Second Quarter 2015 Financial Results Transcript
August 5, 2015

Prepared Remarks

Operator introduction:

Good morning ladies and gentlemen, and welcome to the Trinseo Second Quarter 2015 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 you Kristy 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 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 5, 2016.

Our disclosure rules and cautionary note on forward-looking statements are noted on slide 2. During this presentation, we may make certain forward-looking statements, including issuing guidance and describing our future expectations. We must caution you that actual results could differ materially from what is described or implied in these statements. Factors that could cause actual results to differ include, but are not limited to, factors set forth in our annual report on Form 10-K under the Item 1A, "Risk Factors".

I will now hand the call over to Chris Pappas.

Pappas

Thank you, Dave. Good morning and thank you for joining us to discuss our Second Quarter 2015 financial results.

Before reviewing the results of the quarter, I would like to highlight that our commitment to sustainability is an integral part of our business strategy.

Let's turn to Slide 3,

In July we published the results of Trinseo's fifth Sustainability and Corporate Social Responsibility Report. It profiles how our products help our customers improve their own sustainability in areas such as LED lighting, green tires, life-saving medical devices, electric vehicle charging stations, and lighter weight cars that get better mileage. The report also outlines our programs in product stewardship, quality, safety, ethics and compliance, volunteerism, and Responsible Care®.

In 2014, we continued the trend of reducing our environmental footprint, as measured by a range of environmental performance indicators. Compared with the 2013 performance, we achieved reductions in 2014 in waste, total chemical emissions, volatile organic chemical emissions, non-VOC emissions, and electricity use.

We will continue to reduce our environmental footprint, while developing new, innovative solutions that enable a sustainable future for our customers, our business and the world.

Now, let's turn to Slide 4.
Trinseo had a great start to 2015 with a strong first quarter, and the momentum continued into the second quarter. We had record Adjusted EBITDA of $151 million, driven by record performance in the Basic Plastics & Feedstocks division, as well as very strong Adjusted EPS of $1.61. This result included $29 million of favorable inventory revaluation, which is consistent with what we discussed in our first quarter of 2015 call. We also had positive free cash flow of $87 million in the second quarter excluding $69 million for the call premium associated with the refinancing that closed during the quarter.

Now let's look at the second quarter at the division and segment levels.

The Performance Materials Division had Adjusted EBITDA of $55 million including a favorable inventory revaluation impact of $7 million. During our first quarter call we said that price lag dynamics and a planned turnaround in our Synthetic Rubber segment would negatively impact second quarter results.
We have also frequently spoken about the timing impact of raw materials costs on the margins of our business. As you know, a significant portion of our Latex and Synthetic Rubber segments have indexed pricing. Much of that pricing is indexed to styrene and butadiene costs from one or two months prior. Both styrene and butadiene costs increased considerably during the quarter. In fact, Styrene rose by over $400 per metric ton, which was the largest one quarter move in more than four years. The resulting price lag impacted these segments by about $8 million, with the vast majority of that in Latex.

Latex sales volume of 312 million pounds was the highest level in nearly three years, and increased versus prior year in both the paper and carpet end markets and in all geographic regions.

We have announced Latex price increases in July in the North American market to enable a return to our historical level of EBITDA. In addition, we are actively studying ways to reduce our overall cost structure, including our global Latex asset footprint, and we expect to announce structural changes in the near future. These actions, combined with announced price increases, should position the Latex segment for EBITDA growth going into 2016.

Now, moving to Synthetic Rubber, Adjusted EBITDA for the quarter was $18 million. The planned maintenance event during the quarter impacted results by about $12 million.

Second quarter sales volume of 153 million pounds of rubber was very strong, increasing 8% versus prior year. Our most advanced rubber grade, enhanced SSBR, which is used exclusively in high performance tires, sold in record volume. We continue to see the high performance tire market growing at two to three times the rate of growth of the overall tire market.

Now, moving to Performance Plastics, Adjusted EBITDA for the quarter was $21 million. As expected, prices and margins normalized in the second quarter, after the record first quarter performance which benefitted from a significant raw material price lag of about $10 million. The second quarter Performance Plastics result is more in line with what we expect in the absence of any significant price lags. Our volume growth and expanded margins are creating the potential for some good EBITDA growth in this business as we move through 2015 and 2016.

Our Basic Plastics & Feedstocks Division had Adjusted EBITDA of $122 million for the quarter, or $99 million excluding inventory revaluation. These results included $41 million of equity affiliate income, nearly all from Americas Styrenics.

We continue to be encouraged by our performance in this Division as it is further evidence of the structural supply / demand improvements that are driving higher margins in styrene monomer, polystyrene, and polycarbonate.

As expected, styrene margins in Europe increased in the second quarter influenced by planned outages. Margins in Asia increased as well, resulting in a strong quarter in styrene. I'll talk more later about our view of styrene margins for the second half of the year.

Global styrenic polymers demand was lower in the second quarter, primarily in Europe, as customers destocked in anticipation of lower prices in the third quarter. Volumes sold into Asia were flat versus prior year and seasonally higher than the first quarter as the appliance season reached its high point.

