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Celanese Corp. (CE)

Q3 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Celanese Corporation Third Quarter 2024 Earnings Call and Webcast. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the opening remarks. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce Bill Cunningham, Vice President of Investor Relations. Thank you. You may begin.

Bill Cunningham

Vice President-Investor Relations, Celanese Corp.

Thanks, Darryl. Welcome to the Celanese Corporation third quarter 2024 earnings conference call. My name is Bill Cunningham, Vice President of Investor Relations. With me on the call today are Lori Ryerkerk, Chairman of the Board and Chief Executive Officer; Scott Richardson, Chief Operating Officer; and Chuck Kyrish, Chief Financial Officer.

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

Today's presentation will also include forward-looking statements. Please review the cautionary language regarding forward-looking statements, which can be found at the end of both the press release and the prepared comments. Form 8-K reports containing all these materials have also been submitted to the SEC.

Before we open it for questions, I'd like to turn the call over to Lori Ryerkerk for some opening remarks.

Lori J. Ryerkerk

Chairman, President & Chief Executive Officer, Celanese Corp.

Thank you, Bill, and good morning everyone. As Bill said, before we get started with questions today, I wanted to take a moment to emphasize a few key points.

First, it is clear from our prepared comments that our results for Q3 were disappointing, and the outlook for Q4 and into 2025 is below both our expectations and our goals. Despite the many actions that we've taken to continue to deliver value, the benefit from these measures has been increasingly offset by the broad and persistent macroeconomic headwinds.

Given this dynamic, we intend to temporarily reduce our quarterly dividend beginning in the first quarter of 2025. While we recognize the importance of the dividend to our shareholders, we've carefully considered a variety of options, and we have determined that this is the most prudent and cost-effective measure to support our deleveraging efforts at this time. We will look forward to accelerating the return of capital to shareholders once we have progressed our deleveraging efforts.

To further help us navigate this challenging environment, we have identified and will take additional bold actions to strengthen earnings and cash generation. We have a strong track record of delivery and operational excellence, and are confident that we are taking the right actions. For example, we are significantly slowing production to match demand in Q4 and implementing further cost reductions, particularly in SG&A. We hold ourselves to a high standard, and the steps that we are taking are driving durable improvements for the company, as we build an increasingly disciplined cost structure and better position the business to drive long-term growth.

In closing, I want to thank our teams for their dedication and resilience in the face of persistent demand challenges in our end markets. I'm confident that our actions have and will continue to position Celanese to create substantial value for our shareholders. We believe in Celanese's long-term potential, and we are leaving no stone unturned to capture opportunities that will benefit us both now and once demand begins to recover.

With that, we'll open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Our first questions come from the line Vincent Andrews with Morgan Stanley. Please proceed with your questions.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Hi. Thank you, and good morning everyone. I'm wondering if you could just give us a little bit of a bridge in terms of the cash flow divestitures and how you're going to sort of de-lever over the next year or so. I'm assuming you're anticipating some improvement in the operating environment at some point, as well as divestitures and cost savings. But if you can just sort of bridge us from today maybe through 2025 and into 2026 in terms of what your expectations are.

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

A

Yeah. So, Vincent, obviously, our first objective is to focus on EBIT. We don't know what the environment's going to be next year. So, in that way, our focus is really on the cost reduction initiatives I talked about, as well in doing things to really fill the project pipeline and make sure that we're generating additional business.

I think as we called out in the prepared comments, we would see even at today's environment being near a more typical level, because we did have a lot of one-offs in cash flow this year, a more typical level that would yield about $800 million to $900 million. Obviously, with the steps we're taking, we would hope for some additional cash flow generated from that.

We continue to focus on divestitures. And timing is uncertain, which is why we never really figure them into our free cash flow statements. But we do remain very focused on opportunistic divestitures where we can find someone who values our assets more than we do.

So, maybe I can turn it over to Chuck and he can add any additional color.

Chuck B. Kyrish
Senior Vice President & Chief Financial Officer, Celanese Corp.

A

Yeah. No, I think that's right, Lori. And, Vincent, we have this prepayable term loan that we can deleverage throughout the course of next year as we generate cash and any other cash sources. So, we've got – the facility is in place to use that cash to continue to deleverage. And we remain strongly committed to deleveraging the balance sheet to 3 times net debt to EBITDA as fast as we can get there.

We've talked a lot about significant actions underway to underscore that, right, additional cost actions that we've announced, the continued CapEx reduction focusing on maintenance, reliability, safety. We're working divestitures, as Lori said, the divestitures that make sense, and obviously the significant announcement of our intention to reduce our dividend starting in Q1, right? So, that's what we're focused on is deleveraging the balance sheet down to 3 times net debt to EBITDA, and we've put things in place to be able to do that.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

And if I could just follow up on the Clear Lake. There's supposed to be $100 million of benefit that's going to come from starting up that asset. If I read the prepared comments correctly, I believe there was $20 million in the third quarter. So, first, is that correct? And then, second, what is sort of the bridge to getting between the $20 million, if I'm correct, and the $100 million?

