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Celanese Corp. (CE)

Q2 2013 Earnings Call
CORPORATE PARTICIPANTS

Jon Puckett
Vice President-Investor Relations, Celanese Corp.

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

Steven M. Sterin
Chief Financial Officer & Senior Vice President, Celanese Corp.

OTHER PARTICIPANTS

David I. Begleiter
Analyst, Deutsche Bank Securities, Inc.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Laurence Alexander
Analyst, Jefferies LLC

Frank J. Mitsch
Analyst, Wells Fargo Securities LLC

Kevin W. McCarthy
Analyst, Bank of America Merrill Lynch

Robert A. Koort
Analyst, Goldman Sachs & Co.

Vincent Andrews
Analyst, Morgan Stanley & Co. LLC

Jeffrey Zekauskas
Analyst, JPMorgan Securities LLC

Chris J. Nocella
Analyst, RBC Capital Markets LLC

Hassan I. Ahmed
Analyst, Alembic Global Advisors

Andrew W. Cash
Analyst, SunTrust Robinson Humphrey

Mike Ritzenthaler
Analyst, Piper Jaffray, Inc.

John E. Roberts
Analyst, UBS Securities LLC

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

P.J. Juvekar
Analyst, Citigroup Global Markets Inc. (Broker)
MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the Celanese Corporation Second Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we'll conduct a question-and-answer session and instructions will be given at that time. [Operator Instructions] As a reminder, this conference is being recorded.

I will now introduce your host for today, Mr. Jon Puckett. Sir, please go ahead.

Jon Puckett
Vice President-Investor Relations, Celanese Corp.

Thank you, [ph] Karen (00:26). Welcome to the Celanese Corporation Second Quarter 2013 Conference Call. My name is Jon Puckett, Vice President of Investor Relations. With me today are Mark Rohr, Chairman and Chief Executive Officer, and Steven Sterin, Senior Vice President and Chief Financial Officer.

The Celanese Corporation second quarter 2013 earnings release was distributed by Business Wire yesterday after market close. The slides for the call and our prepared comments for the quarter were also posted on our website, www.celanese.com, in the Investor Relation section. All of these items have been submitted to the SEC in a current report on Form 8-K.

As a reminder, some of the matters discussed today and included in our presentations may include forward-looking statements concerning, for example, Celanese Corporation's future objectives and results. Please note the cautionary language contained in the posted slides. Also, some of the matters discussed and presented include references to non-GAAP financial measures. Explanations of these measures and reconciliations to the comparable GAAP measures are included on our website, www.celanese.com, in the Investor Relation section as applicable.

This morning, we will begin with introductory comments from Mark Rohr and then field your questions. I'd now like to turn the call over to Mark.

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

Thanks, Jon, and welcome, everyone. Since our prepared remarks were released last night, I'll keep my comments brief and then open the line for your questions.

For the quarter, we reported adjusted earnings of $1.12 per share, which is consistent with expectations of muted seasonality in our end markets and relatively consistent performance.

Coming into the quarter, we didn't anticipate favorable tailwinds from the global economy, which is why we focused on Celanese-specific initiatives to drive growth, and I believe our results demonstrated the success we're having with these initiatives.

Second quarter segment income margin expanded sequentially to 22.3% for Advanced Engineered Materials, Industrial Specialties and Consumer Specialties. We are very pleased with these results, which showcase our success in delivering value through innovation and marketing. Segment income margin in Acetyl Intermediates
was lower in Q2 than Q1 due to Celanese and customer turnaround challenges as well as raw material supply issues at one of our plants.

These items alone reduced Acetyl Intermediates’ by about $15 million in the second quarter. We generated very healthy operating cash flow of $229 million and adjusted free cash flow of $154 million, positioning us well to pursue our growth initiatives and our balanced capital deployment strategy. Given the economic headwinds we faced this quarter, I’m really proud of our team's ability to deliver the results we did the old-fashioned way, by earning it.

Our growth objectives this year are being achieved by collaboration with customers and commercializing unique applications in line with their needs. We also need to deliver on remaining Celanese-specific items like productivity and the ramp-up of ethanol production facility in Nanjing. We have line of sight and a lot of work in front of us to achieve our earnings objectives of 12% growth in 2013, and barring further deterioration in our end markets we should be able to do so.

