Second Quarter 2014 Financial Results Transcript

Operator introduction:

Good morning ladies and gentlemen, and welcome to the Trinseo Second Quarter 2014 Financial Results Conference Call. Turning to Slide 2, we welcome the Trinseo Management team, Chris Pappas, President and CEO, John Feenan, Executive Vice President and CFO, and David Stasse, Vice President of Treasury and Investor Relations, who will be conducting the call. I will now hand the call over to David Stasse.

Dave Stasse

Thank Kevin and Good Morning everyone. At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session, and instructions will follow at that time. If anyone should require operator assistance during the call, please press *, then zero, on your Touch-Tone telephone.

The slide presentation for today's call has been posted on the Company's Investor Relations website, in the webcast viewer and with the financial results press release by means of a Form 8-K filing with the Securities and Exchange Commission. A replay of the conference call and transcript will be archived on the Company's Investor Relations website shortly following the conference call. The replay will be available until August 7, 2015.

Before beginning, I call your attention to the disclosure rules on Slide 2 regarding forward-looking statements and the use of Non-GAAP measures. The agenda is on Slide 3. I will now hand the call over to Chris Pappas.

Pappas

Thank you, Dave. Hello everyone. Good morning and thank you for joining us to discuss our Second Quarter 2014 financial results.

Our agenda today, as shown on Slide 3, will be as follows. First, I will give a business overview, covering key highlights from the quarter including accomplishments and the primary drivers of our performance. John will then review the details of our latest results from both a Consolidated and Business Segment perspective. After that, I will comment about the current business conditions and our focus for the remainder of the year. We will then open the call for your questions.

Before reviewing the results of the quarter, I would like to highlight a few other items.

First, in mid-June we completed Trinseo's initial public offering of 11.5 million of ordinary shares at a price of $19 per share. Trinseo received approximately $197 million of proceeds from the offering, net of underwriting fees and expenses. The majority of the proceeds were used for the early redemption of $132.5 Million face amount of our Senior Secured Notes. John will provide additional details on the use of proceeds in his comments shortly.

Second, as part of our IPO process and continued steps toward being a fully independent company, in May we reconfigured our Board of Directors. In this process, we brought on two new, independent Board members, Jeffrey Cote and Pierre-Marie De Leener. Both of them will be on our Audit Committee and Jeff will Chair this Committee. Both Jeff and Pierre-Marie bring substantial business and board experience to Trinseo, and their appointment satisfies the current independent Audit Committee requirements for Trinseo. Within one year, we will have a fully independent three person Audit Committee, in compliance with Sarbanes-Oxley requirements.

Third, at the end of May we entered into an agreement with Dow to terminate the Emerging Markets Latex JV Option Agreement, in exchange for a termination payment of $32.5 million. This termination payment was recorded as an expense within "Other expense, net" in the Second Quarter consolidated results. This agreement was part of the 2010 carve out, pursuant to which Dow was granted an irrevocable option to purchase a 50% interest in a joint venture to be formed by Dow and our affiliates with respect to the SB Latex business in emerging markets. That option is now terminated.

Before moving to the Second Quarter results, I want to also mention a few reporting and disclosure changes for Trinseo as a public company. All of these changes are focused on providing more transparency to our investors to allow both a better understanding of current period results as well as improving shareholders ability to assess future period results.

First, as part of our transition to a publicly traded equity company, we are redefining our Adjusted EBITDA to one that is more similar to those of our publically traded peer companies. In general, adjustments to GAAP financials will be limited to one-time items such as restructuring costs, asset impairment charges, gains or losses on the sale of businesses or significant assets, loss from the extinguishment of our long-term debt and, at times, other non-recurring items. Additionally, we will now be including the JV earnings of our Americas Styrenics and Sumika Styron joint ventures in our Adjusted EBITDA, rather than the cash dividends received from these JVs. We will also be reporting Adjusted Net Income and Adjusted Earnings Per Share. John will also discuss this in more detail later.

Second, in the appendix you will see we have provided volume by quarter by segment for the First Quarter of 2012 thru the Second Quarter of 2014 periods. We believe volume trends are an important part of what investors need to assess our performance going forward.

Finally, in order to provide a better view of the impact of Styrene Monomer on our results, we have modified the Styrene Monomer feedstocks chart to show two components; one showing our European produced Styrene Monomer dynamics, and one showing our Asia cost based purchase Styrene Monomer dynamics. We will have more to say on this point later.

Now, let's turn to Slide 4.