Moving to Polycarbonate, global demand reached a record level in the second quarter, resulting in operating rates exceeding 80%, and margins were $150 per ton higher than the first

quarter. We have announced price increases for the third quarter, and expect polycarbonate margins to increase by about $250 per ton.

Americas Styrenics' record performance was driven by a very tight styrene market in the US, influenced by planned turnarounds by other producers, and continued strong polystyrene margins due to favorable supply / demand dynamics.

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

Feenan

John Feenan:

Thanks Chris and good morning. As you heard in Chris' opening comments, we followed up the solid results from the first quarter with a strong second quarter.

Please turn to slide 6 where you can see selected financial information. Second quarter volume of 1.3 billion pounds was in line with prior year. Adjusted EBITDA of $151 million and Adjusted Net Income of $79 million were both records for the company, as was the LTM Adjusted EBITDA excluding inventory revaluation of $440 million. Second quarter Adjusted EPS was very strong at $1.61 per share. Please note that the second quarter Adjusted Net Income reflected a partial quarter impact of the interest savings from our recent refinancing. Our run rate of interest expense going forward will be about $20 million per quarter, which is six million lower than the second quarter.

Now, turning to slide 7,

The Latex Segment revenue was $248 million for the quarter. Higher volume had a 6% favorable impact versus prior year driven by an increase in volumes sold into the Europe and North America paper markets, as well as a 6% increase in volume sold into the carpet market. Adjusted EBITDA of $15 million was $12 million below prior year due primarily to the price lag dynamic that Chris spoke about earlier, as well as currency.

Sequentially, Adjusted EBITDA decreased $6 million primarily due to price lag, with a positive impact in the first quarter and a negative impact in the second quarter, as well as lower margins due to more competitive market dynamics in Asia.

Now, turning to Slide 8,

In Synthetic Rubber, revenue decreased 30% versus prior year driven by the pass through of lower raw material cost as well as currency. Higher sales volume increased revenue by 9% versus prior year driven by SSBR. Adjusted EBITDA of $18 million was $19 million below prior year primarily driven by the planned turnaround during the quarter which was longer than expected, and also due to currency and some margin reduction.

Sequentially, revenue decreased 11% due mainly to currency as well as lower volume from the turnaround. Adjusted EBITDA decreased $8 million primarily due to the second quarter turnaround, and also due to price lag. These impacts were partially offset by inventory revaluation.

Turning to slide 9,
Performance Plastics revenue of $185 million for the quarter was 12% below prior year. Higher volume had a favorable impact of 3%, driven by higher sales to Europe and North America automotive markets as well as 9% growth in sales to our Consumer Essentials Markets, driven primarily by the North America medical market. Adjusted EBITDA of $21 million was $4 million above prior year due to the increased sales to the higher margin Consumer Essentials Markets.

Sequentially, revenue declined 6% due to currency and the pass through of lower raw material costs. Adjusted EBITDA declined $4 million due primarily to the very favorable first quarter price lag, which was partially offset by inventory revaluation.

Now turning to Slide 10,
Basic Plastics & Feedstocks revenue of $480 million was 26% below prior year due to currency, raw material pass through, as well as lower polystyrene sales volumes. Adjusted EBITDA of $122 million was a record high. Adjusted EBITDA excluding inventory revaluation of $99 million was $86 million higher than prior year driven by higher styrene margin, higher equity affiliate income from Americas Styrenics, as well as from the restructuring savings and higher margins in Polycarbonate.

Sequentially, revenue increased 6% due primarily to the pass through of higher raw material costs which was partially offset by currency and lower sales volume. Adjusted EBITDA excluding inventory revaluation increased $18 million due to higher styrene margin and equity affiliate income from Americas Styrenics. While styrene margins in the market increased significantly from the first to the second quarter, we did not realize the full benefit of this due to a couple of factors.

First, as previously mentioned, we had a planned maintenance event at our Terneuzen unit during the quarter, and the lower production volume resulted in $6 million of lower margin. Second, you may recall that in the first quarter we were able to opportunistically sell styrene to the spot market, which we weren't able to repeat in the second quarter, as expected. And finally, we could not purchase our normal level of cost-based styrene in Asia due to an unexpected outage at our supplier.

Now, let's turn to slide 11 for the discussion on cash and liquidity.
Free cash flow for the quarter was $18 million, inclusive of a record $30 million dividend from Americas Styrenics, $14 million of capital expenditures, $31 million of cash interest, and a $69

million call premium associated with the refinancing. Excluding the call premium, free cash flow was very strong at $87 million.

For 2015, we expect CapEx of around $110 to $120 million and cash taxes of approximately $55 million. This tax amount is higher than our previous estimate due to higher expected income for the year and improved results of our Joint Venture, Americas Styrenics.

Our net leverage continued to decrease due to higher EBITDA and cash generation, and was 2.8 times at the end of the second quarter.

