Third Quarter 2015 Financial Results Transcript
November 5, 2015

Operator:

Good morning ladies and gentlemen, and welcome to the Trinseo Third 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 Roland 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 November 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.

Chris Pappas:

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

Before we get into the details of the quarter, I want to provide some important clarification on our results for the third quarter as well as our full year 2015 guidance.

As you know, we regularly report our Adjusted EBITDA and EPS as well as the Inventory Revaluation impact at the consolidated and division levels.

Some quarters the inventory revaluation impact is minimal so we do not specifically address it. Other times it is significant and it is important to understand how it relates to the underlying business performance in a given quarter or period.

The third quarter is one of those instances where inventory revaluation is significant.

The third quarter Adjusted EBITDA of $116 million included an unfavorable $28 million of inventory revaluation impact. Excluding this impact Adjusted EBITDA was very strong at $144 million. We also reported a $1.07 adjusted earnings per share, which was negatively impacted by approximately 40 cents related to the Inventory Revaluation. Excluding Inventory Revaluation impacts, Trinseo beat both EBITDA and EPS expectations for the third quarter.

Due to this very strong third quarter performance, we are increasing our full year outlook for Adjusted EBITDA excluding inventory revaluation to between $525 and $535 million, which is above our previous full-year guidance.

Now, I would like to highlight important recent executive leadership announcements which will add depth to the Trinseo executive team.

First, Martin Pugh has been named Executive Vice President and Chief Operating Officer reporting to me. In this newly created interim role, Martin will elevate his focus on various key business initiatives including supply chain structure changes, new ERP system installation, as well as SOX compliance. He will also partner with the new business presidents on key strategic business initiatives across the company.

In addition, two new executives joined Trinseo on November 1st. Tim Stedman was named Senior Vice President and Business President of Basic Plastics and Feedstocks. Tim was most recently Business Director, Basic Chemicals, at ExxonMobil Chemical.

Also, Hayati Yarkadas has joined the company as Senior Vice President and Business President of the Performance Materials Division. Hayati was most recently Senior Vice President and General Manager, Europe, for Tate & Lyle. Both Tim and Hayati will report to Martin and will be part of our Executive Leadership Team.

As Trinseo matures as a public company, these moves are consistent with our continued emphasis on results and business focus.

Now, let's turn to Slide 3.

Trinseo had a great start to 2015 with a strong first half, and we are pleased to announce the continuation of these strong results in the third quarter. Adjusted EBITDA for the quarter was $116 million, which included a negative inventory revaluation impact of $28 million, driven by the decreasing price of benzene during the quarter. Adjusted EBITDA excluding inventory revaluation of $144 million in the third quarter was our second highest ever, just behind the record $151 million from the first quarter of this year. In addition, we had very strong free cash flow of $95 million.

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

The Performance Materials Division had Adjusted EBITDA of $66 million including an unfavorable inventory revaluation impact of $6 million, so $72 million excluding inventory revaluation. This is in line with the $70 to $75 million that we discussed during last quarter's call.

At the segment level, Latex had $24 million of Adjusted EBITDA on 307 million pounds of volume, which are in line with the historical trend for the segment.

During our last call I mentioned we were actively studying ways to improve our performance in Latex. In the third quarter, we took action toward this goal in two ways.

First, we implemented cost reduction measures, including a reduction in asset footprint with the closure of our styrene butadiene latex plant in Gales Ferry, CT. This decision was in response to continuing declines in the coated paper industry in North America, and is part of a program which we believe will reduce costs in the latex business by a $5 million as a run rate in 2016.

Second, we announced a price increase of ten cents per dry pound for latex sold into carpet, paper, and performance latex markets in North American. We believe these actions will improve our margins in Latex and enable us to continue to invest in innovative and cost competitive products.

Now, moving to Synthetic Rubber, Adjusted EBITDA for the quarter was $27 million, right in line with expectations and higher than the second quarter, when we experienced significant impacts from the planned Rubber maintenance event.

Third quarter sales volume of 152 million pounds was very strong, increasing 11% versus prior year. Our most advanced rubber grades, enhanced SSBR, which are used exclusively in high performance tires, again sold in record volume. This product line continues to become a bigger piece of our overall sales mix, as the high performance tire market grows at several times the rate of the overall tire market.