With that, I’ll now turn it over to Jon for Q&A.

Jon Puckett
Vice President - Investor Relations, Celanese Corp.

Thanks, Mark. We have a lot of people on the line. We want to get to as many questions as possible. So please limit yourself to one question and one follow-up. Karen, let's go ahead with Q&A.

QUESTION AND ANSWER SECTION


David I. Begleiter
Analyst, Deutsche Bank Securities, Inc.

Thank you, Mark, just on the $15 million impact in AI, what was the impact versus Q1 and versus – and year-over-year? Was it up or down in terms of its turnaround and supply disruption costs?

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

Well, it was the full $15 million or so Q1 to Q2 on the surface. I can't recall anything in Q2 last year.

Steven M. Sterin
Chief Financial Officer & Senior Vice President, Celanese Corp.

Yeah. I think it was about the same.

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

It's about the same. Yeah. So the team says here it's the same, David, either way.
David I. Begleiter  
Analyst, Deutsche Bank Securities, Inc.

Okay. And just on TCX, what's your expectation for TCX EBIT contribution or EPS contribution for the back half of the year?

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

Yeah. Really not very much, David. We're starting that plant out slow. The ethanol market, like all industrial markets in China, is really sloppy today. So we're just taking our time in bringing it up. So we're not—in our sort of projections for the year, we're not counting really for any contributions from ethanol that's material.

David I. Begleiter  
Analyst, Deutsche Bank Securities, Inc.

So break even, basically.

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

Basically.

David I. Begleiter  
Analyst, Deutsche Bank Securities, Inc.

Thank you very much.

Jon Puckett  
Vice President-Investor Relations, Celanese Corp.

Thanks, David. Let's move to the next question.

Operator: Thank you. Our next question comes from the line of Duffy Fischer from Barclays.

Duffy Fischer  
Analyst, Barclays Capital, Inc.

Yeah. Good morning, fellas.

Jon Puckett  
Vice President-Investor Relations, Celanese Corp.

Good morning, Duffy.

Duffy Fischer  
Analyst, Barclays Capital, Inc.

Just a question on the issue with supply. Did that affect North America or Asia and was it more of just forgone sales or did you have to go out and purchase product to then resell it at a loss to your customers?

Mark C. Rohr  
Chairman, President & Chief Executive Officer, Celanese Corp.
Yeah, both. I mean, we supply from others’ locations. We have a global system out there which can negatively impact you and then we actually buy and resell, too.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Okay. And then what was the operating rate for Singapore in the second quarter?

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

Well, Duffy, I’m not going to get into that kind of....that kind of clarity. We are running that facility, we have been running it all year and we try to run it in a way that maximizes the profitability of our overall – overall business.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Great. Thank you, guys.

Jon Puckett
Vice President-Investor Relations, Celanese Corp.

Thanks, Duffy. Karen, let’s go to the next question.

Operator: Thank you. Our next question comes from the line of Laurence Alexander from Jefferies.

Laurence Alexander
Analyst, Jefferies LLC

Good morning.

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

Good morning, Laurence.

Laurence Alexander
Analyst, Jefferies LLC

Could you elaborate on, I mean, given the sort of a softer environment, the degree to which you can pull forward productivity initiatives and in term – and maybe sort of [ph] buckets (6:28) or the kind of market opportunity – markets or sales that you might be walking away from [indiscernible] (6:34) bottom slice?

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

Yeah. On the first side, the answer to your question is we are working hard to pull forward productivity initiatives, Laurence, and that’s what I’m trying to say in our comments is that we had – we’ve not anticipated business to slide as much as it’s done in this year and so we’ve had to – we’ve already started pulling those things forward. I hesitate to give you a specific number.

What I will say is that the productivity things we’re working on are pretty evenly spread across the businesses. So it’s not more in one business necessarily than in another business. And so I don’t know that you’re really going to see them as any kind of one fell swoop as they go through.
Laurence Alexander  
*Analyst, Jefferies LLC*

And then as you look...

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

Go ahead.

Laurence Alexander  
*Analyst, Jefferies LLC*

And then as you look at the opportunity for AEM to – or Ticona to take share in the automotive markets with the new product launches, how lumpy should we expect that to be? That is, are we going to see a strong year than a slow year, is it going to be – it’s going to take a couple more years to really sort of show up or how do you see the cadence of that?