This is a snapshot of Trinseo and our performance in the Second Quarter of 2014, at the Total Company, Division, and Segment levels.

Trinseo's Second Quarter of 2014 Adjusted EBITDA was $79 Million, including a $3 Million favorable impact from inventory revaluation. This includes Joint Venture earnings of $5 million, which was impacted by a weak June performance at Americas Styrenics due to extended turnaround and the costs related to that.

Now, let's look at the Second Quarter by segment.

First, our Emulsion Polymers Division continued to have good results at $64 Million of Adjusted EBITDA.

Latex delivered $27 million of Adjusted EBITDA during the quarter with volumes just slightly below the historical band of 300 to 330 Million pounds. The graphical paper market has declined about 5% in the Americas and Europe versus last year and we do see continued price pressure globally from competitors due to over-capacity – but our aggregate latex margins remained steady as we continue to execute our strategy focused on growth in Asia, growth in specialty paper and board coatings, growth in carpet, and diversifying into new chemistries.

Although the graphical paper industry is declining in the Americas and Europe, market segments like specialty paper and board are growing. In addition, we have seen higher volumes in the carpet market and continue to regain share from VAE. In China our latex operating rates are the highest in the industry, which we attribute to our technology, capabilities and solid reputation in the market.

We signed several new paper coating customer contracts and extended others during the Second Quarter of 2014, positioning the Latex business for stable performance. Our paper coating volume under contract is now approximately 70% for the Americas and about 50% for Europe through 2015, in some cases longer.

As part of our strategic growth plans to meet increasing demand for latex in China's paper and paperboard industry, we are on schedule and on budget with the new reactor in the Zhangjiagang, China, production facility. It will serve mainly the paper and paperboard market but also carpet industries, and complement Trinseo's other latex production facilities in the Asia Pacific region, specifically in Korea and Indonesia. The new reactor is expected to come on stream late in the Second Quarter of 2015.

We are also progressing on additional capabilities in Zhangjiagang targeted toward growing applications in the aseptic packaging and construction markets. These two growth markets will give us increased margins and better end market diversification from the beginning late in the Second Quarter of 2015.

Now, let's turn to Synthetic Rubber, which had another strong quarter with Adjusted EBITDA of $37 Million. The tire market has improved year-to-date thru June, compared to 2013, with about 5% growth in Europe and North America and about 10% in China, and we recorded higher sales volume in all regions on a year over year basis. In May and June we reached record SSBR sales volume.

We made a strategic investment in March to purchase SSBR capacity rights from JSR, increasing our SSBR capacity in Schkopau, Germany, by 25 kilo tons per year to a total of 150 kilo tons per year. As a result, we are able to support growing market demands for SSBR and this capacity will allow us to continue to grow our high value rubber business in an economical and timely manner.

Our total SSBR volume at the first half of 2014 run rate is about 75 percent above our 2012 volume, and our enhanced SSBR volume run rate is now double what it was in 2012. We are making good progress on SSBR.

In April, we announced plans to convert our Nickel Butadiene Rubber Production Line to Neodymium Butadiene Rubber. This investment will meet increasing demand for high performance tires. The project is moving forward and we are on schedule for the start-up of the production line in the Fourth Quarter of 2015 and expect revenue and EBITDA impact in the First Quarter of 2016.

Finally, we are progressing on our plans to invest in added capability in SSBR technology. We call it Generation 4 and it continues to move the performance bar up on rolling resistance and wet grip. We are trialing this technology at key customers and will have it commercially available by the end of 2015.

These investments will continue to support our Rubber strategy of focusing on high performance tires.

Next, let's move to the Plastics Division, which delivered Adjusted EBITDA of $32 Million for the quarter.

Within the Division, the Styrenics Segment Adjusted EBITDA was $27 Million, including $7 Million of Equity Affiliate Income from Americas Styrenics. Styrenic Polymers demand in the Second Quarter of 2014 was quite good. In Europe and Asia, we saw seasonal increases in demand in the appliance and building and construction markets, while packaging demand remained steady. We expect both market conditions to remain very competitive due to new capacity in China and Middle East. We remain focused on controlling costs, managing operating rates and driving margin – not volume in Polystyrene.

The Engineered Polymers segment delivered $5 Million of Adjusted EBITDA. This is the best performance for the Segment since the Third Quarter of 2012, and was driven by strong performance in our Automotive, Consumer Essential Markets, and improving Polycarbonate businesses.

In Automotive, market conditions continue to improve in Europe, North America, and Asia. In aggregate, we saw year over year volume growth and margin expansion in these regions, but this was partially offset by very weak conditions in Latin America, where OEM car builds have slowed considerably.