Now, moving to Performance Plastics, Adjusted EBITDA for the quarter was $15 million. This was lower than recent quarters due mainly to higher polycarbonate cost and lag pricing. Third quarter sales volume was roughly flat versus prior year, as growth in North America and Europe was offset by declines in Asia and Latin America mostly due to the automotive market and regional economic conditions.

Moving to our Basic Plastics & Feedstocks Division, we had Adjusted EBITDA of $70 million for the quarter, or $93 million excluding inventory revaluation. These results included $33 million of equity affiliate income, nearly all from Americas Styrenics.

We continue to be encouraged by our performance in Basic Plastics & Feedstocks, as it is further evidence of the structural supply / demand improvements that are driving higher margins in styrene monomer, polystyrene, and polycarbonate. In fact, this is the third straight quarter with adjusted EBITDA higher than all of last year in this division – a clear step change.

During the second quarter call, our view was that third quarter styrene margins in Europe would decrease from the very strong second quarter by about $125 per metric ton. However, styrene supply / demand dynamics were tighter than expected due to planned and unplanned outages, and this resulted in elevated styrene margins throughout the quarter.

Global styrenic polymers volume was lower in the third quarter, primarily in China, due to weak demand and a continuation of customer destocking in anticipation of lower prices. We are

already seeing restocking in the fourth quarter, as polystyrene prices have fallen with the drop in styrene.

Moving to Polycarbonate, as expected, margins in the third quarter increased from the second quarter by about $250 per metric ton. Demand continues to be strong; polycarbonate volume in the third quarter was up 8% versus prior year, and global operating rates for 2015 are estimated to be in excess of 80%.

Equity affiliate income from Americas Styrenics decreased from the record second quarter performance, which was driven by a very tight styrene market in the US, but the results were still strong and in line with the higher run rate we've seen this year.

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.

John Feenan:

Thanks Chris and good morning. As you heard in Chris' opening comments, we followed up the solid results from the first half of the year with another very strong quarter.

Third quarter volume of 1.3 billion pounds was in line with prior year and prior quarter. Adjusted EBITDA of $116 million and Adjusted Earnings per Share of $1.07 were very strong results for the company. On an LTM basis, Adjusted EBITDA of $409 million and Adjusted EBITDA excluding inventory revaluation of $522 million were both records, which we believe reflects a sustained step change in the profitability of the company.

Please note that the third quarter Adjusted Net Income reflected the full effect of the interest savings from our recent refinancing. Our run rate of interest expense going forward will be about $20 million per quarter.

Now, turning to slide 6,

The Latex Segment revenue of $255 million for the quarter decreased about 22% versus prior year driven by the pass through of lower raw material cost and also currency. Adjusted EBITDA of $24 million was $2 million below prior year due primarily to currency.

As Chris mentioned earlier, we've taken cost actions in Latex that we believe will reduce costs by approximately $5 million a year. We anticipate that we will begin to see the impact of this in the first quarter of 2016, realizing the full run rate by the end of 2016.

Turning to Slide 7,
In Synthetic Rubber, revenue decreased 19% versus prior year driven by the pass through of lower raw material cost as well as currency. Higher sales volume increased revenue by 13% driven by SSBR. Adjusted EBITDA of $27 million was equal to prior year, as higher SSBR volume was offset by currency and modest margin reduction. Trinseo's Rubber performance returned to a more normalized run rate after the turnaround effect in the second quarter of 2015.

Turning to slide 8,
Performance Plastics revenue of $180 million for the quarter was 13% below prior year, driven by the pass through of lower raw material cost as well as currency. Adjusted EBITDA of $15 million was $4 million below prior year due mostly to inventory revaluation. Volumes were flat versus prior year, as growth in North American and European Auto markets were offset by weakness in Brazil and China.

Now turning to Slide 9,
Basic Plastics & Feedstocks revenue of $467 million was 24% below prior year driven by currency and raw material pass through. Adjusted EBITDA of $70 million was $66 million higher than prior year. Adjusted EBITDA excluding inventory revaluation of $93 million was $89 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.