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

Pappas

Thanks John.
Now I'd like to discuss performance expectations for the second half of 2015. Please turn to slide 13 for a discussion on Performance Materials.

The Performance Materials Division first half of 2015 Adjusted EBITDA excluding inventory revaluation was $141 million and we expect the second half to be similar. The first and second quarter performance was very different. I want to highlight what drove the decrease from $93 million in Q1 to $48 million in Q2, and why we expect the third quarter to be back to our $70 to $75 million per quarter historical range.

First, our rubber turnaround in the second quarter had a favorable impact in the first quarter from an inventory build, and an unfavorable impact in the second quarter in the form of an inventory draw, maintenance expense, and lost volume. Similarly, the Latex price lag had a favorable impact in the first quarter, as raw materials declined, and an unfavorable impact in the second quarter, as raw materials increased. We expect the third and fourth quarters to be about $70 to $75 million each as these items are not expected to repeat in the second half of the year.
Now, I'd like to spend a few minutes on the improvements in supply / demand dynamics and the higher margins we are seeing in Basic Plastics & Feedstocks.

Turning to Slide 14, the chart in the upper left clearly shows the trend in European styrene margins over the last four years. I'd like to point out a few things on this data. First, you can see that there is quarterly volatility, and this is driven by various market dynamics, including planned and unplanned outages. However, the upward trend over this time period is very clear, and this is driven by increasing operating rates.

Second, you can also see that the peaks are higher and becoming more frequent, and the lows are becoming higher as well. This is the result of a structural increase in global styrene operating rates into the mid-eighties. With styrene demand growing at approximately 2% per

year, and almost no new supply coming on line, we believe that this trend will continue for several years.

Looking at the bottom half of the slide for a more specific discussion on the third quarter, you can see Trinseo's "grey bar" data, which gives more granularity on the styrene monomer margins in Western Europe.

July styrene margin declined from the very healthy second quarter level as many styrene units returned to operation and exports arrived from North America. However, the July margin was still well above the levels from the past few years, outside of the extreme peak periods. This is what I mentioned earlier – even in the absence of high levels of outages, we are still seeing higher styrene margins than we saw in the past.

Looking at the third quarter in total, we expect about a $125 per metric ton decline in comparison to the second quarter, or about $15 million. However, we expect to offset some of this given higher production volume for the quarter with our Terneuzen site returning to operation.

Turning to slide 15, you can see the upward trend in both Polycarbonate global operating rates and margins in Western Europe over the last several years. This trend has accelerated over the last three quarters and operating rates now exceed 80%. Polycarbonate supply is forecasted to grow at about a 2% rate over the next five years, which is less than half of the current and forecasted demand growth rate of 5%. This dynamic can potentially lead to a sustained period of higher operating rates and margins in polycarbonate.

So with that backdrop for Performance Materials and Basic Plastics & Feedstocks, let's move to slide 16 and discuss our view of the second half of 2015.

I first want to discuss the impacts of inventory revaluation. We are not expecting a significant inventory revaluation impact in the second half of the year because of the expectation of much less volatility in raw material prices. This is in contrast to the prior three quarters where we saw significant inventory revaluation impacts.

Also note, that through the first half of 2015 the net impact of inventory revaluation on our consolidated results is quite small.
Now for the second half of 2015, we expect the Performance Materials Division results to return to the run rate of $70 million to $75 million per quarter as we don't expect significant price lag and do not have any material maintenance events.

Moving to Basic Plastics & Feedstocks, we expect the second half of 2015 to be about $130 to $145 million. This decrease from the first half is due to lower but still historically strong styrene

margins. We do expect higher polycarbonate margins which will be roughly offset by lower Styrenic Polymer margins, which benefitted from declining raw materials in the first quarter.

Corporate expense should be about $45 million for the second half, which is up slightly primarily due to a higher accrual for incentive compensation expense.
In total, we expect to have a strong second half and deliver between $230 to $245 million of Adjusted EBITDA. This would result in a record full year Adjusted EBITDA of $490 to $505 million and a record Adjusted EPS of about $4.55 to $4.80 per share.

Turning to slide 17, you can see the progress we have made at Trinseo since 2012. This progress, reflected in significant Adjusted EBITDA growth includes cost reductions, restructuring of our reporting segments, several financings and much more focused effort on all of our key profit drivers across the entire organization.

Throughout this period, Performance Materials has had solid and steady performance and we expect this to continue going forward.

What is changing, however, is the performance of Basic Plastics and Feedstocks. This change has been driven by improving operating rates in styrene, polystyrene and polycarbonate, which has increased margins as structural supply/demand dynamics have moved to a more sustainable level of profitability.

In 2012 we had very weak styrene and polycarbonate margins as a result of low operating rates. In this environment we were actively restructuring Trinseo, taking out costs, reducing Capex and reducing working capital.

In 2013 and 2014, styrene and polystyrene margins were rebounding as operating rates started to improve. Polycarbonate remained very weak in this period as the market place was working to fill excess capacity. You'll recall this is the timeframe where we restructured our polycarbonate business to reduce costs by $35 million per year.

