Fourth Quarter and Full Year 2015 Financial Results Transcript

Operator

Good morning ladies and gentlemen, and welcome to the Trinseo Fourth Quarter and Full Year 2015 Financial Results Conference Call. Turning to Slide 2, we welcome the Trinseo Management team, Chris Pappas, President & CEO, 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 Lisa 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 March 3, 2017.

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, I'll start on slide 3. I'd like to highlight the four key points you should take away from this call.

First, we had $133 million of Adjusted EBITDA excluding inventory revaluation in the fourth quarter. We achieved this absent any significant fly-up styrene margin. This is above the guidance of $110 to $120 million that we provided during the third quarter call.

Second, we had record full year Adjusted EBITDA excluding inventory revaluation of $550 million in 2015. I will describe later the drivers of the significant year-over-year EBITDA improvement we achieved and why we believe it is sustainable going forward.

Third, our current first quarter outlook is $125 to $135 million of Adjusted EBITDA excluding inventory revaluation. We expect to achieve this level of profitability with styrene margins that are roughly flat with Q4's margins, again, including no significant fly-up styrene margin.

Let me take a minute to explain how Trinseo defines "fly-up", which we are using as a guide in our effort to separate the amount of styrene margin from unplanned outages rather than structural drivers.

If you look at the grey bars we show every quarter on slide 13, there are periods where styrene margin rises dramatically. We define fly-up by the incremental rise in margins attributable, as best as we can estimate, to the influence of unplanned outages during these periods. Of course, the margins in these periods from structural drivers such as planned outages are considered just that - structural margin related to rising operating rates and NOT fly-up margins.

And finally, we are increasing our full-year 2016 Adjusted EBITDA guidance to a range of $510 to $520 million. This assumes essentially no impact from inventory revaluation or from fly-up styrene margin – and we have had fly-up styrene margin contribution in each of the last three years.

One other point - this 2016 guidance is not a drop from our 2015 performance. I will explain more on this later.

Now, please turn to slide 4.

In a world, like today, there are many macro and company specific economic dynamics in play. I believe it is critical for investors to really understand the construct and drivers of individual companies, this is particularly true in the chemical sector.

Think about a few of the dynamics that are "in the news" – the Chinese economy slowing, the energy complex collapsing, mining and materials dropping in value, consumer sentiment shifting, diverse geographic dynamics, debt markets in turmoil – I think that's enough. But, what is really going on and how it really impacts Trinseo is what's relevant for our discussion today – NOT what's in the headlines.

Let's start with China. As I've said, China has been slowing for about 18 months, but the key is how much and where. Construction and infrastructure, mining and materials, coal and related activities are all way down, but other areas are not. From Trinseo's perspective, only about

13% of our revenue is to customers in China, and we sell primarily into consumer-oriented markets such as appliances, automotive, consumer electronics, and other markets that are not experiencing much of a slowdown. In addition, our customers in China often export to worldwide customers, which is where the demand dynamic is relevant.

Therefore, Trinseo is not experiencing a new, dramatic slowdown in China.

Please note that about 75% of our revenue is in Europe and North America, mostly to consumer-oriented markets, and we see these economies and markets as generally healthy.

What about rapidly dropping oil? This does not play a major factor in our profitability because we are not a company that has a product mix where the relative value of oil and gas-based feedstocks is a significant issue. However, we are a company where our core margins on our products in Performance Materials stay relatively stable as we pass through raw material costs to our customers, either via ongoing price changes, or contractual indexing.

In addition, our margins in Basic Plastics & Feedstocks are driven by the supply / demand dynamics and operating rates of products like styrene, polystyrene, polycarbonate and ABS. These operating rates are all improving via some demand growth and limited future supply.

Across all of Trinseo, but primarily in our Performance Materials Division, we partner with customers to develop differentiated, value-added materials, including products for automobiles, performance tires, consumer electronics, medical devices, carpet and LED lighting. Our products meet our customers' needs for both aesthetics and function, and thus, can command premium pricing and growth.

Trinseo has an enviable balance sheet, with a net leverage ratio of 1.6 times at the end of 2015, and interest coverage of 6.5 times at our current run rate of interest. Our liquidity at the end of the year was $866 million including cash of $431 million, and we have no maturities until 2021. So as you can see, the current debt market situation is not an issue for us.

Now, please turn to slide 5 where I'd like to call out some highlights from the year.