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

A

Yeah. On Clear Lake, you may recall, we called out about $10 million in the first quarter and then $20 million now in the third quarter. We would expect some additional amount in the fourth quarter as well. We still think the benefit of Clear Lake is on a $100 million range on a full-year basis. And so, we would expect to see the majority of that then occur next year as well.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thank you very much.

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

Michael Leithead
Analyst, Barclays Capital, Inc.

Q

Great. Thank you. Good morning, team. I wanted to start, Lori, at a high level, I think the magnitude and abruptness of the decline in the second half of the year was a bit surprising. So, can you help contextualize or just help us better understand sort of how the past three months progressed relative to your expectation and sort of when order books really started to deviate versus your expectations and you realized you needed to pivot here on your production and your cash management?

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

A

Thanks, Mike, for that question. Let me give you just a little bit of color. So, when we made the guidance last quarter, we were coming off a stronger June, things were looking a little bit stronger into the second half. And in discussions with our customers, particularly auto/industrial, we were expecting some lift in those segments and across and, of course, we were seeing the impact of synergies and other things.

I would say, as we went through the quarter, we continued to see further pressure specifically on auto and on industrial. I think as an example, and if we look at European registrations of auto, they fell 40% from June to August. So, I would say, really starting to see the big impact of that in August. I think we've seen the OEM announcement from Mercedes and Volkswagen and everyone, which suggests maybe that situation isn't getting quicker anytime soon.

Even if you look at full second quarter to third quarter, European auto builds were down 14%. So, that's really where we started to see the big impact is as we worked our way through the quarter. And frankly, conditions just continued to worsen. And as we went through the quarter, including then in the US, where we started to see announcements from Stellantis and GM.

Michael Leithead
Analyst, Barclays Capital, Inc.

Q

Okay. That's helpful. Then, on the dividend, appreciate we're at day one here, but you emphasized in the prepared remarks the temporary nature of these reductions. Is there a specific leverage target or earnings level that you're initially aiming at for how long you want to keep the dividend at this level? Or will we need to see how cash flow evolves over the next year or so here?

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

A

Mike, our focus is really laser-focused right now on getting to that 3 times leverage. And given the current market conditions that we're seeing and the fact that it looks like these are continuing into the early parts of 2025 at least, we felt the need to take further actions, and after a lot of consideration along with the board, determined that reducing the dividend at this point was the most prudent and most cost-effective option. So, that's really where our focus will remain, it's driving activities to really rapidly deleverage to 3 times as quickly as we can.

Michael Leithead
Analyst, Barclays Capital, Inc.

Q

Great. Thank you.

Operator: Thank you. Our next questions come from the line of Michael Sison with Wells Fargo. Please proceed with your questions.

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

Hey. Good morning. So, when I take a look at the fourth quarter and the EBITDA look for EM, are you getting close to a write-down for the M&M business? If not, why? And you have a lot of one-offs there. Do those sort of come back or do we sort of add that back as we head into the first quarter?

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

A

Thank, Mike. Let me address the second half of your question first. I mean, so there are a number of one-offs in the fourth quarter. And we would expect the destocking that we expect to see, the mix effect, the effects from affiliates' inventory, we expected the vast majority of that to come back in the first quarter. And let me turn it over to Chuck to talk about our – how we go through valuation and looking at write-down.

Chuck B. Kyrish
Senior Vice President & Chief Financial Officer, Celanese Corp.
A

Hey, Mike. Yeah. So third quarter each year is when we do test our goodwill and our indefinite live intangibles. I'll remind you, goodwill is tested at the reporting unit level, so that's at engineered materials level, right? So we tested that quantitatively with the help of Big 4 valuation specialist, and we did not record an impairment. We did also test all the trade names of engineered materials individually with the same process, and we did record a $34 million impairment on trade names. Most of that was Zytel. So, that kind of concluded our third quarter cycle of those testings.

Michael Sison
Analyst, Wells Fargo Securities LLC
Q

Got it. And as a quick follow-up, if you think about 2025, clearly the end markets have impacted you all and everybody else in chemicals pretty negatively. If the environment doesn't improve in 2025, well, how do you think EBITDA or earnings should shape up next year given you do have some stuff within your control to get some upside?

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

Yeah. Mike, I would start with – if you look at the performance over the first three quarters of this year, we have seen quarter-on-quarter improvement in performance, being driven by synergies, being driven by our project pipeline, et cetera. Those things will be true next year as well. We'll have additional synergies next year. We are putting a lot of effort into really trying to accelerate the project pipeline. It has grown significantly versus a year ago, but clearly in this current macroeconomic, that's not sufficient to support the business growth that we expect.

That combined with our cost reduction program, I would just say, for 2025, there's so much uncertainty while we are going to take a lot of steps to help ourselves to really control what we can control, whether that market environment gets better or deteriorate, what we see in terms of interest, there is a lot of open questions out there around 2025. And I think it's just simply too early to speak with any authority about 2025 expectations.