We put our focus on disciplined control of costs and cash and executed our initial senior notes offering followed by our IPO in June of 2014.

As we ended 2014 and entered 2015 styrene margins continued to move up as operating rates improved. In the same period, Polycarbonate margins improved considerably also as a result of rising operating rates. These improved margins are occurring in our own businesses as well as in our JVs.

In 2015 we continued to tightly control costs and cash. We refinanced our balance sheet for the long term to a capital structure which is much more aligned to our chemical public company peers. This resulted in $37 million per year of lower interest expense.

All of these items have contributed to the step change we are seeing in 2015 in Adjusted EBITDA and Cash generation.

As we look to 2016, we expect Performance Materials to continue to perform well and generate good returns. This is the division we are focused on growing and where we are spending about 75% of our Capex. Our expectation for Performance Materials in 2016 continues to about 5% growth in Adjusted EBITDA versus 2015.

The drivers of this include continued positive mix shift and higher volumes in Rubber; new volume from our China expansion as well as price increases and cost initiatives in Latex; and modest volume growth in Performance Plastics.

In 2016 for Basic Plastics and Feedstocks we see continued rising operating rates in styrene monomer, polystyrene and polycarbonate- all of which should produce robust Adjusted EBITDA and Cash Flow.

So In aggregate, we see 2016 as quite close to our expected 2015 results.

In closing- we had a terrific first half of 2015 and see a strong second half leading to potentially a record year in Adjusted EBITDA and Adjusted EPS.

With reasonable economic conditions globally we see 2016 as another very good year for Trinseo driven by an increasing Adjusted EBITDA in Performance Materials and continued strong Adjusted EBITDA from Basic Plastics and Feedstocks driven by rising operating rates in styrene, polystyrene and polycarbonate.

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

Question and Answer Session

Operator: Thank you. Ladies and Gentlemen, if you have a question at this time please press the star then the one key on your touch-tone telephone. If your questions have been answered or you wish to remove yourself from the queue, please press the pound key. One moment for questions, please.

Operator: Our first question comes from the line of David Beigleiter of Deutsche Bank. Your line is open.

David Beigleiter: Thank you, good morning.

Chris Papas: Hey David.

David Beigleiter: Chris, just in 2016 since you raised it again the performance being up 5% still year over year. I would have thought given some of the issues, especially in Q2 in performance you might have seen, you might be forecasting a little bit higher EBITDA growth in '16 versus '15. Anything unusual in 15/16 or just being conservative given the early, early stage of the guidance?

Chris Pappas: Well, we said at the first quarter, David, that we thought year over year we'd be up 5% in aggregate EBITDA in Performance Materials and we're sticking with that at this time. The drivers that I mentioned I think are pretty clear. We'll have a better mix in rubber, some more volume, we'll have price increases in Latex, we'll have our China plant up and running, we'll have some cost initiatives in place in Latex and we'll have some growth in Performance Plastics. If currency moves up in the Euro obviously that would add to that number. We don't expect and we haven't put that in that 5% so on an operating side we think we can get 5% year over year EBITDA at this stage and we'll have to see how things develop.

David Beigleiter: Very good and Chris just on Polycarbonate - very good performance again in that segment that business do you have the Q2 EBITDA for polycarbonate and what do you think you'll be able to accomplish EBITDA wise in 2015 for Polycarbonate.

Chris Pappas: We did say David on our first quarter call that we reached break even in Polycarbonate in Q1 and that we have price increases planned for Q2. We indicated in this call that the margins went up about $150 a ton so I think you can do the math on that based on our volume and understand roughly where we ended up in Q2. We also said that Q3 we have price increases in the market that we expect to yield about $250 a margin in Q3 so I think you can calculate based on those expected margin increases where we might be. But suffice it to say we're obviously having a very big year over year change in Polycarbonate of course starting from the really low point of '13 and '14 where we had significant EBITDA losses in that business. Net net Polycarbonate's rebounding very strongly. We expect it to continue. The operating rates look like they're going to go up further through the end of the year and into '16, so we think that business is obviously heading in the right direction.

David Beigleiter: And a last thing for John, John just any refi expense expectations for the back half of the year?

John Feenan: Post the refi we expect to see our interest expense at approximately $20 million per quarter so that's about a $6 million savings and we expect to be very cash generative in the second half of the year and that's our game plan right now.

David Beigleiter: Great. Thanks a lot guys.

Chris Pappas: Thanks David.

Operator: Our next question comes from the line of Frank Mitch of Wells Fargo Securities. Your line is open.

Frank Mitsch: Good morning gentlemen nice Quarter and John I like the sound of that very cash generative for the second half.

John Feenan: Thanks Frank.

Frank Mitsch: I was wondering obviously there were a lot of outages particularly in Europe on the Styrene side that looked to be coming back, there's one in Alberta right now. Do you have any guesstimate on how much you may have benefitted from the deviation from whatever we can consider normalized operations in the industry and with the outage in Alberta now how do you see that playing out as well?