I mentioned our record financial performance for the year, which marks a step change in profitability for the company in comparison to prior years, despite a significant currency headwind as the Euro weakened by more than 15% versus 2014. The Performance Materials Division continued to be steady, delivering $284 million of Adjusted EBITDA excluding inventory revaluation. However, the Basic Plastics & Feedstocks division saw a significant step change increase in EBITDA due to several factors, most of which we believe are structural and will continue. More on this later.

In May we refinanced the Company's balance sheet with a mix of a US dollar denominated term loan as well as dollar and euro denominated unsecured bonds, reducing our annual cash interest expense by $37 million at current rates.

In the first quarter of 2015 we completed a rebranding process to change our operating name and legal entities from "Styron" to "Trinseo." We believe Trinseo captures our commitment to deliver innovative and sustainable materials that provide intrinsic value to our customers' products.

One of Trinseo's annual objectives is focused on environmental, health, and safety. In 2015, more than two-thirds of our manufacturing plants and R&D locations achieved our "Triple Zero Award", with no injuries, spills or process safety incidents. We are proud of this performance as it's an important part of who we are as a company.

Now, let's look at the details of the fourth quarter performance on slide 6.

Fourth quarter Adjusted EBITDA of $116 million included an unfavorable inventory revaluation of $17 million. Excluding this, Adjusted EBITDA was $133 million. We also reported $1.11 adjusted earnings per diluted share, which was negatively impacted by approximately 28 cents from inventory revaluation. Full year Adjusted EBITDA was $492 million and Adjusted EPS was $4.59. These full year numbers were negatively impacted by $58 million of inventory revaluation, or 94 cents per diluted share. So excluding inventory revaluation, we had $550 million of Adjusted EBITDA and $5.53 of EPS.

Now, turning to slide 7.

In the third quarter, we announced cost reduction measures in our Latex segment, including a reduction in our asset footprint with the closure of our latex plant in Gales Ferry, Connecticut. This decision was in response to continuing declines in the coated paper market in North America, and is part of a program which we believe will reduce costs in the latex business by a $5 million run rate by the end of the second quarter.

This capacity reduction in North America, combined with other, recently announced capacity reductions, has increased industry utilization rates. We announced North America price increases for latex and have seen early success in implementing them. We believe these actions will improve our margins in Latex and enable us to continue to invest in innovative and cost competitive products.

Turning to Slide 8,

Sales volume in our Synthetic Rubber segment was at an all-time high in 2015. Overall sales volume grew 6% over 2014, led by 24% growth in enhanced SSBR.

In the fourth quarter we completed the conversion of our Nickel-PBR plant to Neodymium-PBR, a more advanced grade for use in high-performance tires. We are currently trialing new formulations and expect to commercialize these products late this year.

Turning to slide 9,

We had record EBITDA in 2015 in our Performance Plastics segment. This was driven by 9% volume growth in our higher margin Consumer Essentials Markets, as well as modestly higher margin in Automotive.

In Automotive, we are seeing success in winning new business in the exterior and semi-structural markets, which typically has higher margins than our traditional interior business.

Now turning to Slide 10,

We also had record performance in 2015 in our Basic Plastics & Feedstocks segment, which had Adjusted EBITDA of $327 million. Adjusted EBITDA excluding inventory revaluation for 2015 was $356 million, which was $277 million higher than 2014. We view most of the improvement in our Basic Plastics & Feedstocks segment as structural in nature and driven by the improving supply / demand dynamics of these products. I'd like to talk more about the drivers of this increase to help give some context to support our view of 2016.

Now, turning to the top of slide 11 which shows the $277 million year-over-year improvement in Adjusted EBITDA excluding inventory revaluation for the Basic Plastics & Feedstocks segment. More than three-fourths of the $277 million this improvement came from structural improvements in polycarbonate, styrene monomer, and styrenic polymers. Let me explain each in a bit more detail.

First, our polycarbonate business implemented large and sustainable restructuring savings of approximately $30 million. In addition, polycarbonate margins rose steadily through the first three quarters of 2015 due to operating rates that rose to over 80 percent after several years of overcapacity. These drivers resulted in approximately $100 million of year-over-year improvement in polycarbonate and to the Basic Plastics & Feedstocks segment.

Second, let's look at the impact of styrene. We estimate that about $110 million of the segment's $277 million of EBITDA increase was from year-over-year styrene margin improvement, including Americas Styrenics. Of this, only about $60 million was from fly-ups in styrene margin.

Finally, the balance in the year-over-year positive change was from structural improvements in styrenic polymers, including Americas Styrenics' polystyrene.