Our refocused approach to Consumer Essential Markets, which include the medical, electrical and lighting industries, is paying off. In the Second Quarter, we experienced double digit growth in these Consumer Essential Markets on both a year over year and sequential basis. We are well positioned to penetrate several growth markets with our high performance plastics, including energy efficient lighting, portable medical diagnostics, and smaller, lighter consumer electronics. We've recently secured some new accounts in the LED lighting space, and we see this momentum continuing.

In Polycarbonate, global demand continues to improve. Demand is up more than five percent year over year, but margins remain very depressed. The Second Quarter margins did benefitted from a small price increase and lower raw material costs. However, the recent increase in Bisphenol-A prices will compress margins in the Third Quarter. I'll talk more about this later.

Trinseo made some big step changes in May to improve the performance of the Polycarbonate business. First, we negotiated a new raw material contract for our polycarbonate production facility in Stade, Germany, which will improve the business' cost position.

In addition, we announced that we are changing our sourcing strategy by ending our contract manufacturing agreement with Dow for the production of polycarbonate at Dow's Freeport, Texas,

plant. We are on track to terminate this Contract Manufacturing Agreement in October. We had previously indicated a total annual saving related to these two actions of $35 million based on 2013 volumes and cost. Our proforma savings in the First Half of 2014 from this restructuring were approximately $20 million, which was split equally between the First and Second Quarters.

We are hopeful that the Polycarbonate market conditions will be more favorable in the coming quarters and margins will expand as operating rates are now rising. However, we believe our restructuring strategy, which is targeted for completion at the end of 2014, will result in significant EBITDA improvement in 2015, independent of improving Polycarbonate market dynamics.

Turning to Slide 5, let's discuss some recent trends in our major raw materials markets.

As mentioned earlier, we've included two charts on Styrene Monomer this quarter. The top chart is a proxy for our Styrene Monomer margins on the approximately 650 kilo tons of Styrene Monomer we produce in Europe. The bottom chart is a proxy for our Styrene Monomer margins on the approximately 300 kilo tons we purchase on an Asia cost basis for use in our Asia Polystyrene and Latex products.

As you look at the 18 month history we can easily spot the periods when our Styrene Monomer margins were compressed, such as May/June 2013 in Europe and when they expanded such as July to October of 2013 in both Europe and Asia.

You can also see that thus far in 2014 we have not had any significant margin expansion in Styrene Monomer. You will note that recently there has been some compression in Styrene Monomer margins, both in Europe and Asia, but in general Styrene Monomer margins in 2013 and thus far in 2014 are above the really weak periods in 2011 and 2012. This trend of improving Styrene Monomer margins is what we expect as operating rates continue to move up structurally thru 2017.

Moving to Slide 6 and the Butadiene trends, Asia prices were the lowest in the world for much of the Second Quarter. Although the gap versus Europe began to close late in the quarter, our level of spot rubber sales into Asia was limited, especially as compared to the prior three quarters, when Europe prices were below those in Asia. Overall, Butadiene prices have remained relatively stable as compared to recent, prior periods.

Now, I'd like to turn the call over to John for a more detailed review of our financial results at a consolidated and business segment level.

Feenan

John Feenan:

Thanks Chris and good morning. As you heard in Chris' opening comments, we had strong performance during the quarter and we are positioned to improve on that with our restructuring and other performance enhancing projects.

As Chris mentioned earlier, we have changed our Adjusted EBITDA definition to be more consistent with those of our publically traded peer group. In the past, we included adjustments for items such as stock

compensation, pension funding versus expense, JV dividends versus earnings, and FX gain and loss. Starting in this quarter, we did not adjust our GAAP financials for these items and other recurring items. Instead, our adjustments will be strictly related to one-time items such as restructuring charges and extinguishment of debt.

In addition, we also began reporting Adjusted Net Income which reflects the after tax impacts of these adjustments. Adjustments in the second quarter included $32.5 Million for the Latex JV termination, $23.3 Million for the Bain Advisory fee and contract termination, and about $2 Million related to the Altona, Australia, Latex plant closure and the polycarbonate restructuring.

As I mentioned, one item that we are no longer adjusting for is FX gain or loss. Starting in the Third Quarter of 2014, we are implementing an FX hedging program which aims to significantly reduce the impact of this item.

Now turning to the financials, first with slide 8, you can see the Second Quarter results for Trinseo along with two comparison periods – the Second Quarter of 2013 and the First Quarter of 2014. All have been adjusted to reflect the new reporting format.