Chris Pappas: So Frank, it's Chris, thanks for joining us. Take a look at the slide that has the Styrene curve on it I think it's Slide 14 that's the one you're referencing. You know it's hard exactly to calculate the effect of the outages but we do show you at the bottom the grey bar data and it would suggest that about $125 per ton quarter over quarter was related to outages. Now that's I think a pretty rough calculation because you can see the peak kind of has subsided. I think the main point though is obviously Styrene from our point of view continues to march up the operating rate curve, very little capacity, almost none coming, 2% growth, and we do have continued outages, the one you mentioned in Canada is one and it is going to have some positive influence in the market in the third quarter. It's a small plant, Frank; of course it's quite a small plant in the scheme of the global Styrene world. But the main theme I think here is pretty clear: higher operating rates, more frequent spikes, higher lows, and generally higher Styrene margins and we're seeing that and we've been talking about this for well over a couple of years now. Certainly the full year of our public life, that we expect this to continue and it's showing up in our results and Amsty results in terms of EBITDA and cash.

Frank Mitsch: Can you make the case that because this industry hadn't been performing all that well in the recent past that perhaps these assets were under invested in and perhaps were reaching a new level of normal normalized in terms of unplanned downtime. Can you make a case for that as well that this is not something that is abnormal and that in fact it is the new normal to see these amount of unplanned outages.

Chris Pappas: I think you just made the case and yes we would agree. It's true particularly in this slice of the chemical industry given the historic poor performance of the Styrenics business- you can be quite sure that the investment curve was pretty low. Obviously there were closures,

there are certain closures still coming next year. So it has been a low investment and a closure environment and that will lead in all likelihood to continued unplanned outages. Just look at the grey bars at the bottom and if you look at nothing else but the volume of grey to the right versus the left of the chart you would see what we're talking about which is generally higher margins progressing from left to right in this dynamic of higher operating rates and so on.

Frank Mitsch: Ok. All right terrific and in the discussion on latex you were commenting that volumes were up 6% mainly due to the paper markets and the carpet markets and I gotta tell you those two markets don't seem to me to be 6% volume type growing markets. What's going on there on the volume side?

Chris Pappas: Well carpet is growing and I should say rebounding with housing and construction but in paper remember there's a couple things in paper. One is paper coating and the other is board; board is growing and paper coating is not. In fact it is declining. But our performance is driven by technology and our ability to grow in that dynamic in carpet comes from re-replacing some VAE that had been used in the carpet market that is now not being used in carpet and in paper the continued theme for us is higher market share from our SCE from our starch containing emulsions which we are growing in the market. These are lower cost products that deliver similar margins to us and those products are growing in the market and that's how we've been able to do that Frank in the market environment you're describing.

Frank Mitsch: Alright, terrific; thanks so much.

Operator: Our next question comes from the line of Lawrence Alexander of Jefferies. Your line is open.

Lawrence Alexander: Good morning. I guess first on performance materials as you look how trend growth 2017 - 2018 it looks as if you should be able to sustain 3-4%, or 3-5% volume growth in that segment. Is that fair?

Chris Pappas: That's fair.

Lawrence Alexander: And then for Styrenics given the characterization both of what you're seeing in/for the Styrene industry coupled with the improving utilization rates in polycarbonate, how are you thinking about the set up for – in 2016 you have some comp issues with 2015 so you end up roughly flat but 2017 you should be a fairly significant step up from 2016. What do you see as the swing factors around that, whether it's the regional demand trends; where do you see the big areas of uncertainty around that?

Chris Pappas: So Lawrence thanks for joining and just to back up for one second we said that performance materials next year would be 5% year over year EBITDA growth; imbedded in that

is some volume growth as you mentioned. We also said that we think the total EBITDA for the company next year, performance for the company next year, would be very close to 2015. That's our current view of 2016 and the reason we've said that is we see continued reasonably good operating rates in polycarbonate, styrene, polystyrene and in fact rising. If we have decent global economic conditions in '16 and rising operating rates beyond where we are now in polycarbonate styrene polystyrene we could see higher EBITDA in '16 than '15 in our company. The same is true for '17, Lawrence - it's going to depend on how those operating rates in basic plastics and feedstocks move going forward. What drives those of course is global economic activity. Polycarbonate has been growing at about 5% per year and there's about 2% growth in capacity, so that curve under normal economic conditions looks to be a rising operating rate. Styrene monomer growing at 2% on the demand side with almost no supply coming. The drivers for those growth rates are the markets that we've shown on prior calls. You know the markets that are the derivative products of those and on a regional basis there's a fair amount of styrene that's consumed in Asia and there's a fair amount of polycarbonate that's processed in Asia that's exported for global end markets like appliances and personal electronics.

So I think the answer to your segment regional question, Lawrence, is referenced pretty clearly in our prior data that we've given you guys on segments and geographies and so on. With good economic conditions we see BP&F, Basic Plastics and Feedstocks, continuing to perform very strong from rising operating rates.

