Fourth Quarter and Full Year 2016 Financial Results Transcript – 2.23.17

Operator introduction:

Good morning ladies and gentlemen, and welcome to the Trinseo Fourth Quarter and Full Year 2016 Financial Results Conference Call. Turning to Slide 2, we welcome the Trinseo Management team, Chris Pappas, President & CEO, Barry Niziolek, Executive Vice President & CFO, and David Stasse, Vice President of Treasury and Corporate Finance, who will be conducting the call. I will now hand the call over to David Stasse.

Dave Stasse

Thank you Howard 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 February 23, 2018.

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".

Today's presentation includes certain non-GAAP measurements. Reconciliation of these measurements is provided on our earnings release and in the appendix of this presentation.

I will now hand the call over to Chris Pappas.

Chris Pappas

Thank you, Dave. Good morning everyone and thank you for joining us.

Please turn to slide 3 where I'd like to start by going over some key points and also the main topics we'll cover on the call. First, we are pleased with our fourth quarter and full year 2016 results. We had record performance across several metrics, including net income, Adjusted EBITDA, and cash generation.

Second, our business fundamentals continue to remain very strong to start 2017. We are essentially sold out in Synthetic Rubber and Polycarbonate, and we are seeing some strong sales volume results in other businesses such as Latex Binders and Performance Plastics. In addition, styrene margins are currently very favorable due to industry outages, both planned and unplanned.

We are in an environment of increasing raw material prices, including styrene, benzene, and butadiene. As you know, these price increases can result in timing impacts on our earnings, both from raw material timing and price lag; we'll go into more detail later.

Third, we continue to work to increase transparency to investors. Beginning with the fourth quarter, we are reporting with our new segmentation which provides greater visibility into the profitability and drivers of the Basic Plastics & Feedstocks division. In addition, starting in March, we will provide monthly updates on styrene margins on our investor relations website after the monthly settlements occur. This will provide you with more frequent data, and the ability to compare actual styrene market data versus our forecast. Also, starting this quarter, we are providing the net impact of raw material timing and price lag by division.

Lastly, we will end today's call with guidance for the first quarter and full year 2017.

Now, please turn to slide 4 where I'd like to discuss our financial results from the fourth quarter. I'm pleased to report fourth quarter 2016 net income of $79 million, adjusted earnings per share of $1.68 and adjusted EBITDA of $142 million. These exceeded the guidance we gave on our third quarter call due to higher styrene margins late in the quarter, as well as favorable raw material timing due to increasing raw material prices, net of price lag. We had $38 million of free cash flow in the fourth quarter, and we repurchased $21 million, or about 350,000 shares of stock.

Turning to slide 5, I'm happy to report that our full year net income of $318 million, adjusted earnings per shares of $7.28 and Adjusted EBITDA of $611 million were records for Trinseo, as was our free cash flow of $280 million.

We utilized this cash generation to repurchase about 9% of our outstanding stock through the course of the year. We also initiated an annualized dividend of $1.20 per share in the third quarter. In total, we returned $242 million to shareholders through stock repurchases and dividends in 2016, about 86% of our free cash flow.

Now, please turn to slide 6 as I'd like to discuss a few of our highlights from the year.

Performance Materials had a very strong year with $341 million of Adjusted EBITDA. In Latex Binders, we took several footprint actions to improve our costs and margins. Also, our investment in a new reactor to serve China's latex market has resulted in record sales volume in Asia during the year.

Synthetic Rubber had a good year, as we delivered another year of record sales volume, we successfully ran trials of some new Neodymium-PBR products, and we commercialized our next generation SSBR product line. In addition, we announced our latest 50 kilo ton SSBR capacity expansion as well as our SSBR pilot plant. These investments are in direct response to rising customer demand for this critical technology, which is a key component in increasing energy efficiency, safety and durability in performance tires.

Performance Plastics had an excellent year including record sales volume to the Automotive market. In October, we announced plans for future ABS capacity in China to support both our automotive and consumer essentials market growth in Asia. Our MAGNUM™ ABS delivers greater product consistency -- which can reduce costs for molding, compounding, extrusion, and thermoforming -- while offering superior aesthetics in the final product. We expect production of ABS at our Zhangjiagang, China site to begin in mid-2017.

Also in October, we announced a new Long Glass Fiber Polypropylene concentrate product family for light weighting automotive semi-structural applications used for interior parts at lower total cost compared to steel and aluminum. This 85% glass concentration allows customers to achieve cost savings of up to 10% through significantly reduced compounding costs.

We had record Adjusted EBITDA in the Basic Plastics & Feedstocks division in 2016. In fact, we had record Adjusted EBITDA in each of Basic Plastics, Feedstocks, and Americas Styrenics as the supply / demand environment in each of these areas remains tight.