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

Yeah. Mike, so as we close 2024 and go into 2025, we have four priorities, so that we are focused on as an organization. Number one, we're reducing cost, making sure that we're scrutinizing every dollar that we spend, and that we're being very deliberate and targeted with where we invest. Two, is deliver the synergies and make sure that number one is in addition to the synergies that we've already committed to.

Number three, on the engineered materials side of things is supercharge the pipeline. While we have had some good metrics, it's not been enough to offset the downside we've seen from some of the demand challenges. But we've got to continue to aggressively work with customers, continue to penetrate in non-automotive sectors to where we increase our share of wallet there.

And then the fourth area on the Acetyl Chain side of things is really fully leverage this integrated model that we have to be able to ensure that we're driving profit every single day. And we know that's going to be different from one week to the next, but we have to keep the focus on those four priorities. And if we see a change upward in the demand landscape, that's just going to lead to more upside. So, our focus really is on those things that are within our own control right now.

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

Thank you.

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

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Thanks very much. What would have been the consequences of you not cutting your dividend? And is the dividend cut based in a diminished expectation for longer-term operating cash flows in 2025 and 2026? And what caused that?

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

A

Let me try to answer the second part first, Jeff. Look, our long-term expectations for this business is no different than it's been. I mean, we still believe in the long-term performance of our Acetyls and our EM businesses, including the acquisition. The challenge we've had is the current macroeconomic conditions and recent demand deterioration have really challenged both businesses. And because of that, we are taking all of these actions, but we are not getting the cash flow we expected to be on the deleveraging plan that we had planned for.

So, looking at the dividend, we really did determine this was the most cost-effective and prudent way to get back on that cadence of deleveraging that we wanted to do for our business. And that's really what drove the decision around dividend.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Okay. And secondly, I think you spent roughly $125 million in cash costs for restructuring this year, or you expect to spend that. What's your number for 2025? And then secondly, in your expectations about the auto markets, I mean, wasn't IHS already expecting down auto production in Europe for the third quarter in July? I mean, was the downturn in Europe really that unexpected?

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

A

Yeah. Let me answer the second question first, Jeff, and then I'll turn it over to Chuck. I mean, look, there are a variety of publications that we look at. And when we made our forecast for the quarter, there was still an expectation of a slight uptick. That did come down relatively quickly to the end of July and early part of August. And there was that flip. And as Lori talked about then, we started to really see the acute change in car registrations and other data in the month of August. So, that was really where we saw the bigger flip in expectations.

And I think there was what has kind of materialized, I think is there was an expectation in the second half of the year that there would be a lift. And we saw a build-up in Q2 of inventories. And so what we've seen now in the end of the part of the third quarter and into the fourth quarter is customers destocking that inventory in preparation for lower builds and lower sales here in the second half of the year.

Chuck B. Kyrish
Senior Vice President & Chief Financial Officer, Celanese Corp.

A

Hey, Jeff. And on the cash cost synergies, next year, remain to M&M, those are going to drop off probably about $50 million. Now, we will have some cash costs from the new cost reduction actions that we announced. And so that's, as we talked about, greater than $75 million, the cash cost of that will be less than a one-year payback, right? So, I think when you roll it all up, total cash spent on cash cost synergies plus there's no cost actions, somewhere pretty close to this year.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Okay. Great. Thank you.

Operator: Thank you. Our next questions come from the line of Ghansham Panjabi with Baird. Please proceed with your questions.

Ghansham Panjabi
Analyst, Baird

Q

Hey, guys. Good morning. Lori, going back to your prepared comments and also the comments from this morning, weakness in China and autos, et cetera, none of that is truly all that surprising relative to what your peers have been saying as well, but the dividend cut is. So, going back to that component, is the dividend cut more a function of you not seeing or anticipating a recovery in 2025 relative to your initial plan? Or are you anticipating a much more worsening of the trend line, if you will, near term, just given the uncertainty that's out there? How should we sort of think about those two dynamics?

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

A

Yeah. I think I would think about it in two parts. One is the performance we've experienced in 2024 and the reduction in free cash flow we've had in 2024, although we have sufficient cash for the debt that is due next year, we just aren't deleveraging as quickly as we like, right? Our EBIT is lower. We haven't been able to pay down additional cash towards the debt. And then if you look at 2025 and beyond, there is so much uncertainty. We feel it's prudent to be prepared for that and to stay on track with our deleveraging plan. And again, the most cost-effective and prudent way to do that is by reducing the dividend at this time.

Ghansham Panjabi
Analyst, Baird

Q

Okay. And then going back to the delayed draw term loan, was the dividend cut part of that sort of process in terms of securing that loan? I'm just trying to get some context behind that. And then separately, on the $75 million program targeting SG&A, is that to adjust to the new baseline of volumes or are you still assuming some sort of recovery as it relates to the operating dynamics, 2025, 2026 onwards?

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

A

So, let me answer the second part and then Chuck can answer the first part. So, the $75 million is additional identified cost cutting to better adjust our SG&A organization towards the current level of demand. We also believe, as we get more efficient, as our systems get more mature, now that we've gotten through our new system implementations, we also believe, though, it will be an area that will – or a level where we'll be able to sustain even if we start to see some demand recovery.