Lawrence Alexander: And then just to confirm the capital spending outlook after 2016 is still expected to step down in 2017 and 2018 is that right?

John Feenan: That's correct, Lawrence. This is John and good morning. For 2015 we expect approximately $110 to $120 million; in 2016, $130 to $140 million, and then a step-down in 2017 and '18 post the two initiatives around shop floor in our systems.

Lawrence Alexander: Thank you.

Chris Pappas & John Feenan: You're welcome, Lawrence.

Operator: Thank you. Our next question comes from the line of Bob Koort of Goldman Sachs. Your line is open.

Bob Koort: Thank you. I wanted to follow-up on Latex. Chris, it sounded like you alluded to maybe some asset optimization there can you give us a little more specifics and then I've noticed your competitors have taken some capacity out. Do you have a similar profile as you

gave on the polycarbonate industry in terms of global supply and demand expectations over the next couple of years for that industry?

Chris Pappas: Yeah, Bob, so we will be ready to talk more about our latex initiatives as I said in the near future. We are looking at comprehensively at our asset footprint but also at other costs in the business primarily on the paper side. We have three places we operate, three markets we operate in in latex: we have paper which is paper coating and board, we have carpet, and we have performance latex, as we call it. The board and the carpet and the performance latex are, as I said earlier, are all growing. And where we're having the secular decline in demand is in paper coating and it's that area that we're going to look at from an asset and other cost perspective. We'll have more to say about that in the near future. But we're taking a fulsome look at that across the latex business

To your second question, Bob, the operating rates in latex first of all should be looked at regionally because the products do not ship globally. There just is no global trade of latex and you can appreciate that with it being 50% water so you have to look regionally to, I think, get an appreciation for latex. The operating rates in North America with the asset changes that have been announced by other industry players and potential asset changes we make will start to move up, Bob, into a more comfortable range. Depending on what we do or others do in Europe we may see some of that too, but, we do not expect latex operating rates on an individual regional basis to get to a state where we would declare the business tight as we are in polycarbonate, Bob, you know, based on being in the low 80's in polycarbonate. We do expect improvement in the operating rates in latex but we would not be characterizing those as moving to tight but improving to a point where we think we could improve our EBITDA.

Bob Koort: Got it. And then can you help me understand if there should be any sense of caution given what's happened to SB rubber prices in Asia, how that could or could not influence your business?

Chris Pappas: Well, our business in rubber of course as you know is really a high performance tire business by design. The drivers of our performance in our rubber business are going to continue to be the growth in high performance tires which has not abated, it's still growing at two to three times the rate of normal tires and our ability to deliver and improve the technology we have for the demands of that segment which we have also been in fact improving. That's why our SSBR volume is up, continues to grow and our penetration of that segment continues to be very strong. We also are bringing on, on time, on schedule at the end of the year, our conversion of a nickel PBR plant to neodynium and we'll be starting to qualify that product into the market at the end of this year into 2016 which will give us some added

capability to participate in high performance tires and move out of a weak segment which is nickel PBR and this is all part of our designed strategic approach in rubber to continue to move to positive mix and better volumes and better value applications like high performing tires.

Bob Koort: If I could just make one last one we've heard other companies that serve the auto markets talk about some deceleration caution obviously the auto makers have had similar commentary do you see any signs of that you mentioned SSBR is still strong in high performance have you seen in performance plastics rather business any deceleration in trends into the auto sector?

Chris Pappas: Only in Latin America in automotive have we seen that to date in performance plastics. That has been for the last several quarters, of course the issues in Latin America are well known. We haven't seen deceleration of our automotive performance plastics business as we enter the third quarter or look forward we still see that business pretty good. And of course in tires the auto-builts are less important; it's more around replacement tires and the continued drive for high performance tires. So, we're watching that closely, Bob, but we don't see anything right now that causes us to change the outlook we gave for the balance of the year in performance plastics, for example.

Bob Koort: Great. Thanks for the help.

Chris Pappas: Okay. Thanks, Bob.

Operator: Our next question comes from the line of PJ Juvekar of Citi. Your line is open.

Eric Petrie: Good morning. This is Eric Petrie on for PJ. Your basic plastics & feedstocks outlook looks a little stronger than what you provided in first quarter of up $175 million year over year. Could you go over just the puts and takes just initially and my opinion it looks like Americans Styrenics is doing a little better plus you have polycarbonate margin expansion which would offset the moderation in styrene.

Chris Pappas: I think you got it, Eric. So, we see AmSty doing a little better in the last part of the year than we did last time. They seem to be continuing to perform well both in styrene and in polystyrene all driven by operating rate. Our polycarbonate business is coming back faster than we thought when we were sitting around on our Q1 call and we've talked about the $150 – $250 margin increases we expect into the second and third quarter. So those are driving up the results. Styrene polymers outside of North America might be a little bit weaker than we thought at the time of the first quarter. And styrene I think is probably about the same maybe a little bit lower; our styrene. So I think you've got the components pretty well nailed.