Now, let's turn to slide 10 for the discussion on cash and liquidity. Free cash flow for the quarter was $95 million, inclusive of a record $42.5 million dividend from Americas Styrenics, $35 million of capital expenditures, and $10 million of cash interest. At the end of the quarter we had solid liquidity of $787 million, which included $321 million of cash.

For 2015, we now expect CapEx of about $110 million and cash taxes of approximately $55 million.

Our net leverage continued to decrease due to higher EBITDA and cash generation, and was 2.2 times at the end of the third quarter. We believe our net leverage will be below two times by the end of the year, compared to approximately four times at the end of 2013 and 2014.

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

Chris Pappas:
Thanks John.

Now I'd like to discuss performance expectations for the fourth quarter. Please turn to slide 12 for a discussion on styrene monomer.

We've presented these styrene margin charts before and they've been updated for recent actual data, as well as the outlook for the remainder of the year. Let's first look at the chart on the top, which shows the Western Europe margin data.

As expected, October margins declined significantly from the very high September level as outages ended and imports arrived from North America. We expect the fourth quarter margin to decline by about $175 per metric ton in comparison to the third quarter, but restocking of polystyrene, as well as Europe styrene exports to Asia, should result in a more balanced market as we approach year end.

Moving to the lower chart on slide 12, which shows Asia styrene margin data, you can see that fourth quarter margins are expected to decrease by about $75 per metric ton from third quarter levels, as more supply has come back online.

Looking at the fourth quarter in total, we expect styrene margins to decrease EBITDA excluding inventory revaluation by about $25 million from the third quarter.

Thinking about inventory revaluation for the fourth quarter, as previously discussed, this impact is driven largely by the cost of benzene, ethylene, and butadiene. You can see from these charts that benzene costs are expected to be slightly up during the quarter. Butadiene in Europe is forecasted to be slightly down. Therefore, at this time we expect a minimal inventory revaluation impact in the fourth quarter.

So with that backdrop for styrene margins and inventory revaluation, let's move to slide 13 to discuss our view of the fourth quarter.

First, we expect the Performance Materials Division results to continue its run rate of $70 million to $75 million of Adjusted EBITDA per quarter.

Latex Adjusted EBITDA is expected to be approximately $20 million. We continue to be diligent in our actions to improve the performance of this business with the recent price increase announcements as well as the implementation of cost savings initiatives.

Synthetic Rubber is expected be similar to the third quarter at approximately $25 million of Adjusted EBITDA.

We believe Performance Plastics will improve as margins increase due to the reversal of price lag effects. Our fourth quarter Adjusted EBITDA forecast is $25 to $30 million for this segment.

Now, moving to Basic Plastics & Feedstocks, we believe the fourth quarter will be between $55 and $65 million of Adjusted EBITDA. This is a decrease of about $30 million from the $93 million of Adjusted EBITDA excluding inventory revaluation in the third quarter. This change is driven by the lower styrene margins we discussed in Europe and Asia, as well as from lower expected income from Americas Styrenics due to lower styrene margins in the US. We expect polycarbonate margins to be flat quarter to quarter, with sales volume down slightly due to seasonality.

Corporate expense should be about $20 million for the quarter, consistent with recent levels.

In total, we expect to have another strong quarter, delivering between $110 and $120 million of Adjusted EBITDA. This would result in a record full year Adjusted EBITDA of $485 to $495 million and a record Adjusted EPS of $4.50 to $4.70 per share for the full year.

Both of these forecasts include an estimated unfavorable impact from inventory revaluation of about $40 million for 2015. Excluding this impact, we expect to be between $525 and $535 million of Adjusted EBITDA for the year, which is above our previous full-year guidance.

In addition, along with this very strong EBITDA and EPS performance, we expect to generate full year free cash flow of between $270 and $290 million, excluding the $69 million call premium related to our refinancing earlier in the year.

Cash generation and net leverage reduction are becoming a significant part of Trinseo's value proposition. As John mentioned, our net leverage at the end of the year is expected to be below 2 times.

Let's look at Slide 14 for our expectations for 2016.