So in summary, there have been structural changes in polycarbonate, styrene monomer, and styrenic polymers, that we believe will continue to benefit Trinseo.

Now, let's turn to slide 12 for a discussion on cash and liquidity. Free cash flow for the quarter was $117 million, inclusive of a $37.5 million dividend from Americas Styrenics, $30 million of capital expenditures, and $30 million of cash interest payments. At the end of the quarter we had record liquidity of $866 million, which included $431 million of cash.

For full year 2015, we had free cash flow of $247 million, or $316 million excluding the $69 million for the call premium associated with the second quarter refinancing.

As expected, our net leverage continued to decrease due to higher EBITDA and cash generation, and was 1.6 times at the end of the year.

Now I'd like to discuss performance expectations for the first quarter. Please turn to slide 13 for a discussion on styrene monomer.

These are the same charts we've shown in the past, with Western Europe styrene margin data in the top chart, and Asia data in the bottom chart. You can see that fourth quarter margins declined from the third quarter, as expected. However, we were able to offset some of this decline with lower utility costs, better production efficiencies, as well as some opportunistic styrene sales, helping fourth quarter results.

Looking at the first quarter of 2016, we expect overall styrene margins to be slightly up from the fourth quarter. As stated earlier, there is no styrene fly-up margin included in this guidance. In addition, we are optimistic that we'll see continued higher margins as these planned turnarounds continue into the second quarter.

Trinseo inventory revaluation for the first quarter of 2016 is expected to be slightly unfavorable due to some continued drop in our key feedstocks, benzene and butadiene, but not as much as we saw in the fourth quarter of 2015.

So with that backdrop for styrene margins and inventory revaluation, let's move to slide 14 to discuss our view of the first quarter of 2015.

We expect sequential improvement of $5 million to $10 million for the Performance Materials Division in the first quarter.

Latex Adjusted EBITDA is expected to be approximately $20 to $25 million as we begin to see the effects of the costs actions we announced last year as well as price increases.

Synthetic Rubber is expected to be approximately $25 million, an improvement over the fourth quarter due mainly to higher volume.

We believe Performance Plastics will improve to about $25 to $30 million as margins increase due to lower raw material costs.

Now, moving to Basic Plastics & Feedstocks, we believe the first quarter will be between $75 and $85 million of Adjusted EBITDA. Excluding inventory revaluation, this is in line with the fourth quarter and includes no contribution from fly-up styrene monomer margin.

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 $125 and $135 million of Adjusted EBITDA, assuming minimal impact from inventory revaluation. This translates into an EPS range of $1.30 to $1.45.

Let's look at Slide 15 for our guidance on the full year.

Based on our current view, we are raising our guidance for the full year to $510 to $520 million of Adjusted EBITDA. This assumes minimal inventory revaluation impact in 2016.

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

In Basic Plastics & Feedstocks, our guidance assumes a small improvement in Styrenic Polymers and Polycarbonate margins, with fly-up styrene margin as upside to this guidance.

At $510 to $520 million of Adjusted EBITDA, we expect Adjusted EPS of $5.25 to $5.45 per share. We also expect to continue to generate significant free cash flow. For modeling purposes, we anticipate $75 million of cash interest, $60 million of cash taxes, and $150 million of capital spending in 2016.

Using the midpoint of our 2016 guidance at $515 million, this would yield about $230 million of free cash flow before working capital impacts.

Slide 16 shows the build to the midpoint of our 2016 guidance, from 2015 Adjusted EBITDA excluding inventory revaluation. Just to be clear, overall we are guiding to about a $25 million year-over-year increase from 2015 on an equivalent excluding inventory revaluation and no fly-up styrene margin basis. This $25 million increase will be comprised of a 5% EBITDA improvement in Performance Materials and some benefit in EBITDA from continued structural improvement in styrene monomer, styrenic polymers, and polycarbonate.

In closing, I'd just like to reiterate the Trinseo value proposition, and what makes us different.

First, we have been able to sustain and in some cases increase our margins despite dropping oil.

Second, the majority of our revenue is in Europe and North America and to a diverse set of end markets.

Third, operating rates for our products are increasing, with continued demand growth expected in combination with limited supply additions.

Also, many of our products are designed specifically to meet customer needs, and are differentiated and value-added, resulting in higher margins that are less subject to operating rate dynamics. Finally, we have an excellent balance sheet, low net leverage, and significant liquidity and cash.