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

I think it’s going to be very consistent and I will – to moderate – modify that in just a second, but it’s our base business, it’s going be very consistent. We have – we think our penetration is up 5% to 6% quarter-over-quarter. [ph] It’s the hard example (7:58) of that. At the same time, you’ve seen European auto builds at the lowest level in the last two decades. So we are able to do this increased penetration and in applications we’re able to grow in what is even a declining market in the case of Europe, and of course we’re growing positively with a positive market in the U.S.

When you look at AEM as a total, you have affiliate earnings in there. And so, as you look at the back half of this year, we have major outages scheduled at [indiscernible] (8:28). We also have impact of lower MTB pricing rolling through that. So there is going to be a pretty good pressure on AEM as they get towards the back half of this year, some this next quarter and some next year. So you’ll see the quarter-to-quarter earnings move around as affiliate earnings move around in there. But I think if you look at year-over-year-over-year, it should be pretty steady.

Steven M. Stern  
*Chief Financial Officer & Senior Vice President, Celanese Corp.*

Yeah. And as you look at the margins of AEM excluding affiliate, we saw a very strong performance in the first quarter, even better in the second. And we expect those margins to continue to hold up within that range. So the underlying business, as Mark referred to it, was just really our direct business, everything except the affiliates. And then a little bit of volatility in affiliates this year because of turnarounds. But overall the base margins were strong.

Laurence Alexander  
*Analyst, Jefferies LLC*

Thank you.

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

Thanks, Laurence. Karen, let’s do the next.
Operator: Thank you. Our next question comes from the line of Frank Mitsch from Wells Fargo Securities.

Frank J. Mitsch
Analyst, Wells Fargo Securities LLC

Good morning, gentlemen.

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

Good morning, Frank.

Frank J. Mitsch
Analyst, Wells Fargo Securities LLC

Hey, on the Consumer Specialties business, the [indiscernible] (9:34) business, you cited the higher wood pulp costs having a negative impact on margins. What's the potential there to turn that around or is pretty much 2013 we're going to live with the lower margins in that business because of the higher raws?

Steven M. Sterin
Chief Financial Officer & Senior Vice President, Celanese Corp.

From here forward through the rest of the year it should be relatively flat, maybe a little bit lower on average. But no major changes from here. Part of Q1, little bit lower than Q2, is just the timing of using last year's inventory versus this year's, but it should be pretty flat.

Frank J. Mitsch
Analyst, Wells Fargo Securities LLC

All right, thank you, Steven. And Steve, you spent $6 million on share buyback, obviously at a slow pace. What should we be thinking about in terms of Celanese on – and share buyback for the balance of the year?

Steven M. Sterin
Chief Financial Officer & Senior Vice President, Celanese Corp.

We think, especially at this price, we should be buying back more shares as we move forward. Cash generation has been strong. We're over $1.1 billion, which is the lowest since the first performing period of our IPO. So we feel really good about where we are with cash to fund the business, where the cash is and – the $6 million really is just to keep us [ph] off sending dilution (10:45). But we'll be more opportunistic as we move forward using cash to buy back shares.

Frank J. Mitsch
Analyst, Wells Fargo Securities LLC

Thank you so much.

Jon Puckett
Vice President-Investor Relations, Celanese Corp.

Thanks, Frank. Let's move to the next question.

Operator: Thank you. Our next question comes from the line of Kevin McCarthy from Bank of America Merrill Lynch.
Kevin W. McCarthy  
Analyst, Bank of America Merrill Lynch  

Yes, good morning.

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

Hi, Kevin.

Kevin W. McCarthy  
Analyst, Bank of America Merrill Lynch  

Mark, would you provide an update on your longer-term ethanol plants in China beyond the recent Brownfield startup at Nanjing? I think – thinking back to your technology day, you were in discussions with a state-owned enterprise. And so I was wondering if you could let us know if that still active and are you thinking more about being a principal versus licensing in that market at this juncture?

