, President & Chief Executive Officer, Celanese Corp.*

Oh, yeah. I don't think that plant is going to be down forever, if that's what you're saying. Clearly, I think it's a little bit of a temporary situation, but we like to see the demand pick up a bit. So the broad market it serves, which is India, back-end of China, you really would like to see that market improve a bit before you bring it on.

**Kevin McCarthy**  
*Analyst, Bank of America Merrill Lynch*

Got it. And then final question, if I may, Mark, would you just provide us with an update on ethanol as it relates to your greenfield projects and also any discussions you may be having on a partnership in the fuel market?

**Mark C. Rohr**  
*Chairman, President & Chief Executive Officer, Celanese Corp.*

Yeah, Kevin, I will. There's just a lot going on in this segment. It's all really, really good stuff. Starting with Houston, of course, we're bringing on our demonstration unit, and I was just down there visiting with the team and the R&D team and that should be running in the June-July timeframe. So hopefully you can make it down in
September and you guys will get to see that unit. The breakthroughs in technology I mentioned are spectacular and we have already materially advanced this technology, and we'll advance it in time to take advantage of that in Nanjing, where our plant is now also under construction, will be running next summer kind of timeframe. Beyond that, we're looking at the next expansion step. We're not ready to announce anything yet, but I can just say there is a lot of activity underway there. So on the industrial side we have a hard push and that seems to be materializing as we forecasted.

If I rolled it now and looked to the fuel side, we have tremendous activity underway in China working with the major players there and the provincial governments there to find a way to move into that market. And I don't want to be too specific here, but I'll just say we're making lots of progress with our technology being validated by third-party sources in China that are giving tremendous credibility to the virtues of ethanol and our ethanol process.

In the U.S. we have Olson's bill out there and we are continuing to work with both the House and the Senate to look for venues to advance that legislation in a way that would open up a window of opportunity for us. It's certainly too early to call that, and to be frank I don't think anything is going to happen this year with that given the political situation in Washington, but we're really posturing ourselves to be ready to – hopefully to roll something through next year.

Operator: Your next question is coming from the line of Laurence Alexander from Jefferies. Please proceed.

Rob Walker
Analyst, Jefferies & Co., Inc.

Good morning, this is Rob Walker on for Laurence.

Mark C. Rohr
Chairman, President & Chief Executive Officer, Celanese Corp.

Good morning, Rob.

Rob Walker
Analyst, Jefferies & Co., Inc.

Good morning. I guess on your cash outflow guidance, does that include Spondon's closure costs? And what do you expect for D&A this year? It seems like it's bouncing around a little bit quarter to quarter?

Steven M. Sterin
CFO, President-Advanced Fuel Technologies & SVP, Celanese Corp.

Yeah, it definitely includes the Spondon costs. On the D&A, we are going to up a little bit this year versus last year because of the startup of the new capacity that we've got in Germany for our Advanced Engineered Materials business as well as in China. So you can think somewhere around $290 million to $300 million on D&A.

Rob Walker
Analyst, Jefferies & Co., Inc.

Great, thanks. And then on the bridge to kind of the full-year guidance, given kind of the comment around weakness persisting a bit longer into this year, I guess what has improved kind of versus mid-January that's allowing you to maintain your outlook? And I guess kind of going along with that, you'd expected acetic acid and I guess that segment's margins to normalize by end of Q2. Has that changed at all? Thanks.
Mark C. Rohr  
Chairman, President & Chief Executive Officer, Celanese Corp.

No, Rob, I think – I mean, that’s a great question. We are certainly in a deeper hole in the first quarter than we anticipated. If you go back even before that, as everyone saw business sort of drop off at the end of last year with the recession in Europe primarily and the slowdown in China as they go through a political transition there, you’ve got this sort of wave of poor economic news that’s kind of rolling through the system. And we are seeing some favorable movement clearly on the acetyls that gives us some confidence we are going to move back to more of a historical level there in the second quarter. Still some struggles in some of our other businesses, though, that are more directly tied to the economic situation, particularly in Europe. So when you add up to get to the numbers that are out there for the year, we’ve got to produce a second half just roughly equal to the first half. And you know in the first half we got a one-time dividend that rolls through that’s roughly $0.40 of earnings.