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

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

David Begleiter: Thank you and good morning and congratulations on a very good quarter and a year Chris.

Chris Pappas: Thanks David.

David Begleiter: And Chris just on latex it looks like there will be some price increases flowing through go about the supply and demand dynamics in latex potential for price increases throughout '16 and into '17?

Chris Pappas: Sure, the operating rates for latex in North America, based on the recent asset decisions, are approaching the high 80's and we believe that gives the opportunity for margin improvement by a price given the tightening supply and demand dynamic. We, in fact, did announce price increases for the first quarter in North America. And David those price increases are going through and beginning to show themselves as we move through the year. European operating rates in latex are not that high and our price increases, as I mentioned, are effective in North America. We'll have to wait see whether we can get additional increases David towards back in 2016 or 2017 - but the operating rates in North America are at the highest they've been in some time now in latex.

David Begleiter: Very good, and Chris and just on polystyrene, we've seen very good performance in margin behavior in polystyrene. Is this a new norm do you think for polystyrene and i.e. to make money. Historically it has been challenged to make a margin.

Chris Pappas: We absolutely think it is and again remember the theme on this of course is operating rate as it is with styrene and as it is with polycarbonate and in all three cases we have rising operating rates over the last 18 months and we think rising operating rates going forward. On polystyrene the operating rates in the US are in the high 80's which is really as high as they've been in probably the last 10 years. In Europe the operating rates are in the mid 80's. Now in Asia they're lower in polystyrene but still being a regional product. Obviously in the US with those kind of operating rates there is the ability to raise price and raise margin. In

Europe operating rate are in the mid 80's with the ability to certainly hold margin in polystyrene at a relatively good level, David. So yes we think it's a new normal and we think the operating rates are in fact rising going forward on all of our commoditized products whether it's polycarbonate, polystyrene or styrene monomer and again no capacity is being added particularly in polystyrene there's zero. In the other products there's small quantities of new capacity coming.

David Begleiter: And it's one less thing on the cash balance and the use of the free cash in 2016, how should we expect that to be utilized?

Chris Pappas: I will turn that over to our Treasurer, David Stasse. He'll let you know his thoughts / our thoughts on the use of cash.

David Stasse: Good morning, Dave. I think our use of cash will be consistent with what we've said historically we're going to continue to invest in the performance material side of the business whether that be through incremental organic Cap Ex investments or inorganic bolt-on acquisitions. That's where we're spending about 75% of our Cap Ex and I would expect that to continue going forward, Dave. We've also talked several times since the IPO about implementing a common dividend if and when we restructure the balance sheet, which we did earlier this year as you know and dividend yield that we've talked about is one to 1 1 ½ percent so that would work out to be about 20 to 25 million dollars of cash outflow for us annually. So I think I would prioritize that probably as second use of cash and beyond that we're very comfortable building cash and holding on to our cash balance given the optionality that gives us for financial flexibility quite frankly.

David Begleiter: Thank you very much.

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

Ryan Berney: Good morning. This is Ryan Berney on for Bob.

Chris Pappas: Hey Ryan.

Ryan Berney: Hey Chris. I was hoping you could comment. You had some really strong basic plastics volumes here right at the end of the year so was there any sort of restock in there and could you also comment on your views of the demand trends that you saw in Europe and Asia on the ground?

Chris Pappas: Sure. We have reasonable volumes in styrenics as you're noting and with the way that the feedstock world has been going, which is in steady decline. You can imagine that the inventory chains, and I don't mean just us and our customers, but the entire value chain have been cleaned out pretty well. In the fourth quarter we did see a little bit of volume rebound as people started to look at low inventories but also fundamental demand was pretty good. Now feedstocks dropped again in the first quarter - I'm talking about benzene in particular here - and

so once again customers are looking at holding inventories down and waiting for the bottom before they start rebuilding inventories. And even in that environment we're seeing volumes in the first quarter that look pretty good at the moment across styrenics and copolymers included ABS. And once we got through Chinese New Year we started to see the Asian markets come back decently Ryan in the first quarter.

Ryan Berney: Great, thanks, that's helpful and then also I think in the past you commented that your maintenance CapEx was maybe in the $40 million range. Obviously you're going to spend well above that in 2016 so you're beyond the rubber expansion that you've spoken about in the past. Can you talk to us a little about what you're spending that growth CapEx on and what kind of EBITDA contributions we should expect from it?