We continue to see Adjusted EBITDA in 2016 similar to this year's level of $485 to $495 million. Let me take a minute to explain our 2016 expectations for each division.

We expect that we will be able to grow Adjusted EBITDA in Performance Materials by 5% in 2016.

In Latex, we anticipate sequentially higher EBITDA as our cost actions are implemented and price increases take effect.

We believe Rubber EBITDA will improve as we have no significant turnarounds in 2016 and we continue to have a positive shift in product mix.

In Performance Plastics, we expect to have modest EBITDA growth on incrementally higher sales volume.

Now let's move to Basic Plastics and Feedstocks. Before talking about next year's EBITDA expectations, I want to frame for you how we see the styrene market in 2016.

As we've discussed, styrene margins were at elevated levels in the second and third quarter this year due to planned and unplanned supply outages. While difficult to quantify, we see the amount of offline capacity due to unplanned outages being lower next year compared to this year. And of course, we can't forecast unplanned outages.

As far as supply, a facility in the Netherlands that has been offline for over a year is due to come back online late this year or early next year. That facility has nameplate capacity of 550kt, or about 1.6% of global supply.

In addition, there are two small plants that we believe will come online in China in the second half of next year, and at least one plant in Japan that will close during the year. The sum of these is a net increase of about 1% of global supply during the calendar year.

For demand, we and others believe that this will grow by about 2% next year, consistent with recent trends.

So if you assess the expected year-over-year changes in supply/demand for global styrene monomer, we believe 2016 in general looks like a continuation of the thesis we have been describing – limited incremental capacity, generally rising operating rates, and aged assets around the globe.

Having said that, our $485 to $495 million projection for 2016 includes lower styrene monomer both at Trinseo and at Americas Styrenics in comparison to 2015.

However, if we experience a period of elevated styrene margin like we have had in each of the past 3 years, we believe there is upside to our forecasted $485 to $495 million of Adjusted EBITDA in 2016. In each of the last three years we had a margin spike that, on average, lasted 3 months and increased EBITDA by $40 million.

Moving to Polycarbonate, we anticipate another solid year as the market continues to tighten.

At $485 to $495 million of Adjusted EBITDA, we expect Adjusted EPS of $4.80 to $5.00 per share. We will also continue to be very cash generative. For modeling purposes, you should assume $75 million of cash interest, $80 million of cash taxes, and about $150 million of capital spending in 2016.

In closing, I am very pleased with our performance for the first three quarters of 2015, as we continue to deliver very strong EBITDA and free cash flow. We are well on our way to a record year in EBITDA, EPS and Cash Flow.

We continue to improve our net leverage and I believe we have Trinseo in its best position ever to continue to deliver excellent results going forward.

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

Operator

Thank you. Ladies and Gentlemen, if you have a question at this time please press the star then the number one key on your telephone keypad. If your question's been answered or you wish

to remove yourself from the queue, simply press the pound key. Again, that's star-one on your telephone keypad to place yourself into the queue to ask a question.

Our first question comes from the line of David Begleiter with Deutsche Bank. Your line is now open. Your question, please?

David Begleiter

Thank you, good morning. Chris, if you could look out at Styrene maybe beyond '16 into '17, 18, when do you think you might get pricing power in this chain?

Chris Pappas

Hi David, thanks for the question. Global operating rates in styrene are generally around 85, 86 percent at this stage and recall that's kind of steady state without significant outages. So 91, 92 percent steady state would be a very nice place to be. We would need a delta of demand to capacity growth of a couple of percent per year over two or three years. There is no capacity coming beyond the period I mentioned other than the restart of the plant in the Netherlands and the potential for a couple of small plants in China so the supply side looks pretty flat. It will depend a little bit on the demand side. I think the other thing to realize, David, is we have a very old asset base in this business around the globe and while it's hard to predict that old asset base has had at least in the last three years, a propensity to have issues and those margin spikes could continue in the future and by '17 '18 they might be a big part of the story on a more continuous basis.

David Begleiter

Very good, and just on synthetic rubber, Chris, looking at '16 could you discuss some of the potential upside to your guidance you just gave of, I guess, up modestly or up year over year?