Chuck B. Kyrish
Senior Vice President & Chief Financial Officer, Celanese Corp.

A

Hey, Ghansham. On your other question, those two are not tied together. The delayed draw term loan is something we'd put in place to help us bridge those maturities and the dividend cash is because we made a commitment to deleverage this balance sheet to 3 times and we're not doing that as fast as we want to.

Ghansham Panjabi
Analyst, Baird

Q

Very clear. Thank you both.

Operator: Thank you. Our next questions come from the line of Josh Spector with UBS. Please proceed with your questions.

Joshua Spector
Analyst, UBS Securities LLC

Q

Yeah. Hi. Good morning. I wonder if you could just talk about your view on the earnings power of engineered materials at this point. I guess if I look at 3Q, you were up year-on-year EBIT level, volumes were up, but that's supposed to be a bigger chunk of the synergy savings and maybe a bit before you're seeing some of the negatives of the actions you're taking in fourth quarter.

So, if you can maybe look at the second half and talk about some of the puts and takes that we should be thinking about. And some thoughts in the back of our heads are more around if there's something impaired around the nylon side of things, either pricing or share loss, that means earnings are structurally lower than what we should have thought a year or two ago.

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

A

So, that's a lot of thoughts in one question. So, let me just talk about how I see my view of the EM business. So, the EM business, our long-term view of the EM business has not changed. I mean, we still feel we have the most unparalleled portfolio of engineered materials. We have a structure that really drives, in a very disciplined way, new projects, growth into new customers, growth into new application. And while we continue to improve all those as well as improve our cost structure, this is fundamentally a very good business still in demand by our customers who demand innovation and who want to buy products from us. So, what we're seeing is a short-term turndown.

I also wouldn't just focus on nylon. I mean, PA66 is certainly challenged at this point with an oversupply of non-differentiated polymer. But I would say, our focus on PA66 is really on the differentiated polymer, the compounding. And that's why you've seen us take all of the steps that we've done. I would say, for M&M, in particular, even if PA66 is less than we originally thought, many of the other parts of the acquisition, such as Mylar or Vamac or Hytrel or high-temperature nylon, are outperforming where we thought they'd be at this time. So, in aggregate, we still see the value of the M&M acquisition and the value of the total EM portfolio as being as strong as it ever will be once we get back to a more normalized demand condition.

Joshua Spector
Analyst, UBS Securities LLC
Q

Okay. Thanks. Maybe one quick follow-up. Just I guess thinking about the synergy side then within 3Q, so I guess some context here is that volumes were up. Obviously, things deteriorated later in the quarter, but we didn't see the flow-through in 3Q. So, what offset that? If you think about the synergy, what were the minuses that led us to only up 10% in the quarter?

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

Yeah. I think there is some timing around inventory, Josh, that has rolled through both in the quarter as well on a year-over-year basis. So, that played a role there. Also, pricing, as we called out, we've seen degradation in standard grade pricing, which has been the other bigger offset. So, I think those are the two biggest chunks.

I think when you look at things on a year-over-year basis for the year in total, volume up, price/cost mix up, positive, spending down, so another positive there. Offset currency, we've had some headwinds on currency year-over-year both in the quarter and for the full year, and then turnarounds in inventory. So, I think that's where it's been offset.

And so, we do believe in the earnings power, as Lori talked about, but that doesn't mean we're just going to live with where we are today. And that's why we talked heavily about the actions we're going to take both in the business as well at the corporate level on cost, and then continuing to aggressively work pipeline and drive close wins. So, one of the big synergy areas we talked about for 2025 and beyond is revenue synergies. And so, we need to deliver on that going into next year to continue to uplift the possible earnings power of the business.

Joshua Spector
Analyst, UBS Securities LLC
Q

Okay. Thank you.

Operator: Thank you. Our next questions come from the line of Arun Viswanathan with RBC Capital Markets. Please proceed with your questions.

Arun Viswanathan
Analyst, RBC Capital Markets LLC
Q

Great. Thanks for taking my question. Maybe I could ask the Q4 guidance question again. So, if we think about going from around $2.50 for Q3 or $2.44 down to $1.25 for Q4, maybe could you break that out maybe into some buckets of seasonality and how much is associated with the inventory drawdown and maybe some incremental weakness in auto and industrial or any other end markets, that would be helpful. Thanks.

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

Yeah. So, I think on the Acetyl side of things, it's seasonality, so call it, roughly in that $20 million range. So, I'd put that to seasonality, Arun. On the corporate cost side of things, that's really timing of cost flow-through there more than anything. And then it's really engineered materials and kind of looking at where we are there. And those are the big buckets we called out in the prepared comments.