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

Yeah, Kevin – yeah, it’s still active. We’re still working our tails off over there. I think the – we’ve had a lot of difficulty, to be honest, getting the state-owned enterprises really to engage for their own reasons. And we’re taking a slightly different tack now. Now that we have a plant that’s starting to operate, and the key word on starting, we just started it up. We’re going to go ahead and dewater some of that material and test it. And we’re going to start working with other groups, other interested potential buyers in China, and we’ll start working through the regulatory process ourself. It’s going to be a long slog to get fuel ethanol in the Chinese market, though.

Kevin W. McCarthy  
Analyst, Bank of America Merrill Lynch  

Okay. And then a second question on AEM, your year-over-year volume growth there of 7% was quite good. I was wondering if you could provide a little bit more color as to how much of that is being driven by autos versus the other end-use markets you’re serving there and what the back half of the year might look like?

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

Yeah, it’s about half, it’s about half auto. And the other areas, we’re doing more in healthcare, we’re doing more in consumer electronics. We have a number of niche operations that are starting to work well for us as well that I don’t want to elaborate on too much. But we’ve managed to offset the weakness in European auto in particular and we’ve managed to grow materially in those areas I mentioned in new markets. So it’s a very healthy portfolio and what we’re seeing is that the skill sets we bring in chemistry and applications we can apply in other markets and they’re very, very well received beyond automotive, and that’s really what’s happening for us.

Kevin W. McCarthy  
Analyst, Bank of America Merrill Lynch  

Okay. Thank you very much.

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

Jon Puckett  
Vice President-Investor Relations, Celanese Corp.  

Thanks, Kevin. Let's move to the next question.

Operator: Thank you. And our next question comes from the line of Robert Koort from Goldman Sachs

Robert A. Koort  
Analyst, Goldman Sachs & Co.  

Thank you. Good morning.

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

Good morning, Robert.

Robert A. Koort  
Analyst, Goldman Sachs & Co.  

Mark, when you start up your Clear Lake methanol plant, what will that do to your cost structure across your acetic business?

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

Well, I'm thinking I answered that question. I think in a fundamental sense you're replacing two-thirds of the acetylene contract volume. So actually costs will go up a bit when that happens. We have opportunities to buy that other third at a market discount, so how much, Bob, I'm not sure. You should have viewed that our costs would go up a little bit at that time.

Robert A. Koort  
Analyst, Goldman Sachs & Co.  

Okay. And then as we go through the back half of the year and you start ramping your TCX plant, would you expect your acetic production in Nanjing or in Asia broadly will go down or will you still sell about the same amount in the second half?

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

No. It'll go down as we push more into – we have some capacity available to us, so we can make up some of that, but largely speaking it would go down as we move material into ethanol.

Robert A. Koort  
Analyst, Goldman Sachs & Co.  

Great. Thank you.
Just one more comment on ethanol, two. As we look towards our IBN SINA deal that we announced a couple of years ago, in a roughly 2016 timeframe when that unit starts up, we – our interest in that venture steps up from 25% into the low to mid 30s%, which gives us effectively more cost-based methanol. So that'll be out there as well, Bob.

Jon Puckett
Vice President - Investor Relations, Celanese Corp.

Okay. Karen, let's move to the next question.

Operator: Thank you. And our next question comes from the line of Vincent Andrews from Morgan Stanley.

Vincent Andrews
Analyst, Morgan Stanley & Co. LLC

Thank you. And good morning everybody. I think on the last call, talking about the Nanjing startup, one of the things that was discussed was you were trying to find sort of the right pricing or contract structure sort of right out of the gate, so could you just give us a little bit of an update on that?

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

Yes, it's one of the reasons we're taking our time with it. The markets – the market is used to being served by a bunch of small producers that, to be very honest, they don't produce our quality. So we're going in very slowly and trying to structure the relationships and the contracts in a way that we can maximize our net back.

So that process is underway, and we're – we're having success with it, but I want to be very clear, we're going very slowly with it. We're not – we're not about to go in and jam the stuff in the market overnight. I do want to mention Vincent, too, that so much of the industrial chemical market in China is just in turmoil now because demand has just not grown and that's certainly showing itself in ethanol, where we're seeing those prices move down a bit and we're just trying to be thoughtful on we get into the market.

Vincent Andrews
Analyst, Morgan Stanley & Co. LLC

Okay. And just as a follow-up, you, in your prepared remarks, there was a reference to the liquidity issues in China, which have been in the news recently. Is there anything specific to what you're seeing or hearing from customers that is different from what we would suspect?