Chris Pappas: First of all on CapEx, we are not going to be higher in maintenance capital next year. Our 2016 guide on CapEx of $150 million includes about $40 million in maintenance capital. It does include about $55 million of IT capital on two projects: the investment in a new SAP system which we're going to be implementing over the course of 2016 and some continued investment in the hardware in our operating rooms in our plants, the operating hardware in the plants. So that's a $55 million portion of the $150 million dollars capital in 2016. The other $55 million is split between growth and productivity across the portfolio, with of course majority of that or essentially all of that being in performance materials. And it's going to things like continuing to invest in performance plastics where we see incremental growth opportunities, continuing to put additional productivity into our rubber business and just overall continuing to raise the quality of that business and where appropriate putting in productivity capital to our basic plastics business where we can get high returns. While we're on capital, 2017, we would expect similar maintenance, $40 million, our ERP and our plant operating IT capital should drop to about $35 million and we should have $50 million for growth and productivity, for a total of $125 million in 2017.

Ryan Berney: Great, thank you.

Operator: Our next question comes from the line Hassam Ahmed, with Alembic Global . Your line is now open.

Hassam Ahmed: Good morning Chris.

Chris Pappas: Hey Hassam, how are you doing?

Hassam Ahmed; Good thank you. One of the paranoia I guess that persists in the marketplace is around this whole notion of China sort of devaluing its currency. Obviously you guys generate, if I remember the number correctly it's around 13% of your sales from China, so obviously one impact would be a currency translation impact. My question to you is more along the lines of a cost code impact for a bunch of products that you guys produce. Meaning, I think that a lot of the rolls that you guys purchase even in Asia would be dollar denominated. So I'd assume that the cost code impact and pricing impact thereby would not be that meaningful. Is that fair?

Chris Pappas: Yeah, hi Hassam, absolutely right, but David will answer.

Dave Stasse: You're absolutely right Hassan. Us as well as our competition in the markets in which we participate in China typically sell in local currency and buy feedstocks / feedstock inputs in US dollar dominated basis. So for the vast majority of production in China has that long CNY / short dollar exposure. And our view is that the market participants including ourselves would act rationally and adjust price accordingly to the extent CNY depreciates so as not to forego margin.

Hassam Ahmed: Very helpful. Thanks so much guys.

Chris Pappas: Thanks Hassam.

Operator: Our next call comes from the line of Frank Mitsch with Wells Fargo Securities. Your line is now open.

Frank Mitsch: Good morning gentlemen and let me echo the congrats on the quarter and on the year.

Chris Pappas: Thanks Frank.

Frank Mitsch: Dave when you're talking about use of cash I was curious, given the large private equity ownership, if we might start to see in 2016 some selling by Bain and perhaps Trinseo keeping some cash on the balance sheet to perhaps soak up some of those shares. What are your thoughts on that?

Chris Pappas: Hey Frank, it's Chris. We would consider our shares undervalued and of course have ample cash to participate appropriately in that kind of endeavor and we would consider that an attractive thing to do.

Frank Mitsch: Terrific. Thank you so much. And Chris thank you for stepping through the expectations on 2016 but at least to my ears I didn't hear more specifics on why after three months you're raising the guidance by $25 million. What has gone right or what is going right that you feel comfortable in raising the low end and the high end by $25 million?

Chris Pappas: Well, we think, we tried to articulate it on a slide, Frank. But I mean fundamentally we think we do a little bit better in performance plastics, remember we said 5% and now we're saying at least 5% so we think we did a little bit better there, but also we think the structural improvement of polycarbonate, polystyrene, styrene should give us some lift year over year. By that we mean rising operating rates, rising general margins, and those two together really equal that raise in guidance, if you will. Now recall, we are not including in that any fly-up styrene margin. We don't know how to predict that; all we can say is the last three years we've had it. But our guidance of $510 to $520 million is absent fly-up styrene margin driven by unplanned outages. Structural improvement in the basic plastics and feedstocks and a little bit better result in performance plastics is the short answer.

Frank Mitsch: Alright, terrific, I do appreciate the conservatism with respect to the fly-up. And then lastly, just more of a conceptual question; as you know there's a heck of a lot of ethylene that is being built in this country over the next couple of years and the vast majority of that has associated with it polyethylene but high profitability in the styrenics chain. What are your thoughts in terms of some of the ethylene perhaps being repurposed to come back into the styrenics chain therefore any capacity there.