So, destock of about $45 million, which is probably a little seasonality in that number. We have mix which is really all seasonality of about $15 million. Affiliates are down $15 million. Again, that one's more seasonality-driven. And then you've got the inventory and absorption cost, which is really the balance there. So, when you kind of put that in there in the engineered materials buckets, it's $30 million, maybe a little bit more than that, that seasonality from the affiliates in that mixed bucket we talked about, in addition to the Acetyls number.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Great. Thanks, Scott. That was very helpful. So, just taking that a step further into Q1 then, do you anticipate these actions that you are taking on the inventory side to allow you to – is that the complete inventory actions that you have to take? And so, when you look into Q1, you won't necessarily have those drags and you also may have less seasonality, so that could get back – get you back closer to maybe $2 or so in Q1? Or how are you thinking about how that evolves and maybe some of the bad guys that won't repeat in Q1? Thanks.

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

A

Let me start kind of high level and I'll turn it to Chuck to provide details on inventory flow-through. Look, we are constantly looking at really matching our production levels with where demand is at. And given where things are and a need here with what we've seen from a destock perspective to take plant rates down, bring inventory down, this is a level of inventory that we've been pretty clear we wanted to reduce for the year. We expected it to be split a little bit more balanced between Q3 and Q4, so a little bit more Q4-heavy given where we're at. And then we'll look at what plant rates need to look like in the fourth quarter, depending on what the order book looks like and when we get to that point.

Chuck B. Kyrish
Senior Vice President & Chief Financial Officer, Celanese Corp.

A

Yeah. I think it's going to be really important for us to manage to generate free cash flow that will make these decisions. And if we're [ph] premising (29:46) cash flow, you could see some P&L from some of those cost flow-throughs. But it's important to us to generate free cash flow here and deleverage this balance sheet.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Thanks.

Operator: Thank you. Our next questions come from the line of Frank Mitsch with Fermium Research. Please proceed with your questions.

Aziza Gazieva
Analyst, Fermium Research LLC

Q

Hi, everyone. It's Aziza on for Frank. Just want to start off with Chinese VAM margins sitting at a decade low here with the lackluster demand and new capacity. How long are you guys thinking it might take to absorb?

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

A

Yeah. Look, I think the reabsorption for acetyls is really going to depend on when we start to see demand recovery. I mean, we've called out now for many quarters the reduction we've seen in the constructions, paints and coatings market. We've also seen demand destruction for derivatives, particularly in China, for things like EVA into the solar markets and some other. So it's pretty impossible now to predict like how quickly that can be reabsorbed. It really will – it's more dependent at this point on the shape of demand going forward.

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

Because of that unpredictability, it is absolutely imperative that the team continues to maximize daily where we're selling product and look at where those opportunities are. And so, the team is being very surgical on looking at how we want to monetize the molecules of acetic acid downstream into VAM and then into the derivatives and looking for is it better to sell an emulsion, a powder, VAM. And given the challenges we've seen in VAM, we've moved further downstream, and we'll continue to pivot up or down, depending on where those opportunities are at.

Aziza Gazieva
Analyst, Fermium Research LLC
Q

Understood. And I was just curious, what are your expectations for the fourth quarter and early read on to 2025?

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

Just to clarify, fourth quarter in general or fourth quarter for acetyls?

Aziza Gazieva
Analyst, Fermium Research LLC
Q

Sorry. In general, just raw material expectations for the company for the fourth quarter and 2025.

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

Yeah. Raw material right now for the fourth quarter is largely stable as we look at things today, but obviously that can change. And I think a lot will depend upon where fundamental energy dynamics are at as we go into 2025. So, we'll continue to remain flexible. One of the elements that we're focused on here at year-end is reducing raw material inventory as well as finished goods inventory, which will give us the ability to be flexible depending on what happens with raws next year.

Aziza Gazieva
Analyst, Fermium Research LLC
Q

Thank you.

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

David Begleiter
Analyst, Deutsche Bank Securities, Inc.
Q

Thank you. Good morning. Lori and Scott, going back to the comments on supercharging the portfolio or the project pipeline EM, this used to be a strength of this business from my perception. It's now being called out as an area of weakness. So, obviously, the business has changed with DuPont. But what's really underlying the change in that it's gone from a position of strength to perhaps a position that needs to be improved?

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

The pipeline model is still a position of strength, David, and there's no question about that for us. And the stats that we have prove that. The size of projects being up over 30% year-over-year is a really good example. Our project win rates are also up since the acquisition. And so, the issue we're seeing now, though, is the amount of volume that's coming with each of those projects is smaller. In addition, the amount of challenge we've seen in the base has come both from a volume perspective and a pricing standpoint.

So, the pipeline needs to be enhanced and needs to be bigger in order to offset some of those headwinds that we're seeing. So, when we talk about supercharging, it's not a condemnation on where things are. It's just the opposite. It is a strength of this business. We feel like it can do more. And we're going to continue to invest resources and partner with customers in a way that allows us to be successful because we need the pipeline to be generating more in this environment.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.
Q

No, that's helpful, Scott. Thank you. And just on Singapore, given the new supply in China, can this – can Singapore be brought back online unless – [ph] or do you need (34:31) trying to recover strongly for Singapore to be brought back into production?