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

Well, no, I think you probably – you probably have a pretty good handle on it, but there is, generally speaking, there is a lot of concerns over liquidity at the minimum. And so you're seeing inventory that is just, nobody is building any inventory, everything is rock bottom, everything is transaction and transaction kind of deal. People are trying to push out terms to just unbelievable periods of time. So we see that rolling through business, and you shouldn't have a view that demand has dropped off precipitously because of it, but there is an element of caution that's been put into commerce there that's caused everyone to pause and to move slowly.

Vincent Andrews
Analyst, Morgan Stanley & Co. LLC
Okay. Thanks very much.

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

Jon Puckett  
Vice President-Investor Relations, Celanese Corp.  
Thanks, Vincent. Let’s move to the next.

Operator: Thank you. And our next question comes from the line of Jeff Zekauskas from JPMorgan.

Jeffrey Zekauskas  
Analyst, JPMorgan Securities LLC  
Hi, good morning.

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

Jeffrey Zekauskas  
Analyst, JPMorgan Securities LLC  
I guess I was wondering why you guys maintained your earnings guidance in that – normally in the fourth quarter there are seasonal weakness in AEM and Industrial Specialties and you’ve got various price pressures in ethanol. So you’re not really going to have a contribution there. How do you get a fourth quarter that will more or less earn what you earned in the third or the second given these seasonal factors and the general weak economic climate?

Mark C. Rohr  
Chairman, President & Chief Executive Officer, Celanese Corp.  
Well, Jeff, I mean you’re right. A weak quarter – I mean, the fourth quarter has been seasonal – historically a weak quarter for Celanese. We have made structural changes to the business that aren’t in prior numbers, like the Spondon shutdown, like the acetate dividend normalization. We’ve taken steps to reduce the other spend and when you add those things with incremental sales of [indiscernible] (18:37) and a little bit stronger auto build sales, we can work up to that number. But you’re right in saying there is some risk with that. What I’m trying to convey to investors is that we’re aware of that and we’re working our tail off to try to offset those and generate that number. But there is risk.

Jeffrey Zekauskas  
Analyst, JPMorgan Securities LLC  
Okay. Thanks very much.

Mark C. Rohr  
Chairman, President & Chief Executive Officer, Celanese Corp.  
Thank you, Jeff.
Thank you, Jeff. Let's move to the next.

Operator: Thank you. Our next question comes from the line if Chris Nocella from RBC Capital Markets.

Chris J. Nocella
Analyst, RBC Capital Markets LLC

Thanks, guys. And congrats on the start to the Nanjing ethanol plant. Just a quick question, do you have a sense of what the cost curve for industrial ethanol is in China?

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

No. I don’t. No, I’m sorry, I don’t. Well, as we look at that, we felt pretty confident that there is – given our low-cost acid position that there is good margin in that business. But what is going on right now, to be very honest, is China’s long on ethanol, prices are pretty weak and so we’re just being – we’re being slow with it.

Chris J. Nocella
Analyst, RBC Capital Markets LLC

Okay. And then just taking a quick look for 2014, this year 2013 you had some company-specific things that helped earnings growth, like the acetate [indiscernible] (19:51) shutdowns and stuff like that. I mean, are there any company specific-measures that you’d like to highlight for 2014?

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

I’d rather start highlighting those next quarter if I can. We’re working on a lot of things. I think you’re wise, Chris, in outlining generally speaking that there is not going to be a lot of strong inherent chemical demand growth in the world. So you’ve got to go out and make your own way and we have a number of things we’re working and we’d be happy to share those in the quarters ahead.

Chris J. Nocella
Analyst, RBC Capital Markets LLC

Okay. Great. Thank you.

Jon Puckett
Vice President-Investor Relations, Celanese Corp.

Okay. Thanks, Chris. Karen, let’s move to the next question.

Operator: Thank you. And our next question comes from the line of Hassan Ahmed from Alembic Global.

Hassan I. Ahmed
Analyst, Alembic Global Advisors

Good morning, Mark. And I just wanted some clarification around the supply issue you talked about, raw material supply issue you talked about within AI. Was this at one of your facilities or was it also a third party, one of your suppliers for [indiscernible] (20:50) methanol experiencing some curtailment or the like? The only reason I ask...
this is because we've been hearing a fair bit about natural gas curtailments in Trinidad and associated lower operating rates from ethanol.