And finally, in January we announced the sale of our 50% stake in Sumika Styron Polycarbonate to Sumitomo Chemical. Sumitomo is a natural owner for this Japan-based polycarbonate plant,

and as an industry leader in the region, they are better positioned to manage and deliver value from this asset.

Please turn to slide 7, where I'd like to go into more detail around the impact that raw material volatility can have on our results. As many of you know, over the past several months we have experienced steep increases in butadiene, benzene, and styrene, primarily due to planned and unplanned outages and inventory corrections.

We've talked in the past about how changes in these prices can impact our raw material cost flowing through cost of goods sold versus current timing. We've also mentioned that a meaningful part of our Performance Materials revenue is on a contractual basis with a price lag on the raw material pass through. Generally, these impacts offset each other each quarter.

For example, in some of our Performance Materials product lines, we have 60 days of inventory on hand and the raw material price pass through to our customers is lagged by approximately 30 days. So product that we sell in the month of March would be priced based on February's raw material price, and the associated cost of goods sold would be based on January's raw material price. In an environment of rapidly increasing raw material prices, like we've seen in the first quarter of this year, in this example we would yield a positive impact from raw material timing that more than offsets the negative impact from price lag. In Performance Materials in the fourth quarter, the raw material timing impact was a favorable $15 million and the price lag impact was an unfavorable $6 million, for a $9 million net favorable impact.

Now, please keep in mind that these impacts can vary due to many factors, including mix and region of inventory, sales mix, as well as purchase timing. Therefore, the relationship between the two impacts can vary.

On slide 8 you can see these impacts over the past 2 years, plus our forecast for the first quarter. Now note, that the impacts vary from quarter to quarter, but overall, as mentioned, they tend to offset each other over time. More importantly, notice that over this time period, the cumulative net impact is very small. While these impacts can sometimes be meaningful for a given quarter, in general, we expect them to offset over the long run. Going forward we will continue to provide you with the net impacts by division on a quarterly basis.

Now I'd like to hand the call over to Barry who will discuss the financial details of our fourth quarter performance.

Barry Niziolek

Thanks Chris, and good morning everyone, please turn to slide 9.

Fourth quarter Adjusted EBITDA was $142 million dollars. This included a $15 million dollar benefit from favorable raw material timing in the quarter, net of an unfavorable price lag.

Performance Materials continued to deliver steady, strong results, delivering Adjusted EBITDA of $86 million dollars, which included a favorable impact of about $9 million dollars from raw material timing, net of unfavorable price lag … essentially in line with prior guidance.

The Basic Plastics and Feedstocks division delivered $78 million dollars of Adjusted EBITDA in the fourth quarter, which included a favorable impact of $5 million dollars from raw material timing. These results were better than expectations due to higher than expected styrene margins driven by several supply outages in December.

Now, turning to slide 10, let's go through our segment results.

Latex Binders net sales of $241 million dollars was 7% above prior year primarily from the pass through of higher raw material costs. The divestiture of the Latin America business had an unfavorable sales volume impact of 4%; however, this was offset by an increase in sales volume in our remaining regions. While the divestiture of the Latin America business impacted sales volume in both Latex Binders and Performance Plastics, please recall that the profitability of the business there was roughly breakeven.

Latex Binders Adjusted EBITDA of $24 million dollars was in line with guidance and was $6 million dollars higher than prior year driven by higher sales volume to the paper and carpet markets in North America and Asia, and lower fixed costs. In this segment, raw material timing and price lag generally offset each other, as the days of inventory and price lag are similar.

Volume for the quarter was 309 million pounds, essentially flat with last year. We had record sales volume in Asia during the quarter, as we gained share in the paper, board, and textile markets.

Let's turn to Slide 11,

Net sales from Synthetic Rubber of $124 million dollars increased 20% versus prior year driven primarily by higher SSBR and ESBR volumes as well as from the pass through of higher raw

material costs. Fourth quarter volumes were a record for Synthetic Rubber due to strong demand from performance tire manufacturers.

Adjusted EBITDA of $29 million dollars was $8 million dollars above prior year, driven by higher volumes. Adjusted EBITDA was above guidance mainly due to favorable raw material timing, net of an unfavorable price lag.

Our Synthetic Rubber business generally carries significantly more inventory in terms of days, in comparison to the contractual price lag. Therefore, in an increasing raw material environment, we would expect the positive impact from raw material timing to more than offset the negative impact from price lag.