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

So, we do expect that Singapore will come back online. I mean, Singapore is still economic to run, especially into the non-China Asia market, and remains an important part of our portfolio and very much in line with how we like to have the optionality about what we produce and where we produce and into what markets. And so our expectation is that – and because it is so profitable, we do expect that portfolio will continue to come online and run as needed.

Fortunately, we have the flexibility there now because of the structure of our contracts that we can make that choice more than we did in the past. But much like we're using Frankfurt as kind of our swing VAM capacity, more and more we'll see Singapore becoming more of our swing acetic acid capacity.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.
Q

Thank you very much.

Operator: Thank you. Our next questions come from the line of Aleksey Yefremov with KeyBanc Capital Markets. Please proceed with your questions.

Aleksey Yefremov
Analyst, KeyBanc Capital Markets, Inc.
Q

Thanks, and good morning. And EM, is the bigger issue that you're selling less volumes, or is it that you're selling at lower prices? And are prices stable at this point or they're continuing to fall in Q4?

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

So, Aleksey, it's both. I would say, for differentiated products, the main impact has been around volume, because the pricing tends to be sticky. But for standard grade products, it's more of an issue around – we're able to sell the volumes, but the issue is around price and margin.

Aleksey Yefremov
Analyst, KeyBanc Capital Markets, Inc.
Q

Okay. And also in EM, are you pulling inventory below normalized level in Q4, such that you may need to rebuild it in 2025? Or you get back to your normal inventory seasonality at year-end?

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

I would not expect we'll be below normalized levels, Aleksey, unless we see a change in demand levels.

Aleksey Yefremov
Analyst, KeyBanc Capital Markets, Inc.
Q

Okay. Thanks a lot.

Operator: Thank you. Our next questions come from the line of Patrick Cunningham with Citibank. Please proceed with your questions.

Patrick Cunningham
Analyst, Citigroup Global Markets, Inc.
Q

Hi. Good morning. I wanted to follow up on the project pipeline. It's encouraging to see the value per project has increased 30% since 2022. Are there any secular growth markets or applications where you're getting the most traction? And any strategic shift or change in thinking as how you approach auto OEM customer base given the recent weakness?

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

Well, look, I think with where we're seeing change in the mix of where – who's winning from an OEM perspective and as we think about this with China still growing and Chinese OEMs being more successful, a continued focus there in winning in China is very important. And so we have seen some wins just recently. We're very focused on the EV market. We've had really good traction in things like thermal management models, cooling hoses, light weighting on the auto side of things.

But then on the non-auto side of things, if you recall, this was one of our most important areas of synergies, really getting the M&M products into non-automotive applications in a much bigger way. We did that historically in the Celanese engineered materials portfolio and we're heavy focused on it. We've had some wins in things like oil well pipes with flexible covers around those. Just recently we've been heavily focused around high-performance athletic shoes with some big wins there with products that are creating, particularly in running shoe applications, increased performance. And so, really good uptick. And those are global opportunities.

And so, the team is working on not just having these be singular wins and focused heavily around, once we get a win, sharing that translation opportunity across the globe so that we can be penetrating with each of these as much as possible in a much shorter timeframe. The nice thing about non-automotive is the projects tend to move through the pipeline quicker. And so, that's why that heavy focus around non-auto is really important as we go into 2025 and 2026.

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

A

I would add, one of the sectors that Scott didn't talk about that we're very excited about is in electrical and electronics. And if you think about the demand for electricity, current outlook is that that's going to double over the next five years. And that requires a lot of build-out of electrical infrastructure. And we are seeing the pull-through of polymer demand as part of that build-out.

Patrick Cunningham
Analyst, Citigroup Global Markets, Inc.

Q

Very helpful. How committed is Celanese to the investment grade rating? Would you consider issuing additional equity to preserve this rating or do you believe the current steps you've taken are enough?

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

A

We're committed to deleveraging this balance sheet to 3 times net debt to EBITDA as fast as we can to get it there. As Lori mentioned, we've assessed a variety of options to support that and determined with the support of the board that given the challenging environment and our goals that the announcement of our intention to reduce the dividend was the prudent action to take.

Patrick Cunningham
Analyst, Citigroup Global Markets, Inc.

Q

Thank you.

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

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Yes. Thank you and good morning. Just to follow up on the prior question, if I look at your term structure, you've got the $1 billion senior unsecured notes in March that presumably the delayed draw term loan will take care of. But beyond that, $1.5 billion in 2026 and $3.4 billion in 2027, so to get to that 3 turns of leverage goal based on the current glide path of EBITDA, it seems like you've got some heavy lifting ahead. And so, would you consider a mandatory convert and/or acceleration of the divestiture options to try to take some of the pressure off your ongoing efforts to deleverage?

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

A

Well, we're working divestitures as aggressively as we can, the ones that make sense, Kevin, and the timing of those could be uncertain. I think the other thing you mentioned kind of falls in the category of other things that we have considered, right? And again, kind of with the support of the board, took the path of intention to reduce the dividend.