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

Yeah, I don't want to call it just exactly who it was, but it was one of our raw materials provided by third-party providers. We've not had problems getting methanol.

Hassan I. Ahmed  
Analyst, Alembic Global Advisors

Got it. But it's again just reading some of the journals and the like, it seems that these gas curtailments are going to get most of their – for some reason September seems to be mentioned again and again. So are you expecting any sort of reduction...any sort of reductions in supply.

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

No. No. We're talking to those guys routinely and it's not – we're certainly not expecting that or anticipating that.

Hassan I. Ahmed  
Analyst, Alembic Global Advisors

Fair enough. Now a follow-up on the methanol side of things. Obviously, your plants in the works as far as methanol goes. You've talked about roughly a $615 a ton replacement value and there's been a couple of new – well, I shouldn't say new – some Brownfield plants that have been announced and the range is anywhere between $400 to $600 a ton in terms of replacement value. Yet it seems that some of the newer Greenfield facilities would be anywhere between $800 to $1,000 a ton. So are you still comfortable with the capital outlay guidance that you've given?

Steven M. Sterin  
Chief Financial Officer & Senior Vice President, Celanese Corp.

Yeah. We're very comfortable with the capital outlays we've given on that. We've made substantial progress on bidding out a lot of the large equipment purchases, and well on our way to getting that thing up and running in 24 months. Some of the ones that you've seen that have been lower are ones that are being integrated in refineries, existing refineries, so that helps their capital economics as you get into gasification, hydrogen, that type of thing. And you're right, Greenfields have been a lot higher. But one of the reasons ours is lower and closer to a Brownfield is we used to operate the methanol unit in Clear Lake and we're able to take advantage of some infrastructure that was already in place.

Hassan I. Ahmed  
Analyst, Alembic Global Advisors

Very good. Thanks so much.

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

Thank you.
Thanks, Hassan. Karen, let’s go to the next one.

Operator: Our next question comes from the line of Andy Cash from SunTrust.

Andrew W. Cash  
Analyst, SunTrust Robinson Humphrey

Hi. Good morning. Just a couple of quick ones here. On acetic acid, could you give us some direction, was the second quarter margins less than the first quarter margins and how are they trending into the third quarter?

Steven M. Sterin  
Chief Financial Officer & Senior Vice President, Celanese Corp.

Yeah. Andy, I’ll give you, [indiscernible] (23:25) the utilization rates were about the same Q1 to Q2, the mid 70s, and we’re in a pretty flat and long part of the cost curve, as we’ve shown before. So we don’t expect nor have we been seeing very much movement in margins. On the whole, China, if anything moves up a little bit, you saw some price movement there. But the rest will relatively flat and that’s what you’d expect.

Andrew W. Cash  
Analyst, SunTrust Robinson Humphrey

Okay, thanks. And just a question on slide 11, on Industrial Specialties. On the quarter, you did $18 million EBIT, which is about 50% lower than the year ago. I was just curious, on slide 11 you got a sideways movement. Is that sideways movement compared to last year’s $86 million, which would imply that you’re going to have to average about $26 million for the remaining third and fourth quarter this year. Just curious if that’s possible?

Steven M. Sterin  
Chief Financial Officer & Senior Vice President, Celanese Corp.

Yeah. So what’s behind that is we saw a strong [indiscernible] (24:30) demand and strong – which particularly in Asia – and strong Asian demand. At the end of 2011 and into the first half of 2012 that dropped [ph] off (24:41) substantially as the [ph] PV (24:43) market got really long in inventory. So the EVA business is down. However, on the other hand our emulsion business actually had a record quarter this quarter. So we’re feeling really good there with our expansion in VAE in Asia and getting out there, as well as some of the remodeling that’s taken place with existing home sales.

We tend to have a better participation in existing home sales than we do in new home starts because we tend to go through the retailers versus contractors. So emulsions is doing well and carries forward.

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

Yeah. I think, Andy, there is some – it’s going to have to have a good fourth quarter to your point, emulsions, to carry to that.