Chris Pappas: You're speaking as styrene I'm sure, but I think my answer would be I would view that as low odds and the reason being the margins we have in styrene today are not really great enough to create, in my opinion, reinvestment economics. We have of course been very clear on our intentions and for that matter the intentions of our Joint Venture or 50% ownership in our JV and that is we're not building styrene, polystyrene or polycarbonate, period. I think, you know, generally the other styrenic producers have been rather public about their view of the world and their view of where they're going to put their capital and I generally haven't heard those public comments at all related to styrene but more to specialties and things of that nature. I just don't see it as a likely scenario and remember if somebody got up the courage to go to their Board and get a bunch of money to build a styrene plant and started at the end of 2016, that's an end of 2019 market entrance. I view it as low odds happening and it's a pretty far ways out. So our fundamental view is pretty good run on styrene, polystyrene, polycarbonate because the forward look on supply is pretty well fixed for the next three years in all cases.

Frank Mitsch: That's very helpful. Thank you so much.

Operator: Our next question is from Lawrence Alexander with Jeffries. Your line is now open.

Dan Rizzo; Good morning. This is Dan Rizzo on for Lawrence. How are you?

Chris Pappas: Hey Dan. How are you doing?

Dan Rizzo: Doing well. Just a little more granularity on the automotive end market. It seems like it's still going relatively strong. Are you seeing any softness at all as we head into the first quarter year?

Chris Pappas: Not yet. Pretty good; good obviously across the board. One exception of course being South America and Brazil. You all know that's not a good automotive market and has not been a good automotive market for probably better part of 18 months now. But otherwise, nothing yet Dan other than generally green lights. Now we've seen all the data on credit metrics and things like that in automotive. Ford came out with a pretty good report here recently and pretty good outlook. We haven't seen it yet in any of those other regions.

Dan Rizzo: Okay, and you mentioned that capacity elevation for latex is high in North America and you removed some in western Europe. Is it in your thoughts or part of your thought process to maybe reduce your capacity in Europe as well to kind of increase your utilization in that region?

Chris Pappas: Well, we're always lookingfor what we can do to our asset base for improving our own shop, Dan, and we of course did that in North America up in Gales Ferry, CT, along with other cost reductions and we continue to look at our whole latex footprint but also our entire latex cost portfolio, cost position, costs in general to look for ways to reduce costs in latex. Latex continues to be an arena where because of our global strategy and our global footprint we've been able to hold our volume steady for literally three years quarter by quarter at around three hundred million pounds. We continue to be able to do that and we can do that because we participate in carpet, which is doing well, some high performance latex, which is growing, board, which is growing, China where there is some growth, and that has proven to offset for us, along with technology, starch-based emulsions, things like that have allowed us globally to hold our volume in a challenged market. And of course we're looking at raising price and lowering cost as a way to drive margin in that flattish volume arena.

Dan Rizzo: Thank you. That was very helpful.

Operator: Our next question comes from the line of Duffy Fischer with Barclay's. Your line is now open.

Duffy Fischer: Good morning fellows. Just wanted to walk through the guidance a little bit if we could. Mid-point $130 million for the first quarter. If you annualize that four times, that gets you to the high end of the annual guidance, and I would think, and we don't have a long history with you guys, that Q1 traditionally is less than 25% of your annual EBITDA, and then add into that your comments that I think are fair, that supply and demand should tighten throughout the year, why wouldn't we think about improving EBITDA quarter-over-quarter sequentially throughout the year highlighting maybe some conservatism in the annual EBITDA?

Chris Pappas: That's a great answer to your own question Duffy. The second quarter is usually a pretty strong quarter for us, third quarter we have European summer and fourth quarter we have a general end of year slow down. We're not trying to be exact, if you will, through the whole year. As you know as a company I think we appropriately but rather aggressively upped our guidance to you guys sequentially over the last several quarters, more granularity, more clarity and we're trying to continue to do that. But, a full year forward for us, you know, we're very comfortable with the guidance we gave for the full year. It's, I think, good guidance and does not include styrene fly-up, but it's guidance that might be in context just as you describe.

Duffy Fischer: Okay, and then how much cash do you guys need on the balance sheet to run the company?

Chris Pappas: About $125 million or so.

Duffy Fischer: So if you take that number what you have and you know the walk you got through to over $200 million cash, that would say you've got about $500 million dollars of cash available by the end of the year. I think one of the big things people struggle with you know, one, that's a bigger number than the public float, so theoretically they could take you back private with just that cash, but flexibility isn't enough for investors. I mean folks want to know

what you're going to do with that, it's a very prodigious cash flow which is a good problem, but it is a problem with investors. Can you talk about philosophically where you want to go with that cash over the next two years? And this is above the regular dividend, this is above the CapEx, this is extra cash that you and the Board have to make a decision with how to spend for investors.