Eric Petrie: Second, do you have any maintenance outages in styrene in the third quarter?

Chris Pappas: We are going to have a maintenance outage in our Boehlen, Germany styrene plant. That is driven primarily by Dow Chemical which operates the cracker which is going through a major turnaround of the cracker. And so we will of course have that plant down during that period and we will be doing certain maintenance of that styrene plant during that period. That will be substantially for the third quarter.

Eric Petrie: Ok, and then, are you expecting any favorable inventory revaluation in the third quarter specifically within basic plastics and feedstocks?

Chris Pappas: Minimal. As I mentioned through the last half of the year at least as we see feedstocks we don't expect a large inventory reval in the company. That can change of course depending on what the feedstocks do but we expect some minor effects in the third quarter and some minor effects in the fourth quarter. Importantly guys, I pointed out in my script, if you look at the first half of this year for the company, the inventory reval effects for the entire company are about 12 million dollars over the first six months. So whether you look at the adjusted EBITDA reported or the adjusted EBITDA ex-inventory reval, the number is substantially the same. Now the first quarter was in one direction and the second quarter was in another, but we have worked through at mid-year inventory reval as an impact on the company and for all practical purposes and through the last half of the year we said we just don't expect it to be a significant number unless we see feedstocks dramatically go up or go down then of course the effects would be different.

Eric Petrie: Ok. Thanks Chris.

Operator: Our next question comes from the line of Duffy Fischer of Barclays. Your line is open.

Duffy Fischer: Yes, good morning. I was wondering if you could talk a couple of things around the inventory build and then the working off of the inventory in your Synthetic Rubber business. Volume's up nicely in Q2, even though you had a pretty big turnaround going on. So, one, how did you build that much inventory that you could actually increase the volume so much or was it just an easy comp? And then, two, how did the economics of that kind of flow through both Q1 and Q2?

Chris Pappas: Well, there's a build draw effect. I think maybe it's what you're getting at Duffy on the numbers -- on the effect of the numbers. I'll let John comment on that. But in terms of volume, I'm not sure if I exactly get your question. But we were able to -- we drove our inventories down is part of the answer as we sold more. We ended the quarter, Q2, at very low inventory in rubber. So, we ended up with very low inventories. So, we went after sales by

lowering inventory in the quarter, but John, do you want to comment on kind of the build draw effects, of how that works.

John Feenan: Yes. What we did is, because of the outage in the planned outage that we had in this plant in the second quarter, we had an escalation of our inventory and an inventory build, which is favorable to our P&L. In the rubber segment, that benefit was, call it, $3 to $3.5 million in Q1. And then because of the idle of the facility in the second quarter, we utilized that inventory to meet the demand in the volume that Chris had talked about to the point where actually our inventories are at a very low level and that had an offsetting impact of roughly $4 to $5 million. So, when you look at it over the first half of the year, it's a minimus effect on the inventory build/draw, but it was an important component to understand what we saw in Q1 and Q2 from a performance standpoint in addition to the turnaround that Chris alluded to earlier when we went through our notes.

Duffy Fischer: Okay, fair enough. And then on the $250 per ton in polycarbonates, Chris, you were talking about, is that an increase off of Q2 or that's an absolute margin number that you're saying for Q3?

Chris Pappas: No, that's an increase Duffy, the $150 was an increase from Q2 versus Q1 and our best view of Q3 is about a $250 increase from Q3 above Q2, those are quarter-to-quarter, not absolutes.

Duffy Fischer: Okay, great. Thanks, guys.

John Feenan: You're welcome.

Operator: Our next question comes from the line of Vincent Andrews of Morgan Stanley. Your line is open.

Vincent Andrews: Thank you. Good morning, everyone, and thank you for the outlook or the early outlook on '16. Question is just here around the balance sheet, you talked about getting your net leverage on an LTM basis down to 2.8 times. And I guess I'm just kind of looking for an update on where you want the balance sheet to go and what's your -- it sounds like even with a little bit of a step-up in CapEx next year, you should still have robust free cash flow again. So, are there any working capital items or any other items that we should be thinking about in terms of what you might want to do with your cash flow going forward?

John Feenan: Yes, Vince, good morning, this is John. A couple of things to think about. As I alluded to earlier, we'll continue to be cash generative in the business. You can expect that in the second half of the year and going forward. We have some things that we thought about

and that we're thinking about internally. And then in no specific order, we would want to get our leverage down to the 2 times to 2.5 times; we've talked about that consistently in the past. We'd also look at a potential modest dividend that would be peer-like with the chemical peers that we compete against somewhere in the range of 1% and 1.5%. And again, the other piece that I would mention is as we look to continue to transform the portfolio, we would look at bolt-on acquisitions that had a higher growth, higher margin, higher return aspect to them. Those are kind of the basket of things that we would be looking at right now with the cash that we plan to generate.