Andrew W. Cash  
Analyst, SunTrust Robinson Humphrey

Okay. Thank you very much.
Mark C. Rohr  
*Chairman, President & Chief Executive Officer, Celanese Corp.*

Thank you, Andy.

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

Thanks, Andy. Let's move to the next question, Karen.

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**Operator:** Thank you. Our next question comes from the line of Mike Ritzenthaler from Piper Jaffray.

Mike Ritzenthaler  
*Analyst, Piper Jaffray, Inc.*

Thanks guys. And so, just to follow up on Andy’s question there. Is it going to take something bold, like the 10 gigawatt initiative per year in China, to return the Industrial Specialties to prior profitability or are there other Celanese-specific drivers that could do that?

Steven M. Stern  
*Chief Financial Officer & Senior Vice President, Celanese Corp.*

So I think about it first by business. Emulsions, there is [indiscernible] (25:57) opportunity in China and in Asia to grow our low-VOC paint coating and adhesive binder systems. And you know that's a very encouraging market, we've had experience there, we've already built two reactors and ramped those up pretty quickly. So we've seen – and that's really been in one small part of China, in around Nanjing. We see other opportunities in China for that.

We see growth coming from that. EVA, we haven't made a call yet, the market is so long in photovoltaic and there's challenges in that market, there's pricing issues going on in Europe and China with import duties. So we're not counting on that any time soon. So really trying to drive into other markets. There are our specialty markets for EVA like medical, control release applications, where we can make headwinds and offset some of the photovoltaic, but it's not going to come from PV anytime soon in our opinion.

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Mike Ritzenthaler  
*Analyst, Piper Jaffray, Inc.*

Okay. That makes sense. And we had the opportunity to taste the Qorus products at IFT this past week, and we were pretty impressed with it. And I was just curious about how long it takes to commercialize a new sweetener like that given your previous experience and the level of competition in sweeteners and is there any sort of profit impact that you could provide to put Qorus in context within the larger company and then – including the cannibalization effects with the current products?

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

Mike, were you at the cocktail hour?

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Mike Ritzenthaler  
*Analyst, Piper Jaffray, Inc.*

No, no.
Mark C. Rohr  
*Chairman, President & Chief Executive Officer, Celanese Corp.*

I was just checking. Apparently that was a big hit.

Mike Ritzenthaler  
*Analyst, Piper Jaffray, Inc.*

Yeah.

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

Yeah. Mike, it takes longer than you'd like to think to do this. I think we have 50 projects that we're working now. We have a host of trials. We have some commercialization started and the response is really good. But it takes a while. So I don't quite know how to say it other than that. Depending on how we range it, it can be anything from making – these are all good contributions – but $5 million to $10 million to a much, much, much, much larger number. So what we're trying to do is to really measure the effectiveness of our rollout techniques with each customer and get feedback on that to try to do a better job projecting. And if you'll be a little bit patient with us, we'll start to forecast kind of what that means as we end this year and we start looking at next year.

Mike Ritzenthaler  
*Analyst, Piper Jaffray, Inc.*

Yeah. That makes sense.

Steven M. Sterin  
*Chief Financial Officer & Senior Vice President, Celanese Corp.*

You also talked about cannibalization. We're working really hard not to do that. In particular these products go into sugar replacement and [indiscernible] (28:39) applications, either complete share replacement of partial. So we see this as a new market space for our product.

Mike Ritzenthaler  
*Analyst, Piper Jaffray, Inc.*

All right, great. Thanks, guys.

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

Thank you.

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

Thanks, Mike. Let's move to the next one, Karen.

Operator: All right. Our next question comes from the line of John Roberts from UBS.

John E. Roberts  
*Analyst, UBS Securities LLC*

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

Good morning, John.

John E. Roberts  
Analyst, UBS Securities LLC

Sequential comparisons are usually for companies that don’t have seasonal issues in their businesses, and last quarter I thought it was maybe you were making the switch because of the JVs, changing in terms of how you’re recognizing that. But it sounds like it’s deeper than this. It sounds like you think that with the auto seasonality or coating seasonality that you can actually smooth this out.

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

That’s the plan, boss.

John E. Roberts  
Analyst, UBS Securities LLC

Okay. And then may be a more detailed question, you cited specifically North American auto and the engineering plastics business where you had the penetration. Are there any model lines of cars or specific applications across a series of model lines that kind of stand out there that we can pay attention to?