I mean, I think looking forward to those maturities, we've got access to various outlets in the capital markets and we're going to deleverage with the cash that we generate, the cash that we achieve through any things like divestitures. And we'll look and see what the prudent approach is on our capital structure with these access to various capital markets and outlets and balance cost and risk on that and our capital structure at all times.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Just a second question, if I may, a lot of chemical companies are reviewing their asset footprints, particularly so in Europe, as you know. I think in years past, Celanese took a hard look at Asia. Lori, I'm listening to your comments. It sounds to me like you're thinking of Singapore as a keeper, so to speak. Would like to ask you more broadly, though, do you have plans to reexamine the asset footprint anywhere in the world or are we going to play the cards we're dealt, so to speak, for the near term?

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

A

Patrick (sic) [Kevin], I think Celanese has always been known for being very aggressive about footprint optimization, and we look at it continuously. I mean, if you go back over even just the five years I've been here, we have made decisions around shutting down, reoptimizing our footprint, something almost every year. Now that we have added the assets from the M&M acquisition, we have been going through that process again. And you've already seen us make announcement around Uentrop and the facility in Argentina and some other facilities around the world. And we are really looking now on a combined basis what does that footprint optimization look like.

Again, you've seen some of the announcements we've already made, Mechelen, which will be shut down now in 2025. That activity will continue because it's what we normally do. We constantly reassess and reevaluate what is the right footprint for us, given where our customers are and what our demand profiles look like.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Thank you very much.

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

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Morning, Lori and Scott. A question around – I mean, you guys have always done a very good job at matching production with demand. And obviously, it seems Q3 and Q4 of this year, from the commentary, it seems auto production kind of surprised you guys and the like. So, just a broader question around just forecasting how you guys are looking at the order books, forecasting based off of that, particularly in light of what appears to be significant changes in customer buying patterns, how customers are thinking. It seems buying patterns are more just in time. It seems customers, through lessons learned through COVID, are keeping leaner and leaner inventory levels.

So, do you think those customer habits are sustainable on a go-forward basis or just a function of this erratic sort of macro we're in? And how are you guys adapting in terms of forecasting and matching sort of your sort of production with that demand in this environment?

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

A

Let me ask Scott to address the broader question, but I would just say, really, if you look at the inventory situation we have in the third quarter, we had really been building inventory across the first half for two reasons. One, an expectation, particularly in auto, of an upturn in the second half, which is being called out by the majority of our customers and the indices, as well as we had built some inventory because we were doing footprint optimization. So, we were building inventory so that we could shut facilities down and switch customers to new facilities.

When we got into third quarter, we acquired raw materials, anticipating a normal level of builds, if you will. And then when we saw demand really dropped down midway through the quarter, we slowed production down, but we still sit there. So a lot of the inventory we built in the third quarter was actually around raw. So, there's some very specific dynamics around third quarter. But I mean, your question is a fair one, which is how are we looking at customer demand and forecasting, because it is changing slightly.

So, let me hand that to Scott.

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

A

Yeah. Hassan, we have to remain very flexible. And now that we're all on one system with the M&M business coming into the Celanese system in the first quarter, we are going through a process of really looking at where we make and how we make and run our network from an optimized basis right now. And we're overlaying that with the changes that you kind of alluded to that are happening more or less in the Western Hemisphere.

The one thing you didn't mention that we also have to be very cognizant of is the rapid pace of change on who's winning, particularly in automotive in China. We've seen over the last year, a rapid change of the Chinese OEMs taking a bigger share there. That has also driven an inventory rebalancing at the end user, customer base, that then we're feeling now. And so, we've got to make sure that we have adapted and our manufacturing footprint and how we operate our assets to where we need that product. And as we go forward, at least in the short term, it's probably going to be a little heavier towards Asia. And so, optimizing those assets and making sure that we can respond to customers' needs very quickly is something that the team is very much focused on.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Very helpful. And as a follow-up, obviously, a lot of questions around EM, so I want to change gears a little bit and move to Acetyls Chain. The prepared remarks, in reading those, it seemed you guys – obviously you guys reported continued sort of strong margins in that segment despite the headwinds the macro brings. And you guys talked about the sustainability of those margins within the Acetyl Chain segment. What gives you guys the sort of comfort level in sort of believing that those margins are actually sustainable on a go-forward basis?

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

A

Yeah. Hassan, I think a lot of it is global trade flows and what we've seen and how things have transpired and where the global cost curves sit, particularly on the upstream part of the value chain. And so, I do believe we've been able to exhibit resilience in that part of the value chain.

And then as you get further downstream, the amount of flexibility that we have in that part of the chain is a lot more than it ever has been before. And so, the team has a lot more choices on where they can pivot, which does enhance our ability to drive earnings power. And some of that may just be offsetting headwinds. But because of that flexibility, we do believe that the sustainability margins in these ranges is kind of where we think they'll be.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Very helpful.

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

A

And I would call out two additional factors. One is, we do have an advantaged technology for acetic acid, which gives us some cost advantage as well. And then we have a very advantaged cost footprint in the US Gulf Coast with our largest acetic acid plant there, which we believe is the lowest cost and lowest carbon – acetic acid plant in the world today.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Thanks so much, Lori and Scott.