Chris Pappas: All right. Let's see how it develops, Duffy. We're not ready to define, I am not ready to define, use of cash two years out. I think we've been very consistent; Bain Capital has been very consistent. They are likely to go through a monetization phase, that's a normal thing that happens in these transactions. And I think we ought to just let it play out a little bit, and I believe this management team and our board have a very clear and thoughtful head, collective heads, if you will, and we will find very, I think, attractive shareholder things to do with that cash at the right time. And let's leave at that, okay?

Duffy Fischer: Fair enough. Thanks, fellows.

Operator; Our next question comes from the line of P.J. Juvekar with Citi. Your line is now open.

Eric Petrie: Hi, good morning, Chris. Eric Petrie on for P.J.

Chris Pappas: Hey, Eric.

Eric Petrie: There's a European chemical company that obviously saw a similar surprise in styrene in 2015, but for 2016 they're a little more cautious, expecting the EBITDA contribution to decline by two-thirds. What is the difference then in stocks between your approximately 15% decline in Basic Plastics & Feedstocks in that guidance?

Chris Pappas: Right, we have a different footprint. Well, number one, I think we have a view that the market is generally tightening and I think they share that view. And there might be some subtle differences, Eric, in the amount of tightening. But putting that aside, our footprint of styrene is made up to the following: 600 kilotons of European-based styrene production, 300 kilotons of what's essentially Asia-based, Asia cost-based styrene and 500 kilotons by way of Americas Styrenics of U.S. cost-based styrene. And because we have that footprint and we're not solely in Europe and the North American operating rates are the highest in styrene in the world and Asia operating rates are rebounding, I think that's where we have a little different geographic mix and therefore a different equation in the math of styrene going forward.

Eric Petrie: Great, thank you.

Chris Pappas: Eric, we are in better parts of the world that are rising in margin. That's the short answer, okay?

Eric Petrie: Thanks.

Operator: Our next question comes from the line of Roger Spitz with Bank of America Merrill Lynch. Your line is now open.

Roger Spitz: Thank you. Good morning.

Chris Pappas: Hi Roger.

Roger Spitz: How are you? Could you first speak about the SP Latex and coated paper outlook in China and if there is eventually a turning point in Chinese coated paper demand?

Chris Pappas: Well first of all, our overall latex business is up 3% in volume year-over-year, that you see on the slide. And that's because of this global footprint in segment that I laid out earlier. The China market has been a little bit challenged in the short run. We do see it starting to come back through the year. A lot of it will depend on some currency effects where the European paper producers have been able to export more coated paper with low Euro. So that dynamic, Roger, did impact China a little bit in terms of coated paper, so we just have to see how it plays out. But again, you know, we've run our latex complex with this global footprint and in several key markets. And therefore, our ability to maintain volume and kind of drive our volumes and EBITDA where we have is a little different than some of the other guys out there. That's, I think, really the key point for us in latex.

Roger Spitz: Okay. Thank you on that. On – as European SSBR, you've shown very strong volume growth there. And I am wondering when you know – what is the ultimate size of the European SSBR market such that at some point in the future where your growth starts to move more in line with European tire demand as opposed to this increase in – under-shift of the European tire guys using more of the SSBR?

Chris Pappas: Right, right. Well I'd like you to think about as global, first of all, because we do export from Europe around the world, and we have enjoyed 24% year-over-year and enhanced SSBR. But the dynamic, Roger, to think about is the penetration of high performance tires, whether it's OEM or replacement, still has a long way to go, particularly in Asia, and generally in the replacement tire market. The OEM markets in Europe are pretty well penetrated on high performance tires. The U.S. has come a long way, but the Asian markets and frankly the Latin American markets are not that well penetrated. And then you have the whole replacement market yet that, of course, is 75% to 80% of tires. So I think we still have a long way to go on the growth of high performance tires. And if you go back and look at Goodyear, Michelin and Conti, all recently had reports, they all were articulating pretty healthy growth rates for several more years in high performance tires for the reasons I mentioned.

We are sold out essentially in our rubber business today. And so, from a company standpoint, our growth in volume is now related to, for example, no turnaround this year, better productivity, our EBITDA growth is related to commercializing neodymium, PBR, upgrading our mix, and eventually, as we've said, growing our footprint in Asia, and that would probably come in the form of some Joint Venture if we were to do it.