Chris Pappas

Well, we're more or less sold out in synthetic rubber at this point in the company. We've more or less moved through the capacity rights that we took on a year or so ago. Our improvement in EBITDA in rubber next year is going to come from a couple of things. One, we have no planned outages; you'll recall this year we had a significant planned outage in our rubber business in the second quarter and that, you know, was at least $5 million worth of EBITDA impact. So we'll have that going for us. We're going to have continued mix improvement and depending on how the other polymers work, ESBR, nickel and lithium, if they start to move up

in margin we could have contribution from them as well into the overall rubber EBITDA equation, David.

David Begleiter

Thank you very much.

Operator

Thank you. Our next question comes from the line of Frank Mitsch with Wells Fargo Securities. Your line is now open, your question please?

Frank Mitsch

Ah yes good morning Chris and congrats on continuation of a good year to date. I was just thinking that you guys might be a Harvard Business Review case study of a company actually meeting and exceeding its financial targets out of the IPO box so congrats on possibly being featured there. As I look at your debt to EBITDA below two times, what does that start to do in terms of your ability and your use of cash as we look into '16 and beyond because I imagine it starts to tick various boxes that free you folks up.

Chris Pappas

Well I'll turn it over to John but you're right on the mark Frank, not so much about the Harvard thing but I'll turn it to John but we are in fact generating a lot of cash which is clearly a great thing for the company. And of course that gives us some optionality but John what do you think about some of the options we might have with cash.

John Feenan

Yeah Frank, good morning. I would look at it as three potential items. First, we would probably initiate a dividend in the form of peers in our industry somewhere in the range of one to two percent. I could see that happening sometime in 2016. We want to continue to invest where we're getting obviously the highest returns as a prudent capital allocation decision and so that would be focus for us in our performance materials division and the third piece is that we would potentially look at continuing to delever and pay down debt so in that order, that is what we would focus on the continued cash bill that we have.

Frank Mitsch

Alright, terrific. And you are stepping up CapEx in '16 relative to where you've been. What are some of the major projects that that will be targeting?

John Feenan

Let me go back for a minute first. Before we said that we would be roughly $125 million and $135 million in '15 and '16 for a total of approximately $260 million. There's some timing issues in there. We'll do about $110 million this year and about $150 million next year. The breakout of that $150 million is continued $35 – $40 million of what we classify as maintenance EH&S and Regulatory issues. We have some increases that we had alluded to in previous calls around our shop floor and our ERP implementation that goes from roughly $25 million to around $55 million in '15 and then it will tail off after that. Then we have about $30 million earmarked for various growth initiatives, mainly Zhanguahang, China, which we've done this year in our neodynium conversion and rubber. And then we have approximately $20 million of miscellaneous items that are all focused around productivity and efficiency. So that's the quick bridge from '15 to '16.

Chris Pappas

Frank, I think part of the story is, as John says, it's largely just a shift in timing over two years so that's really I think the key take-away. $260 million over two years; just a little shift in timing.

Frank Mitsch

Alright, terrific, that's helpful. Then lastly just to get a little more granular on the latex side you talked about a 10% price increase announcement that you folks had put out there. What has been the competitor response and how should we be thinking of the realization of that?

Chris Pappas

Frank, it's 10 cents per pound, it's in North America and it's across all of our product line in North America and it's a little bit early to tell in terms of competitor response. We clearly have a view at Trinseo that the latex business has some challenges. We've been able to fight off those challenges reasonably affectively around the world as we execute our strategy but from our point of view, there's value out there. The operating rates in the US are now up. Our operating rates are about 85 or so percent after the closure of our facility in Allyn's Point. So our operating rates are up and we think the market is ready for price increase and our innovation and costs require it quite frankly so that's our point of view on it.

Frank Mitsch

Terrific, thanks so much.

Operator

Thank you. Our next question comes from the line of Hassan Ahmed with Almebic Global. Your line is open. Your question please?

Hassan Ahmed

Good morning Chris. Chris, just wanted to dig a bit deeper into the polycarbonate side of things. I know you spoke of some improvements over there. Could you just maybe talk a bit about on a year over year basis as you look at the nine months this year and compare them to the nine months in the previous year, how much of an EBITDA sort of improvement have you seen in that business? I'm just trying to get a sense of what sort of restructuring benefits you guys are getting versus just overall market margin improvement.