Second Quarter 2014 revenue of $1.34 billion was 2% below prior year driven by a 5% reduction in price, which was primarily driven by the pass through of lower styrene and butadiene costs. These impacts were partially offset by favorable FX as the Euro strengthened versus the US dollar.

Second Quarter Adjusted EBITDA was $79 million including $5 million of equity affiliate income. This Adjusted EBITDA performance compares to $43 Million in the Second Quarter of 2013, and $88 million in the First Quarter of 2014. I will discuss EBITDA drivers by Segment in the coming slides. This performance translates to Adjusted Net Income for the quarter of $11 million or $0.28 per share.

Now, turning to slide 9,

The Latex Segment revenue of $321 million for the quarter was down 7% versus prior year due mostly to the pass through of lower raw material costs. Lower volume sold to the Europe and North America paper markets was partially offset by higher volume to the Asia paper and North America carpet markets. Adjusted EBITDA of $27 million was $2 million below prior year due mostly to volume.

Sequentially, Adjusted EBITDA increased about $1 million due to lower raw material costs.

Now, turning to Slide 10,

Synthetic Rubber revenue of $165 million increased 6% from prior year. Higher volume, largely due to increased SSBR sales, increased revenue by 14%. This was mostly offset by the pass through of lower raw material costs. Adjusted EBITDA of $37 million was approximately $9 million higher than prior year due mostly to higher SSBR volume.

Sequentially, revenue decreased 7%, and Adjusted EBITDA decreased $6 million due mostly to lower spot sales, the First Quarter termination of the JSR capacity rights agreement and some carryover of SSBR volume from the Fourth Quarter of 2013 to the First Quarter of 2014.

Turning to slide 11,

The Styrenics Segment revenue of $590 million for the quarter was 1% below prior year due mostly to the pass through of lower styrene costs. Adjusted EBITDA of $27 million was $6 million above prior year primarily due to higher margins driven by lower raw material and utility costs.

Sequentially, Adjusted EBITDA decreased $15 million due to a $9 million decrease in earnings at Americas Styrenics which was related to their planned Second Quarter turnaround, tighter Styrene margins in Asia and Styrenic Polymers price competition in Europe.

Turning to Slide 12,

Engineered Polymers Adjusted EBITDA was $5 million, which was approximately $8 million higher than prior year, including a $1 million loss from Sumika Styron. This increase was driven by higher margins from compounds and blends products to the automotive and electronics markets.

Sequentially, Adjusted EBITDA increased $7 million due to higher polycarbonate margins and higher compounds and blends volume.

Please turn to slide 13 for the discussion on cash and liquidity. On July 14th we used $142 million of the IPO proceeds to pay down ten percent or $132.5 million face amount of bonds, plus the 3% premium and accrued interest. Our Q2 ending liquidity level, excluding this $142 million, was $675 million.

Free cash flow was break even for the quarter, and included $56 million in payments for the Emerging Markets Latex JV Option and Bain Advisory Agreement terminations. Capital spending for the quarter was $15 million, and we received $7.5 million of JV dividends from Americas Styrenics. In addition, we received $5 million for the Livorno land sale that we previously disclosed.

Year-to-date capital spending was $56 million including $26 million for the JSR capacity acquisition in the First Quarter. We are still on track to meet our CAPEX target range of $110-120 million for the full year.

With that, I will now turn the call back over to Chris.

Pappas

Thanks John.

Let's turn to Slide 15,

This is the same styrene raw materials slide I discussed earlier. In mid-June we saw an increase in spot Benzene prices due to supply limitations and some increased styrene production in the US. In fact, this run-up in spot drove the July contract benzene price in the US to an all-time high, pushed global prices higher as well. July contract styrene prices also increased, but to a lesser extent, compressing styrene margins on a spot basis in the back half of June and on a contract basis into July. This margin compression was particularly acute in Asia. As we progress through the Third Quarter, we expect benzene prices to moderate through more supply and styrene prices to firm up, on the basis of post-summer demand improvements. Therefore, margins should trend up during the latter part of the Third Quarter in both Europe and Asia. Second Quarter to Third Quarter performance should be comparable, but anticipated margin expansion in the Third Quarter was deflated by the benzene strength in June and July. Perhaps the Fourth Quarter will yield some styrene margin expansion.

In order to help you understand the magnitude of the styrene dynamic, I'd like to provide two "rules of thumb" regarding our styrene margins. We have been producing about 650 kilo tons of styrene monomer per year in Europe. Therefore, a $50 per metric ton change in styrene margin over benzene and ethylene in Europe results in a change of about $35 Million of annual EBITDA.