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

Yeah, yeah.

Steven M. Sterin  
Chief Financial Officer & Senior Vice President, Celanese Corp.

General [indiscernible] (29:46), you tend to see us more in sophisticated vehicles. So more lightweight vehicles where they’re trying to drive higher MPG, where in the U.S. GMC and Ford do a lot in that area. In Europe the leader in this space has been for a long time and continues to be Volkswagen. We work closely with folks like that. But you’re really seeing it across the board. The German producers and the European producers tend to be ahead in terms of how much pounds per vehicle. But North America is a growth opportunity for us, particularly in GMC.

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

Yeah, if you look at GMC's new light – light truck, I think it's K2XX platform, it's completely redesigned, brand-new platform that rolls out in the 2014 model. And that is an example of a model that we’re heavily involved in.

John E. Roberts  
Analyst, UBS Securities LLC

Are you shipping into that now and that was in effect in the quarter because you singled out in the quarter North American auto penetration?

Mark C. Rohr  
Chairman, President & Chief Executive Officer, Celanese Corp.
Yeah, it's starting to ramp up.

John E. Roberts  
Analyst, UBS Securities LLC

Okay. Thank you.

Jon Puckett  
Vice President-Investor Relations, Celanese Corp.

Thanks, John. Let's move to the next question.

Operator: Thank you. And our next question comes from the line of Nils Wallin from CLSA.

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

Thanks, good morning and thanks for taking my question. I was just wondering if you would provide us with an update as to the timing of the EPA and TCEQ approvals for your methanol plant. And then, how such timing may affect the goal of bringing on that plant online on time in 2015.

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

Yeah. We're in the final phase of approval. We're going through public comment periods and there's three permits that are involved, it involves EPA, state agencies and the Corps of Engineers. All of them are proceeding very well. We certainly think by the end of September we'll have those permits wrapped up and that's the timeline we're on. They could probably slip a little bit and it wouldn't be a problem, but if they slip more than a month or two it would start to impact the schedule. But right now, it's -- we're meeting with these folks daily and everything is on track.

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

Great. And just a housekeeping question, what was the year-on-year change in volumes for Consumer Specialties with -- given the Spondon shutdown?

Steven M. Sterin  
Chief Financial Officer & Senior Vice President, Celanese Corp.

In terms of total volumes for the Consumer Specialties space, there's two things I want to point out. You've got to remember last year, in the first quarter, we had an outage at one of our facilities that pushed a tremendous amount of volume to the second quarter. So I probably want to talk about this on a first-half versus first-half basis. Consumer Specialties volumes in the first half were 101 kT and they're 97 in the first half of this year. So minimal impact, but you're seeing a much higher dividend come through from our joint venture.

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

Got it. Thanks very much.
It's used at the provincial level. It tends to be in provinces that have a lot of coal and a lot of methanol produced, right, as an outlet. It is not endorsed by the state and it's not endorsed by the large refining and blending industry because of the hazards associated with it. So we don't see methanol increasing in China. In fact, it even seems to be decreasing a little bit right now. So, no, I don't think that's the issue. I think the issue really gets down to what's the preferred [indiscernible] (33:46) is, and without getting into too much detail some prefer other [indiscernible] (33:51) and want to continue to promote those. So it's just a – it's a complicated arena for us to deal in.

What we are encouraged by, though, is that the social pressure being put on the government to clean up the air quality is getting very intense. So those men and women that feel that social pressure are sort of demanding that the fuel standards within China be upgraded to international standards. And that's going to be good for [indiscernible] (34:21) like ethanol, it's going to be good for other businesses and folks that take out sulfur and things like that.
business. The ethanol market is really sloppy there and we're just taking our time with it. And it's really too early to forecast what the number will be for next year.

P.J. Juvekar  
Analyst, Citigroup Global Markets Inc. (Broker)

Okay. Thank you.

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

Thanks a lot, P.J.

Jon Puckett  
Vice President-Investor Relations, Celanese Corp.

Thanks, P.J. And thanks everybody for your time this morning. We will be around for calls later today.

Operator: Ladies and gentlemen, thank you for your participation in today’s conference.

This does conclude the program and you may now disconnect. Everyone have a good day.