So we’ve got to go out and find $0.40 of earnings. To get back to normalized business, we have to go find $0.40. Three ways to tackle that, and you can tackle that with volume and talk about the things we’re doing to make sure we’ve got every opportunity out there, we’re moving material to the customers that want to. We can do it through margin. And Doug mentioned our steps there to drive margin sequentially to the business. And we do it through costs. When we add up the things we have on our plate pushing there, we can get maybe two-thirds of that or so. So I think we are depending on the back end of this year being pretty good and we are going to have to go out and find some stuff, roughly $0.40 or so, to make that number. And we have a lot of that work underway, but it is going to be a push, Rob, for us to approach the dividend.

Operator: Your next question will be coming from the line of Frank Mitsch from Wells Fargo Securities. Please proceed.

Frank J. Mitsch  
Analyst, Wells Fargo Advisors LLC

Good morning and congratulations, Mark, on the new position.

Mark C. Rohr  
Chairman, President & Chief Executive Officer, Celanese Corp.

Thanks, Frank.

Frank J. Mitsch  
Analyst, Wells Fargo Advisors LLC

Hey, just to make sure we’re all on the same page here, when you talk about make the number you are talking about making a number north of 270 for 2012, correct?

Mark C. Rohr  
Chairman, President & Chief Executive Officer, Celanese Corp.

You said 270? I think it's 470.

Frank J. Mitsch  
Analyst, Wells Fargo Advisors LLC

Yes, yes.
Mark C. Rohr  
Chairman, President & Chief Executive Officer, Celanese Corp.  

We are very confident on the 270, by the way.

Frank J. Mitsch  
Analyst, Wells Fargo Advisors LLC  

I figured I'd give you a softball for your first question from me.

Mark C. Rohr  
Chairman, President & Chief Executive Officer, Celanese Corp.  

I have just made no doubt about it. We are strong there. But no, Frank, the number that's being floated around is 470, and if you look we did this last quarter and kind of what folks think we are going to do this quarter, you get into the 230 kind of range. And so we've got to roll that again, and you know in this business when you look at the data, the fourth quarter has been kind of weak historically for some of these markets. So we've got a lot of heavy lifting to do to make that 470. And so we've targeted things to do, but you shouldn't think it's a slam dunk, though. I mean, we've got a lot of work to do to get it, and to be perfectly honest we don't have a clear line of sight exactly to that number that's out there.

Frank J. Mitsch  
Analyst, Wells Fargo Advisors LLC  

All right, great. And then coming back to AI and the Singapore facility, it's obviously a large facility for you guys. What were your operating rates in the first quarter? What was the industry operating rate in the first quarter? And here we are three weeks or so into Q2, any thoughts on where industry operating rates are currently?

Douglas M. Madden  
Chief Operating Officer & Executive Vice President, Celanese Corp.  

Yeah, Frank. So if you kind of walk it at the beginning of the quarters, you would imagine, particularly with the Chinese New Year, you tend to be rather light going into the New Year and you see it ramp up as you come out. I'd say across the quarter think of utilization probably in the mid-to-high 70%s as we come out of Q1 going into Q2. You've got probably 20%, 25% of industry capacity out today both largely planned, some unplanned. So you start to see that utilization in the quarter ramp up substantially, probably high 80%s is where you end up to, maybe pushing to 90% near-term through the quarter.

Frank J. Mitsch  
Analyst, Wells Fargo Advisors LLC  

All right. And with that you were obviously seeing pricing move up materially since the end of the first quarter. Roughly speaking, how much higher would you need to see prices go before you flip the switch back in Singapore?

Douglas M. Madden  
Chief Operating Officer & Executive Vice President, Celanese Corp.  