Now, you have to also consider that we purchase about 300 kilo tons of styrene per year based on Asia benzene and ethylene costs. We also have a $50 per metric ton change in styrene margin over benzene and ethylene in Asia results in a change of about $15 Million of annual EBITDA.

Let's look at a real example of this leverage to Styrene Monomer margin in our business. In the Third Quarter of 2013 we saw significant Styrene Monomer to Ethyl Benzene spreads. So far this year we have not seen those kinds of margins but do expect widening styrene margins in the Fourth Quarter.

We still hold the view that Styrene Monomer is generally tightening globally and we do expect periods of stronger Styrene Monomer margins thru the end of 2014 and into 2015 – providing we get some demand lift out of Asia. Exactly how much Styrene margin we will get in a specific period of time is hard to predict but we believe styrene margins are on an upward trend.

Let's turn to Slide 16 for another look at Butadiene.

Butadiene Asia prices have been increasing due to lower supply and better demand for downstream products. The price difference compared to Europe, although small, has increased, which improves the chances of an arbitrage for Synthetic Rubber. If you recall, we have grown the percentage of our Rubber revenue that is sold through contracts to more than 80% and because of this our exposure to the spot market is reduced from prior periods.

Turning to Slide 17,

You can see a snap shot of our Second Half of 2014. Overall, we expect the 2014 year end Adjusted EBITDA to be comfortably ahead of our 2013 results.

The third quarter of 2014 will have some challenges, notably by the summer slowdown in Europe and an outage driven spike in global Benzene that will constrain Styrene Monomer margins and reduce Polycarbonate margins. We also had our ESBR turnaround and a short unplanned outage at our Schkopau site in July. All of these items however will be behind us by the end of September and we expect a strong fourth quarter. We are seeing some good trends out there including moderating benzene costs and rising butadiene demand and prices in Asia. Global Polycarbonate demand is increasing and operating rates will improve as capacity comes offline in the Fourth Quarter. These higher operating rates combined with announced price increases should improve our Polycarbonate margins going into the Fourth Quarter.

Our major customers continue to be aligned and committed to Trinseo. We signed new customer contracts and renewed several existing contracts, which will result in increased volumes in Performance Latex, Carpet Latex and Automotive, Electrical and Lighting compounds. It is becoming clear the replacement tire market is rebounding after two slow years, and we are in the process of extending our contractual relationships with large tire producers beyond 2015.

Turning to Slide 18,

I would like to highlight one of our five objectives for 2014 focused on Environmental Health and Safety. Our company is committed to reducing our environmental footprint and managing our products in a

safe and sustainable manner. As part of our business strategy, we are developing innovative solutions for our customers as we are seeking technologies and solutions that help their products contribute to a more sustainable world. In July, Trinseo published its 2013 Sustainability and Corporate Social Responsibility Report, the fourth report since our formation in 2010.

For 2013, the company reported a two percent reduction in electricity use, a two percent reduction in total chemical emissions, a five percent reduction in volatile organic compound emissions, and a four percent reduction in waste compared to the previous year. We also achieved a 26 percent reduction in waste compared to 2011. This is a testament to our company culture of operational excellence and continuous improvement in costs and efficiency.

The report also profiles how the company's products help its customers improve their own sustainability in areas such as LED lighting, green tires, smart meters, life-saving medical devices, and lighter weight cars that get better mileage. This report also outlines Trinseo's programs in product stewardship, quality, safety, ethics and compliance, volunteerism, and Responsible Care®. The full report is available on the Sustainability section of the Company's website.

Let's turn to Slide 19,

In conclusion, we feel good about the Second Quarter of 2014 performance, the successful Initial Public Offering and our focus on shareholder value going forward.

While the Third Quarter does have a few challenges, we view the Benzene pressure as temporary and the seasonal and turnaround effects on the business as a Third Quarter only issue.

Based on that, we are affirming our view of a good Fourth Quarter result as well as a full year 2014 result that will outpace our 2013 result.

More importantly, our thesis for Trinseo value generation in 2015 and beyond remains solid. Our thesis has three components.

First are the structural changes that are driving Trinseo value. These include the restructuring of our Polycarbonate business, the structural changes we are targeting for our balance sheet, and the continued structural changes occurring in the Styrene Monomer and Polystyrene industry and landscape.