Roger Spitz: Thank you for that. My last question is, in both latex and synthetic rubber, how much of the margin expansion was due to the timing lag in falling styrene and butadiene prices? And, if you could remind us, what is the contractual pricing lag and passing through raw materials in each of Latex and Synthetic Rubber?

Chris Pappas: In what period of time are you talking about?

Roger Spitz; Well, I am talking, you know, styrene and butadiene in Q4 2014 versus Q4 2015, the price of styrene and butadiene each were much higher than they were in Q4 2015. And I'm wondering whether some of the margin expansion and the MD&A in the press release that talk about that margin expansion each of Latex and Synthetic Rubber was driven by the falling cost of the styrene and butadiene, which may have helped your margins along, but it may have been just that lag in the fall as opposed to you know, and it may catch up.

Chris Pappas; Well, let me answer the question this way, you have our guidance for the first quarter by product, by business, so you have that. We did have some revaluation change, revaluation in the fourth quarter. I think digging deep into your question is best done offline with our guys. But your basic question about lag, okay, in our rubber business we have one month of lag essentially in the contract. So unless it's, you know, at the right time in the quarter, it generally doesn't affect the quarter that much.

In latex, the timeframe is a little bit longer, maybe 40 days, but not that much longer. So that's the lag we have in the business related to the contracts and pass-throughs. Now 85% of our rubber business is contracted. As we've said, 80% to 85%. And a large percentage of our latex business is contracted. In Europe and in the U.S. most of it is and in Asia less, but that tends to behave often more like contracted pass-through. So while it's not contracted, it tends to behave that way. Okay?

Roger Spitz: Thank you very much.

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

Matt Andrejkovics : Good morning. Actually, this is Matt Andrejkovics calling in for Vincent. Thanks for taking the call.

Chris Pappas: Hey Matt.

Matt Andrejkovics: Just a couple more questions on demand, volume – in Basic Plastics, volume was up 1% for the year. I think in the past you've mentioned global growth for styrene higher than that, maybe 2% or so, even more maybe. What level of demand are you seeing – do you

factor in for your 2016 outlook? And then also just on 2015, is it possible that some of your volume might have reflected maybe some share gains while you had a large outage from the Moerdijk plant?

Chris Pappas: Well, it's couple of things there, Matt. One, we are not – we are short styrene, so we're a buyer, not a seller, okay? So Moerdijk being out, you know, does not give us share gains in styrene. We don't sell styrene, okay? So that's not part of our equation. We do believe styrene globally and the models we have is still growing at about 2% per year. And we believe polystyrene, which is one of the major uses of styrene is growing at a similar rate. So that's the growth that we have in the modeling going forward.

Individual year growth rates, whether you know our numbers or whether published, often have to be looked at in the context of inventory, and what's going on in inventory. Remember, these are big chains, lots of volume. And as I've said, in dropping feedstock environments, the inventories tend to be leaned out. And in rising feedstock environments, the inventories tend to get rebuilt. So the real demand can often be camouflaged by inventory actions in the chain. And in a year when inventories are being leaned out, you would expect that the growth would look a little bit less than it might actually be, and the opposite in the years when inventories are being built. Does that make sense?

Matt Andrejkovics : Yes, thank you. And just one more on the upcoming turnaround season schedule planned for Europe. Is this turnaround season larger than normal and, if so, is it perhaps maybe due to some delayed turnarounds because of the outage? Again, at Moerdijk last year?

Chris Pappas: Turnaround season you're speaking of is in Europe specifically you are speaking. Yeah, it's – well, it's styrene. Let's be clear, the turnarounds that we describe that matter are the styrene turnarounds, and the season for that is generally March, April, May and into June. And this year, those turnarounds will be a little bit less than last year in aggregate as best we can talk. These are planned turnarounds, okay? Now while we're in the subject of turnarounds, in the polycarbonate business, which we don't talk about turnarounds that often. But at the moment, in fact, a plant just went into turnaround, one of the largest polycarbonate plants in the world, which is SABIC's plant in Saudi Arabia, just went into turnaround and it will probably be in turnaround for, I would think, at least the month, if not longer. So we have some polycarbonate turnaround dynamics this year that are, I think, important to that equation, Matt, as well, all right.

Matt Andrejkovics : Thanks very much.

Chris Pappas: Okay.

Operator: That concludes today's question-and-answer session. Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program and you may now disconnect. Everyone, have a great day.