Operator: Thank you. Our next questions come from the line of Matthew Blair with Tudor, Pickering, Holt & Company. Please proceed with your questions.

Matthew Blair
Analyst, Tudor, Pickering, Holt & Co. Securities LLC

Q

Thank you and good morning. Can we circle back to the potential asset sales? And could you say, would they be more targeted to the EM segment or the Acetyl Chain segment? And then also on a regional basis, are you looking to sell assets in Europe or would this be kind of all over, include US and Asia as well?

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

A

Yeah. Matthew, thanks for that question. Look, on the divestitures, we have had a very robust look and a list of possible divestitures that we've been looking at, multiple opportunities for various sizes, as we talked about on the call last quarter. I would say, we tend to look at these more in line with not as much even just specific assets as necessarily as you've seen us do in the past, maybe joint ventures or a very specific product line that we no longer think fit with our portfolio or where someone values it more. So, it's a combination of all of those things.

So, because of that, I wouldn't say it's really focused on any one region, although like our footprint, optimization has been very focused on Europe. But even there, you've seen us do things throughout various regions. So, this is just really looking at what's the best fit for us going forward and where do we have assets that may be of more value to others.

Matthew Blair
Analyst, Tudor, Pickering, Holt & Co. Securities LLC

Q

Sounds good. And then could you also talk about what you're seeing in the European autos market so far in the fourth quarter? Looks like Germany new car registrations picked up a little bit in October, but some of the other markets might be a little sluggish. Does that match with what you're seeing as well?

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

A

Yeah. We've taken the most recent data, Matthew, into our forecast that we're guiding to.

Matthew Blair
Analyst, Tudor, Pickering, Holt & Co. Securities LLC

Q

Great. Thank you.

Operator: Thank you. Our next questions come from the line of John Roberts with Mizuho Securities. Please proceed with your questions.

John Roberts
Analyst, Mizuho Securities USA LLC

Q

Thank you. Back in 2018, Celanese and Blackstone dropped plans to merge Acetow. Do you think the environment has changed enough or maybe a different structure like a manufacturing JV might allow that opportunity to come back?

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

A

Yeah. We've talked about this a lot, John. And I would say, we don't see any opportunities there for tow. I mean, since we've been able to integrate it into the full Acetyl Chain, we do think that's the best place for it. That allows us to operate it as part of the chain and maximize the value of the chain. And I think the things that prevented that from happening back in 2018 in terms of regulatory concerns still exist today. So, I don't see that that's changed.

John Roberts
Analyst, Mizuho Securities USA LLC

Q

Okay. Thank you.

Bill Cunningham
Vice President-Investor Relations, Celanese Corp.

A

Yeah. We'll make the next question our last one, please.

Operator: Thank you. Our last questions will come from the line of Salvator Tiano with Bank of America. Please proceed with your questions.

Salvator Tiano
Analyst, BofA Securities, Inc.

Q

Yes. Thank you very much. So, firstly, I wanted to check a little bit what are the lessons learned or what are the actions you intend to take going forward when it comes to things such as financial planning, your forecast and guidance? Because coming back to one of the questions has been earlier about auto builds and recognizing that at the day of the guidance of your Q2 results, S&P, IHS were showing different numbers, of course. There were several other, I guess, data points, including all suppliers that have very much outright said that auto builds are moving lower. So, it was something that essentially, I guess, should have been expected.

And the same goes to the whole Acetyl Chain margin, where I think we've had a lot of discussions about new acetic acid and VAM supply this year and next, which haven't – which didn't appear like it was taking account as much at the beginning of the year. So, given that, and in hindsight, what are the – what can be done to improve the forecastings here?

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

A

Look, Sal, we're going to continue to use the data that – a variety of data sources to drive inputs into our forecast. We also use customer forecasts as well. I think one of the things that we always adjust, and we'll continue to adjust in this environment, is how much we use historical statistics to be able to drive forecasting, just because in periods where demand is more volatile, that changes. And so, we will continue to take that into account as we make our forecast.

Salvator Tiano
Analyst, BofA Securities, Inc.

Q

Okay. Perfect. And just wanted to clarify a little bit for next year. It seems to us that there is both on acid and on VAM more capacity coming online in Asia. So, is it fair to say that absent the Clear Lake contribution, the other, whatever $50 million or so you get or other cost cutting measures, we should expect Acetyl Chain earnings to be down in 2025 versus 2024?

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

A

Look, I wouldn't make any assumptions as of yet. As we talked about, it's still early and looking ahead. Lori mentioned earlier what we would expect to get from Clear Lake. We're just going to have to see where demand is at. And particularly, in Asia, to see kind of where the margin levels will be as we get into next year. And we'll provide more color on that when we get to the call in Q1.

Salvator Tiano
Analyst, BofA Securities, Inc.

Q

Thank you very much.

Bill Cunningham
Vice President-Investor Relations, Celanese Corp.

Well, thank you, everyone. We would like to thank everyone for listening today. As always, we're available after the call for any follow-up questions.

Darryl, please go ahead and close up the call.

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