Second, is our profitable growth agenda that we are executing to increase high value EBITDA. This includes our focus on new capacity for SSBR, new SSBR technology, Neodymium PBR and rubber customer expansion into Asia as well as our focus for growth on Automotive and Consumer Essential Markets compounds, our focus on growth in Performance Latex and Carpet.

Third, there are the cyclical upsides we have to drive EBITDA and cash flow as economic conditions improve in Europe and elsewhere. These include the rising operating rates and the potential for higher margins in Styrene Monomer, Polycarbonate and Polystyrene over 2015-2017.

We continue to be excited about the future.

And now, Kevin we can open the phone line for questions.

Question and Answer session

Operator: Our first question comes from Bob Koot with Goldman Sachs.

Robert Koort, Goldman Sachs: Thanks very much. Chris can you talk a little bit about any impact (FIFO) impact that you might have from Benzene that rolls into the third quarter and then I'm also curious of the American Styrenics turn around. Was that just a vanilla turn around or were they able to do anything around cost or capacity there?

Chris Pappas: Yeah, the third quarter, Bob, we do expect, as we said, that Benezene pinched to impact our third quarter results. It will come in two forms, one we will not have of course, the Styrene Monomer Expansion although we may get a little bit of that in September. But, we're going to have the compression of Styrene Monomer in the first couple of months of the third quarter and we're going to see Bisphenol A cost up in the third quarter and that's going to contract our polycarbonate margins so those are going to be the two direct effects of the third quarter from that Benzene. And if I were to size that for you, I think you should think about the polycarbonate effect is probably 3 to 4 million dollars and our Styrenics business while we do see that compression, we actually think overall, Styrenics will in the third quarter perform somewhere in between the second quarter results and the first quarter. So we expect that to be, you know, a little bit weaker, but improving as we see better results out of AmSty. I'll let John comment a little bit on the AmSty turn around which was a vanilla turn around but did not turn out to be vanilla. They had some issues and problems associated with it that led to some extra costs.

John Feenan: yeah that's exactly it Bob, The Q2 performance of Amsty was all drive by the major turnaround of the St. James facility. During the turn around, they found a couple of items that they had to address during the turn around which added to the complexity of it. It's pretty much done and they also had in light of that turn around, they had to purchase some Styrene Monomer externally which versus manufacturing internally which was a drag as well but looking toward the back half of the year, we expect them to be back to their run rate of what we experienced in Q1.

Robert Koort: And John can you give us some help on tax rate assumptions as you finish off the year.

John Feenan: Sure. There's some interesting things that are going on in the tax rate in this Quarter. The tax rate was driven by the fact that we do have losses that we recognize in our Luxembourg holding companies for which we don't get a recorded tax benefit. Those will continue for the foreseeable future. Those losses coupled with some IPO related expenses that had no tax benefit were what really drove the rate to an interesting level, I would say in the second quarter. What we look at this year, is our cash taxes are expected to be in the range of $20 – 25 million and going forward, our effective rate is going to be driven by really a couple of things. One, the improvement in our rubber business that Chris and I talked about which goes through our HUBCO Structure in Europe which is incredibly efficient. As we continue to increase EBITDA, and continue to de lever the business, those will all be beneficial in driving the effective rate to a more reasonable level. OK.

Robert Koort: Thanks very much.

John Feenan: You're welcome.

Operator: Our next question is from David Begleiter with Deutsche Bank.

Chris Pappas: How are you?

David Begleiter: I'm doing well, how about yourself? Obviously very impressive growth in SSBR particularly the enhanced grades. Could you just remind us of the margin differential, you know, maybe ESBR to SSBR to enhanced SSBR?

Chris Pappas: The margin differentials are substantial between those and it depends a little bit of course on how is ESBR trending as a commoditized rubber but think of them as about 2 – 2 ½ times, Dave and enhanced SSBR Is at the high end of that range and SSBR would be at the low end of that range. I think the important thing to be noted is we have been very successful at growing our SSBR business and more importantly shifting our rubber business to high performance rubber and that's going to continue with a conversion of capacity with the acquisition of JSR so our strategy on tires which we implemented really from day one in the company was focus on high performance tires and to do that, we need the technology and capability of SSBR and the other rubbers we're developing.

David Begleiter: That's very helpful and then one quick housekeeping item for John, going forward, how should we think about the corporate line to trend by quarter?

John Feenan: The corporate line that we had in there you can expect that to stay relatively flat somewhere in the range of $18 – 20 million. And again, it's part of our culture any potential increases or inflationary items that we would see are being addressed through efficiencies and productivities. That's the culture that we talked about and that we continue to execute on and can expect going forward.