Chris Pappas

Hassan, so as you know, we had a $35 million structural improvement that we put in place in the business, part of which took effect in the fourth quarter of last year, the closure of a facility in Freeport, Texas that was a $20 million annual cost improvement.

Then we had about $15 or so million dollars of structural improvement that took place the first of '15 around certain contracts and purchase arrangements and so on so that's clearly contributory to the improvement year over year. We've also had very large improvement in margin due to higher operating rates. We talked about $150 a ton of improvement in Q2, we just mentioned $250 dollars a ton of improvement in Q3 from Q2. So I think when you think about our 150 KT of capacity you can calculate maybe the timing of those margin improvements and think about that plus structure and get to a reasonable number in terms of year over year improvement and of course we started from a very low starting point. Now while you're on the subject you know we commented that next year we think polycarbonate's going to remain in a pretty good spot. We'll have to see how the supply / demand dynamics work out but they certainly look like they're going to tighten into 2016.

Hassan Ahmed

Very helpful. And as a follow on, a simplistic one, you guys talked about the inventory revaluation being around a $28 million dollar EBITDA hit so roughly fair to assume it's around 40 cents EPS wealth?

Chris Pappas & John Feenan

Correct.

Hassan Ahmed

Ok, very helpful guys. Thanks so much.

Operator

Thank you. Our next question comes from the line of Lawrence Alexander with Jeffries. Your line is open.

Dan Rizzo

Hey guys, it's Dan Rizzo on for Lawrence. You mentioned some weakness in the Latin American and Chinese auto markets. Some other company has indicated well, that as recently as Third Quarter, they're seeing signs of life in China and in the first part of the Fourth Quarter. Are you seeing something similar?

Chris Pappas

We are seeing something similar in the Fourth Quarter Dan, in China, but we continue to see weak markets in Latin America, auto markets.

Dan Rizzo

Right. And then with the cost action you've taken in Latex, is there any more actions you think could or will take in 2016 or do you think that what's been done within the industry and within your plan closure, is enough for now?

Chris Pappas

We are in constant, relentless focus on driving our latex business to continuous profitability of the kind of rates we've had. Our volumes have held up, we've had 10 or more quarters of approximately 300 million pounds of volume. So we've been able to globally maintain our volume. We do that by focusing on certain segments, board, especially latex, China as a geography; we've been able to deliver cost-effective new technologies that have allowed us to hold onto volume and improve margins and we have also been reducing costs and we will continue to look at 2016 for places to reduce costs in Latex. And as I mentioned earlier that operating rates in the U.S. now for us in the mid-80s, we're also announcing a price increase across the board of 10 cents per pound.

Dan Rizzo

Operating rates in the mid-80s: is that kind of where you want to be or is it, I mean is getting up to like 90 or above 90 not really beneficial?

Chris Pappas

It would -- of course higher is beneficial Dan, but in the latex business those kinds of operating rates are effectively quite high, because latex is a batch process that has a lot of products, a lot of SKUs and it's not easy to run too much above the high 80s in operating rate. So those are healthy operating rates and that's why we think a price increase is appropriate at this time in that business.

Dan Rizzo

Ok, thank you for the clarification.

Operator

Thank you. Our next question comes from the line of Bob Koort with Goldman Sachs. Your line is open. Your question please?

Ryan Berney

Good morning. This is Ryan Berney on for Bob. I was hoping that you could give me maybe a little bit of a bridge. The kind of the way I'm thinking about it for the basic plastic's piece, specifically, sounds like this year is around a $40 million headwind, based on kind of your 4Q guidance for the reval; maybe another $30 million or so, this year that polycarbonate margins hold steady in the next year will be a benefit for you considering it was fairly weak relative to today in the first half. And then maybe there's also a bit of a turnaround and destock impact. So I was hoping maybe you could kind of size all those pieces for me, so I can get a sense for kind of again what that might look like in 2016?