Yeah. I think I'll answer it this way is we'd look for demand to substantially improve and to be able to substantially increase. Historically, that's a plant that earns back 15% to 20%, and if you look at the kind of margins that it has generated historically, we'd want to return back to probably low triple-digit kind of margins that are out there.
All right. And let me ask you one other way, how much higher is Singapore than the average of the rest of Celanese’s acid plants in terms of percentages? It’s obviously your highest-cost plant, so roughly how much higher is it than the other facilities right now?

Mark C. Rohr  
*Chairman, President & Chief Executive Officer, Celanese Corp.*

Frank, that’s a lot of specificity to get into. It is our highest-cost plant and depends on the circumstances of what oil price is doing and a host of other factors to actually go through that math. I guess I would just ask you not to condemn this plant as being a plant that can’t compete. We could be out there today and we could be making positive margin today with it. But we really think it’s the right thing for us and we’re convinced it is actually driving enhanced profitability for us by having it down at this point. And just speaking from my point of view, I’d like to see that business in that region, the volumetric demands in that region, pick up a bit where there’s more stability in the market before it’s back out there again.

Frank J. Mitsch  
*Analyst, Wells Fargo Advisors LLC*

All right. Thank you so much.

Mark C. Rohr  
*Chairman, President & Chief Executive Officer, Celanese Corp.*

Thanks, Frank.

**Operator:** Your next question is coming from the line of Mike Ritzenthaler from Piper Jaffray. Please proceed.

Mike J. Ritzenthaler  
*Analyst, Piper Jaffray, Inc.*

Good morning, everyone. I just wanted to make sure we understand the full-year views on each segment in terms of EBITDA and earnings. So I think what we had been – what you talked about in fourth quarter was growth in AEM and Industrial Specialties and flat expectations in AI and Consumer Specialties, that had been the view. It sounds to me like the only change to the full-year view is now earnings growth is expected in Consumer Specialties. I just wanted to see if that’s – if you think that's a fair message?

Mark C. Rohr  
*Chairman, President & Chief Executive Officer, Celanese Corp.*

Mike, keep – we’re really having a hard time hearing you, boss.

Mike J. Ritzenthaler  
*Analyst, Piper Jaffray, Inc.*

Sure. I’ll try to speak up. Did you get ...

Steven M. Sterin  
*CFO, President-Advanced Fuel Technologies & SVP, Celanese Corp.*

I think I got it, Mike, but tell me if I didn't get your whole question. Yeah, one of the things we did expect was AI to offset the full impact, the margin expansions that we saw in the middle of last year with volume. Obviously with our first quarter challenges that we saw in Asia outside of China, as well as Europe generally being weaker, that’s going to be more of a challenge and that’s what Mark was indicating when he was talking about the full year.
CS, obviously we did indicate that it's going to be up for the full year and we previously thought it would be closer to flat, so that helps to offset some of the delta.

And then as Mark said, we've got a number of other areas, whether it's in AEM or across our portfolio, that we're driving – getting closer to the customer, identifying where we've got opportunities to drive price increases as well as looking at our overall cost structure and making sure we get productivity that covers any shortfalls in the market.

Mike J. Ritzenthaler
Analyst, Piper Jaffray, Inc.

Okay. And then on the Nanjing retrofit, I was wondering if you could give us an update on the project. I mean, there was a little color on that already given, but I was just wondering if there is some more project-driven milestones that you could discuss or if it's something that has to wait for a few more months.

Mark C. Rohr
Chairman, President & Chief Executive Officer, Celanese Corp.

Well, yeah, I don’t know. I’ll try the first part. I mean concrete is being poured and we're starting to go up with structural steel. Do you guys know the mechanical completion date?

Douglas M. Madden
Chief Operating Officer & Executive Vice President, Celanese Corp.

Second quarter.

Mark C. Rohr
Chairman, President & Chief Executive Officer, Celanese Corp.

End of the second quarter.

Douglas M. Madden
Chief Operating Officer & Executive Vice President, Celanese Corp.