David Begleiter: Understood, thank you very much.

John Feenen: You're welcome.

Operator: Our next question comes from Kevin McCarthy from Bank of America.

Matt Conn: Good morning, this is Matt Conn filling in for Kevin McCarthy. Want to see if you guys can provide any color on Styrene Monomer operating rates for both you and the industry for Q2 and maybe a forecast for the third quarter and going forward?

Chris Pappas: Sure. There really, I think globally the best number we can give you is mid-70s on styrene monomer. They've been trending up; we expect them to continue to trend up. The forecasted operating rates, and we just actually had a pretty good review on this with Dewitt yesterday, are looking very good over the next couple of years. There's limited capacity coming and decent growth rates out of Asia are what's required to drive that but we see those operating rates increasing looking forward as we have over the last six months.

Matt Conn: Great. Thank you.

Operator: Our next question comes with P.J. Juvekar with Citi.

P.J. Juvekar: So on the SSBR market, you mentioned 5% growth in the industry but you saw SSBR growth of 30% so was there some irregular build or is SSBR gaining share from ESBR?

Chris Pappas: The tire market growth, PJ is one thing, the high value tire market growth is another which is out pacing that and the quantity of SSBR and other high performing rubbers needed to satisfy increasing demands on the high performance tire market is growing and that kind of creates the

multiple effect that you see in those growth rates and frankly, we're doing quite well in SSBR as a company. So that's how we get to those kind of numbers both on market and our specific capability PJ.

P.J. Juvekar: Thank you. And about polycarbonates, can you talk about the piece of restructuring and how it is going and if you're on track to go back to half the profitability that you had in the last week. Thank you.

Chris Pappas: We're absolutely on track. The restructuring has two components. It has the exiting of the contract manufacturing agreement in Freeport TX. We will exit that as of October 1st. That component is about $21 million of fixed cost that we will no longer have in the company. We have certain raw material and other contractual changes in the business that will occur by the January 1st 2015. The aggregate of those restructuring measures is what equals the $35 million of proforma improvement and as we stated if we were to of had those changes in place for the first six months of this year, the proforma savings would have been about $20 million so running slightly ahead of that about $10 million per quarter PJ. So on track on schedule and it will start to show itself directly in the fourth quarter and more completely as we move through the beginning of 2015.

P.J. Juvekar: Thank you.

Operator: Our next question of Vincent Andrews from Morgan Stanley.

Vince Andrews: Thank you and good morning everyone. Kind of as a follow up some of this. There is a lot of conversation in the equity analyst community recently over this concept of peak auto you just laid out sort of why on the tire side of things you know, your mixed trends or your mixed effect of how positioned is very favorable regardless whether peak auto exists or not. Maybe you could just expand on that and then also address sort of how the same dynamics would work on the lighweighting side of your business.

Chris Pappas: Sure Vincent, yeah. So, I think you're exactly right by the way on tires. So remember replacement tires are 75% of tires we have around the world OEM is 25% roughly. So auto production matters in tires but what really matters is replacement tire purchases and importantly in the future how much of that replacement tire market is going to be high performance tires because the cars that were bought from the OEM have high performance tires on them. So the replacement tire market still has a lot of legs in it in terms of growth of high performance tires independent of whether the OEM rates of autos are moving up over time. And that's an important trend we believe for our rubber business. In light weighting, Vincent, in our plastics division we have had a very good automotive business as we have stated. It continues to be strong light weighting continues to be a major theme; we're obviously very active on that traditionally interior of cars. Recently we've moved to structural exterior components. We are having some very good success in those applications and we see automotive and in general compounding where we're focused now on these consumer essential markets of lighting, medical, electronics as really a very interesting growth engine for the company more broadly in compounds fueled by light weighting and auto and the other things I mentioned in lighting and medical and electronics which we are also very active in.

Vince Andrews: Thanks very much, I'll pass it along.

Chris Pappas: Thanks Vincent.

Operator: Our next question comes from Frank Mitsch with Wells Fargo Securities.

Sabina Chatterjee: Hey good morning it's Sabina Chatterjee in for Frank. Back on synthetic rubber, we talked a lot about impressive volume growth but on the flip side you gave up a fair amount on price due to raw materials and Chris, I know you touched on this with contract structures but with all the initiatives in this segment to go more premium when can we expect results to get a little less sensitive to raw material prices?