Chris Pappas

So, you're asking about 2016 Ryan, and here's the way I think you ought to think about it without getting necessarily too granular at the moment. In the fourth quarter we just guided to $110 to $120 million dollars of adjusted EBITDA. We'll pick the midpoint, $115 million. If the company runs at that rate for all of '16, my math says that's about $460 million of Adjusted EBITDA. We already said that we expect our performance materials business to be five percent higher year-over-year in EBITDA for the year, and so you can do the calculation on that. Also,

embedded in that $115 million midpoint, you'll notice from the styrene chart that the styrene margins are much lower in the fourth quarter of this year for the reasons I mentioned than they have been in the prior couple quarters. So clearly, if the styrene margins next year move above the rate that's shown on that chart in the fourth quarter of this year, that should equate to EBITDA above that $115 million per quarter. And that was really related to my comment earlier about, we've had three years in a row of periods where the styrene margins have moved up somewhat dramatically for three to four months, and on average those styrene margin spikes, if you will, over the last three years, in each of the last three years, have been about $40 million each of incremental EBITDA. And I think that's kind of the way you ought to think about 2016 off of our fourth quarter run rate. Okay?

Ryan Berney

Great, thanks. And maybe you could also comment about kind of what you're seeing from a trade flow perspective? I mean certainly I think there is probably some concern about some kind of weakened market demand, particularly in Asia. So from what you're seeing do you expect maybe perhaps more exports out of Asia and if you were to see them kind of how do you input that in your calculation?

Chris Pappas

You're speaking styrene still I assume, right? So where have been and we think trade flows from Asia of styrene are the other way. Styrene is going to be flowing into Asia, particularly China. That region of world is short styrene, it's going to continue to be short, and is a major importer. There have been trade flows as you can imagine in the late second quarter, third quarter from the United States of styrene into Europe and for obvious reasons with the elevated margins of styrene and the relatively lower cost base the export opportunity was pretty high and that is now ebbing into the fourth quarter and it was one of the reasons why we saw the margins in Europe drop in the fourth quarter, because the styrene shipments from the U.S. were showing up in Europe. And as I said that is now ebbing as we move through the balance of the fourth quarter. So the trade flow dynamics I don't think are shifting. The Americas tends to be an exporter, and they tend to export into Europe and Asia. Asia is a clear importer. Now demand in Asia and styrene is important, we've said this many times. China itself consumes about 30% of the styrene of the globe and greater Asia about 60%. But remember that consumption is not necessarily in products that are used in the country. Often that consumption is converted into an item that is sent out of the country. For example, a polystyrene lining in a refrigerator would be a great example of styrene consumed in China that comes out of the country as a finished good. So that's the nature of I think the context which you ought to think about on both demand and trade flows.

Ryan Berney

Great, thank you very much.

Operator

Thank you. Our next question comes from the line of Vincent Andrews of Morgan Stanley. Please go ahead.

Matt Andrejkovics

Good morning. This is actually Matt Andrejkovics calling in. Thanks for taking the call. Just to revisit polycarbonate just for a second, at a recent conference you guys had mentioned that the demand growth for polycarbonate was lowered in the 3% range and has returned to the historic normal growth of 5%. If you could just add some color on as to what caused it to lower in the first place? And then also why do you think it should return to the historic norm, and if the year-to-date growth of about 8% that you've seen, and some of that maybe some pent up demand that's driving some of the higher operating rates you're seeing. Thanks.

Chris Pappas

Thanks Matt. So, the lower growth rate you're talking about for polycarbonate was occurring in the 2011 late into ’12 period, and it was driven strictly by general global economic slowdown, whether that was Europe or otherwise, across the myriad of end users that polycarbonate goes into. As the global economic growth rate started to recover, the demand growth rate for polycarbonate recovered with it to its historic norm of 5% or slightly higher and that's the way we see the growth rates at this point moving forward. So, polycarbonate has returned to reasonable growth rates, historic norm. There were assets that were taken out of the business during that '11, '12, '13 period, there were assets that were delayed in terms of construction and start-up, and that equation led to this rise in operating rates that is now above 80% globally in polycarbonate, which is about 12 percentage points higher than it was at the low point in roughly 2012, and the margins have recovered with that dynamic.