Vincent Andrews: Okay, thanks. And Chris, if I could just ask you, I kind of agree with your position on sort of how the cycle's playing out in styrene and you sound confident sort of for the next couple of years. What do you think happens, you obviously have no interest in adding any capacity. I am not going to speak for your peers. I doubt that you will either, but what does it generically, do you think will cause us to change, I mean if the industry is just going to 2% a year and we're at 85%, there's not much supply coming in, I mean that bodes quite well. So, what do you think actually sort of happens and why is this just a cycle versus sort of a new normal?

Chris Pappas: I don't think it will change in the near future for several reasons. One, it takes from today, four years if somebody were to announce today the building of a styrene plant. It takes three to four years to get that into the market by the time you engineer it and put it into the market. So, number one, we have a very good view of the supply side of the equation over the next three or so years. And that's been well documented. Number two, somebody has to go, and our plans are clear, we're not investing – Americas Styrenics is not investing. We're never building styrene, polystyrene, polycarbonate, et cetera. But others would have to go, of course, and get approval for large sums of money. It costs about $500 to $600 million to build a styrene plant these days. That's not a small amount of money. You would have to go, I assume, to a Board and explain why the trailing history of styrene and polystyrene is not going to repeat itself. I think memories are long. So, I think generally speaking, Vince, it's going to be hard for people to chin themselves up to that. It's not an area that generally is attractive to the main players in the chemical industry. You can see that in their public announcements, so we don't see those guys going there. So, I just think the landscape is setting up quite well for the next several years, for a rather good period of time for styrene and polystyrene, after a very difficult 10 or 12 years, let's to be clear. So, we're now entering what we think is a nice plateau with some pretty good upside for continued period of time. I think polycarbonate looks pretty similar. There aren't that many players. It costs a lot to put a polycarbonate plant in the ground, about $1,250 a ton. It's a long process, it's at least three years as well. And we certainly aren't planning to do that. And we'll have to see what others are planning to do. But

again, those decisions have to be made. You have to get the money, you have to do the engineering and it certainly looks like over the next three to four years, the polycarbonate world should be heading in the right direction as well.

Vincent Andrews: Ok. Makes sense. Thanks very much.

Operator: Our last question comes from the line of Roger Spitz of Bank of America. Your line is open.

Roger Spitz : Thanks very much. Good morning. Your SSBR volume, can you give a split between what you call regular versus your enhanced SSBR in terms of volume sales?

Chris Pappas: We can tell you that our SSBR sales as a percentage of our rubber, is in the 40% - 45% range. And of that, Roger, a substantial portion is enhanced and it's growing, and that's really all we're able to tell you at this point. And our objective is, of course, to continue to move up the mix. We have newer and newer generations of enhanced SSBR to deliver performance as required in the market for higher and higher performing tires and we're going to continue to chew away at that. I also mentioned we're investing and we'll be starting up our initial neodynium facility, a conversion, at the end of this year, which is another high-performance tire rubber to upgrade our nickel business from a low performer to a higher performer by positioning that asset and converting it into product that goes after high performance tires.

Roger Spitz: Synthos was supposed to add an SSBR plant in June. There is no announcement I can see on their website. But have you seen any volume for this or at least if delayed perhaps any changes in customer behaviors ahead of this plant coming online?

Chris Pappas: The last we heard was the plant was due to start-up in July. I have not heard whether it did or did not start up. That plant is a base SSBR plant, it's their first entry into the market. We have, as we said earlier, contracts that now extend anywhere from two to four years out with our major customers that have committed volumes and committed margins in both basic and enhanced SSBR and we feel pretty comfortable about that position. I would also tell you that our customers are key customers in SSBR, at least two of them have asked for higher quantities than our current contract volumes at least are written for and we are going to do our best to provide those higher volumes to them. So, we have seen no effects of that at this point on our business.

Roger Spitz: Glad to hear. And lastly, how much SSBR is imported into Europe as a percent of total European requirement?

Chris Pappas: It moves up and down. It depends on two factors: first, the relative value of Butadiene between Europe and Asia. That's a big factor, because SSBR is largely Butadiene. So, you have -- generally, an arbitrage scenario is required to move any substantial volume from Asia to Europe. That means lower Butadiene in Asia than Europe, okay. Number two, you have to have the ability to produce products that you can, in fact, qualify into the European market and there are players that do that, JSR, Nippon Zeon and Sumitomo for example. But thirdly, I guess, Roger, remember the market for SSBR and high-performance tires is actually growing the fastest right now in Asia. And so the tendency in our view would be for those producers to attend to the growth in Asia unless there's a big arbitrage value or they have some global strategy that serve global customers. But the answer to your question is not a lot and I don't have the specific numbers. I think those numbers are available, we could probably get them to you out of a public data, but it is not a huge amount of volume. Unless there's a large arbitrage window and those tend to be temporary. I share one last thing, the arbitrage window generally goes the other way. Higher Butadiene in Asia than Europe and then that chokes that that off and then in fact the volume flows from Europe to Asia arbitraged against Butadiene, volume of rubber, SSBR.

Roger Spitz: Thank you very much.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program. You may all disconnect. Everyone, have a great day.