Chris Pappas: Well, just to be clear, our model in rubber in particularly SSBR, but in rubber is a fixed to growing margin model. We have prices that move with raw materials of course because Butadine complex goes down or up but our margins do not change with respect to that. So you have to separate out say revenue from margin a little bit because we have a model that we've effectively put in place that's highly contract driven where we have fixed margins in a rubber business based on grades, based on performance, and we continue to execute that model. So we don't look at price, we look at margin and volume and our margins are growing and our volumes are stable and that's what we expect to do going forward.

Sabina Chatterjee: So as you go more premium can we expect better margins logically?

Chris Pappas: We think that the better products we are bringing out, generation four, SSBR, Neodymium, PBR and our product looks pretty good; it's early stage yet, market development. We think those products can carry some premium. But we think at the other end of the product mix we may see some decline in premiums. So our model would suggest that overall in SSBR we can maintain our margin and in high value rubber, I should say maintain our margins and grow our volume which would grow our EBITDA. We may be able to increase our margins some but our fundamental model is really to take advantage of new technology, secure long term contracts, grow our volume and maintain these excellent margins over time.

Sabina Chatterjee: Ok, and then on the projects you have across the businesses, which are expected to start contributing to EBITDA, late this year and into next year standing here today, how comfortable are you with the timing in contribution of each of those?

Chris Pappas: Well, I mentioned in the script, that the Zhangjiagang expansion is on time and on schedule. The new Neodymium conversion is on time on schedule. The JSR purchase is behind us and we will be filling the JSR capacity over the course of 2014 and 2015. The polycarbonate restructuring is on time on schedule. So we're on time on schedule and believe it's going to happen as planned.

Sabina Chatterjee: OK. Thank you.

Operator: Our next question comes from Lawrence Alexander with Jeffries.

George D'Angelo: Good morning this is George D'Angelo in for Lawrence. Do you expect there to be an inventory headwin in Q3?

Chris Pappas: You mean from an inventory reval FIFO effect? Is that what you're asking?

George D'Angelo: Yes.

John Feenan: No. De minimis. We didn't have much in either Q1 or Q2 compared to some prior quarters historically but we would expect it to be de minimis.

George D'Angelo: Ok. And following the refinancing what is the run rate for interest expense and any tax rate impacts going forward?

John Feenan: The quarterly run rate for interest is $30 million approximately.

George D'Angelo: OK. Thanks.

John Feenan: You're welcome.

Operator: Our last question comes from Roger Spitz from Bank of America

Roger Spitz: Thank you and good morning. In gaining a share of SB latex vs. VAE in carpets, is that based on Butadiene going down to 60 to 70 cents a pound and if it is, do you have any view of how that might look if Butadiene got back to the up $1.25 level?

Chris Pappas: I'll go back to that feedstock chart, and you can see a dynamic where which we talked about where Butadiene was extraordinarily high which was some time ago back in the early part of 2013. We have regained almost all of the VAE in carpet has come back to SB latex. We have been a pretty active participant of that. There's still a little bit left but there are two things going on. 1: you have to have a very high Butadiene price in order to have the VAE advantage enough overcome some of the performance issues. It's also been the case that there have been some performance issues in the VAE as people switched during this very high spikey Butadiene period. Now, having said that, you know, yes, if we get a big differential, you can see some carpet particularly, which is where this dynamic occurs in North America. You can see some of those carpet mills perhaps switch back to VAE but you have to have I think a pretty big delta between Butadiene and of course the ethylene complex. I can't tell you whether $1.25 would do it but you can see we were quite high back in January, February 2013. That's when we started to see that kind of problem in North America. I want to make sure you all understand that's only in North America that's not a European issue for obvious reasons the relative ethylene complex costs and it's a small part of our business guys. We sized that for you one time at you know, less than a few percent of our latex business is vulnerable to that dynamic on a global basis. It was a relatively small volume so I think there was a lot written, a lot of noise but we're happy to have it back, it's helpful and we expect to keep it in the current forward period based on cost performance.

Roger Spitz: Thank you and what percent of European SSBR demand is satisfied by imports?

Chris Pappas: We don't know that number but it's minimal but we'll get back to you. The imports would come out of course, Asia and the importers would include companies like JSR and a few others. And there are some. I don't know the number off the top of my head but I will get back to you.

Roger Spitz: Thank you very much.

Chris Pappas: It's relatively small.

Chris Pappas: Ok, Kevin, I think we're wrapped up. Thank you everybody for listening in and we'll be talking to some of you later. Take care. Bye Bye.

Operator: Ladies and Gentlemen, this now concludes today's presentation. You may now disconnect and have a wonderful day.