Matt Andrejkovics

And then just a follow-up, the improvement in the margin per ton for polycarbonate this year, I mean it seems to have progressed even though demand probably, it's reverted back. But it seems like a large move in the margin per ton just from the demand picking up a little bit. Is some of that increase in margin driven by raw materials?

Chris Pappas

Just to be clear on one thing, operating rate is in our view what drives these margins, okay? So demand of course is part of operating rate, but at the end of the day, when you have operating rates moving up 12% in 18 months, you're going to have margin expansion from operating rate and it is largely from operating rate, not from raw materials, that's driving the improvement in margin in polycarbonate. And I want to go back to the audience to one question about China just for a moment, because I know there is a lot of activity and noise in the industry about China. I don't think it's a surprise to anybody on this phone, it certainly isn't to us at Trinseo. China has been slowing down as an economy for 18 months. So we've been operating as a company, and producing the kind of results we've been producing, in a slowing China economy for well over a year now. So the notion that all of a sudden China is slowing is not news to us, nor is it news to us in relationship to our economic results. And so I just want to make sure we all understand that. We've been operating in these slowing China economy rates for greater than 12 months now, and producing the kind of results we have. So, just keep that in mind, if you should think about what's China is going to do going forward, how does that affect styrene, and so on and so forth.

Matt Andrejkovics

Thanks very much.

Operator

Thank you. Our final question comes from the line of P.J. Juvekar with Citi. Your line is open; your question please?

Eric Petrie

Yes, hi, good morning. This is Eric Petrie on for P.J. You noted that that your rubber volumes are sold out. I'm just curious 'cause you're going into volume commitments with customers. Are they requesting more SSBR volumes and do you have opportunity to expand capacity?

Chris Pappas

Hi Eric, Chris. First part of your question, yes. The growth rate in SSBR continues to be three or so times, the rate of the performance tires is three or so times the rate of regular tires which of course is fueling SSBR and we are scrambling to do what we can to incrementally produce more SSBR in our asset. We won't have a turnaround next year, so we'll have some more capacity due to no outages, and that will give us a little bit of headspace. But we don't have any

immediately available new incremental capacity for our SSBR business. We're looking at a number of things, some of them pretty creative, in order to get us some additional capacity in the forward years.

Eric Petrie

And then in terms of styrene monomer outages, you commented lower in 2016. Could you just tell us what you expect and how's that compared to 2015? And then in addition, give us the level of capacity for unplanned outages.

Chris Pappas

Well, the second question is we don't know because they are unplanned, okay?

Eric Petrie

But how much unplanned did we see in '15?

Chris Pappas

We had a couple of unplanned outages in '15. We had, of course, the facility in Moerdijk that was out for the year; that one that I talked about that is coming back up at the end of the year and into next year. But in terms of planned outages, the 2016 planned outages are pretty similar to the amount that's in that was planned in 2015, call it 6% to 8% or so of planned outages. In 2015 we had approximately six or so percent best calculation of unplanned outages and we'll have to see how 2016 develops. But again we have had three years in a row with this aged asset base with slightly higher operating rates. There have been certain events around the world and while the numbers I gave you for 2016 as described earlier to Ryan, really is our fourth quarter run rate, we'll have to see whether we have margins in styrene that could spike up in 2016. The probability to us looks reasonable that that might occur.

Eric Petrie

OK, thanks. And then lastly, your net operations declined nicely, to 2.2 times less trailing 12 months. What is your target?

Chris Pappas

We've always said 2 to 2.5 is our target, we're obviously at that target. John commented clearly that by the end of the year, we're going to be below that target. You can do your own calculations and I think pretty precisely get to where we're going to be, but obviously we're generating a lot of cash, our EBITDA continues to be reasonably strong and our net leverage is

coming down because of that and we're of course very pleased with the results of that at this time and I think we're going to continue to generate cash. And John covered off I think the things we think about in terms of uses of cash going forward.

Eric Petrie

Thanks Chris.

Chris Pappas

Okay, you're welcome, Eric.

Operator

Thank you. Ladies and gentlemen, thank you very much for your participation in today's program. This does conclude the program. You may all now disconnect. Have a great day.