Yeah, the key milestone was getting permits approved because that was – it's all within our control now.

Mark C. Rohr
Chairman, President & Chief Executive Officer, Celanese Corp.

Yeah.

Douglas M. Madden
Chief Operating Officer & Executive Vice President, Celanese Corp.

So our degree of confidence goes up. I think here in the next few months the Clear Lake startup is a key milestone that I would look for and then we'll get this plant up and running by the middle of next year.

Mike J. Ritzenthaler
Analyst, Piper Jaffray, Inc.

Okay.
If that changes, we’ll let you know.

Mike J. Ritzenthaler
Analyst, Piper Jaffray, Inc.

Okay, perfect. And then one last question for me. Can you give us a sense for the performance of Industrial Specialties sort of ex the Ashland assets? I mean, I know it was most of the quarter included those assets, but just kind of organic vs. inorganic year-over-year growth?

Douglas M. Madden
Chief Operating Officer & Executive Vice President, Celanese Corp.

The simplest way probably to answer that is, if you look at the quarter Ashland really had a very minor impact, very low single-digit impact into the numbers. So as we look forward it’s complimentary to the business. I think we’ve been public on the size of it. Think of somewhere of adding in the range of $40 million to $50 million of top line of growth into that business on a full annualized basis. Having said that, we don’t complete and have the full annualized impact, though, until 2013, given some of the integration issues and certain arrangements around the transaction and the transition of that business. So think about a top line $40-$50 million on a full-year basis 2013.

Steven M. Sterin
CFO, President-Advanced Fuel Technologies & SVP, Celanese Corp.

Small accretion this year and then our full run rate next year.

Douglas M. Madden
Chief Operating Officer & Executive Vice President, Celanese Corp.

Right.

Mike J. Ritzenthaler
Analyst, Piper Jaffray, Inc.

Okay, great. Have a great day, guys.

Douglas M. Madden
Chief Operating Officer & Executive Vice President, Celanese Corp.

Thank you.

Operator: Your final question will be coming from the line of Hassan Ahmed from Alembic Global. Please proceed.

Hassan I. Ahmed
Co-Founder & Head of Research, Alembic Global Advisors

Good morning, Mark. Strategy-related question as well. If I remember correctly, back in 2007 you guys shut down a methanol facility out in Edmonton. Clearly that was during a period when the natural gas price regime was very different. Now as you guys are considering sort of boosting margins further, is there any thought given to maybe potentially setting up methanol or ethylene facilities here in the U.S.?
Mark C. Rohr  
*Chairman, President & Chief Executive Officer, Celanese Corp.*

Yes.

Hassan I. Ahmed  
*Co-Founder & Head of Research, Alembic Global Advisors*

So you would consider those?

Mark C. Rohr  
*Chairman, President & Chief Executive Officer, Celanese Corp.*

Absolutely, yeah.

Hassan I. Ahmed  
*Co-Founder & Head of Research, Alembic Global Advisors*

Okay.

Mark C. Rohr  
*Chairman, President & Chief Executive Officer, Celanese Corp.*

Yeah, I think the — it’s hard to — said another way, I mean the natural gas situation in the United States is really just a great breakthrough in technology, but it’s also foretelling I think of what’s going to be a very long period of attractive pricing here in the U.S. And so, yes, we are certainly taking — taking a look at that to see if we can take advantage of it.

Hassan I. Ahmed  
*Co-Founder & Head of Research, Alembic Global Advisors*

Okay, fair enough. Thanks so much.

Mark C. Rohr  
*Chairman, President & Chief Executive Officer, Celanese Corp.*

Thank you.

Operator: At this time, I’m showing no further questions in queue. I would like to turn the call back over to Mr. Jon Puckett for any closing remarks.

Jon Puckett  
*Vice President-Investor Relations, Celanese Corp.*

Okay, thanks for your time this morning and I’ll be around today to answer questions. I appreciate it.

Operator: Ladies and gentlemen, that concludes today's conference. We thank you for your participation. You may now disconnect. Have a great day.