Now, turning to slide 12,

Performance Plastics net sales of $166 million dollars was 8% below prior year driven by lower sales volume to the consumer electronics market in Asia as well as the divestiture of the business in Latin America. Adjusted EBITDA of $32 million dollars was $2 million dollars above prior year and in line with guidance due to lower fixed costs. Performance Plastics generally operates with a two month price lag, so in an increasing feedstock environment, the negative impact of price lag should be greater than the positive impact of raw material timing.

Moving to Slide 13,

Basic Plastics net sales was $323 million dollars, slightly below prior year.

Adjusted EBITDA of $33 million dollars was $4 million dollars below prior year driven by lower polycarbonate and polystyrene margins, as well as lower Europe polystyrene sales volume, several industry outages in the prior year had a favorable impact on volume and margin in that period. These items were partially offset by favorable raw material timing.

Turning to Slide 14.

Feedstocks' Adjusted EBITDA in the fourth quarter was $14 million dollars, $11 million dollars above prior year driven by favorable raw material timing and by better margins late in the quarter due to several unplanned outages. Americas Styrenics also benefitted from these outages in the fourth quarter. There have since been a number of additional planned and unplanned outages that we'll talk about more later in the call.

Now, let's turn to slide 15 for a discussion on cash.

Cash provided by operating activities for the quarter was $79 million dollars and capital expenditures were $41 million dollars, resulting in Free Cash Flow for the quarter of $38 million dollars. Our fourth quarter free cash flow was lower than expected due mainly to collection timing as well as increasing working capital from rising raw material prices. We ended the year with $465 million dollars of cash on our balance sheet and a net leverage ratio of 1.3 times.

Increasing raw material prices like we've seen over the past two months generally increase our working capital. As such, we expect a large cash outflow from working capital in the first quarter.

Now I'll turn the call back over to Chris who will discuss performance expectations for the first quarter as well as for the full year 2017.

Chris Pappas

Thanks Barry, please turn to slide 16 for a discussion on styrene monomer. As we have mentioned, there were a number of unexpected supply outages late in the fourth quarter, and you can see the fourth quarter margin increased in November in Asia, and in December in Europe. These increases helped our fourth quarter results in comparison to what we were expecting.

Looking ahead into Q1, there are a number of industry outages, planned and unplanned, which are limiting styrene supply and pushing up margins. Based on these market dynamics, we are expecting a $175 per metric ton margin increase in Europe, and about a $50 per metric ton margin increase in Asia, in comparison to the fourth quarter. Please note that we have a planned maintenance outage at our Terneuzen site during the first quarter, which should have an impact of about $10 to $15 million in this environment.

In addition, Americas Styrenics has an extended outage affecting about half, or 500 kilo tons, of their styrene production capacity in North America. This capacity has been off line since the beginning of Q1, and they currently expect to bring it back up in Q2. At this point the impact of this outage is about a $15 million impact on Trinseo in Q1.

Consistent with our ongoing effort to provide more transparency into our markets, starting in early March we will post styrene margin information in the same format as this chart on our investor relations website. This will reflect the data from the latest settlement and prior month spot average prices and will enable you to compare approximate current monthly margin over raw material data to the forecasts that we provide during the earnings calls.

So with that backdrop on styrene, let's move to slide 17 to discuss our guidance for the first quarter.

The fundamentals for Performance Materials in the first quarter look very good. We expect Adjusted EBITDA of about $95 million, inclusive of about $5 to $10 million of favorable timing impacts.

For Latex Binders we expect Adjusted EBITDA in the $30 million range with little timing impacts. This reflects price increases as well as fixed cost actions we've recently taken.

We expect Synthetic Rubber Adjusted EBITDA of $40 to $45 million, inclusive of a $10 to $15 million favorable timing impact. We continue to operate at full utilization and demand from the performance tire market for our products remains very strong.

In Performance Plastics, we expect Adjusted EBITDA of about $25 million. This is slightly lower than recent trend because of an anticipated $5 million negative net timing impact.

Now, moving to the Basic Plastics & Feedstocks division, we believe the first quarter Adjusted EBITDA will be approximately $105 million, including approximately $35 million of favorable raw material timing and an approximately $15 million sequential decline in equity earnings from AmSty due to their extended turnaround, as well as a $10 to $15 million impact from the Terneuzen planned turnaround.

In total for Trinseo, we expect to generate between $170 million and $180 million of Adjusted EBITDA in the first quarter. This includes a favorable impact of about $80 million from raw material timing partially offset by about a $40 million unfavorable effect from price lag, as well as the impacts from the Americas Styrenics and Terneuzen styrene turnarounds mentioned earlier.

We expect Adjusted EPS in the first quarter to be $2.19 to $2.37 per share.

Our first quarter free cash flow is expected to be negative as increasing raw material prices are driving up working capital and this is the seasonal build time for inventory. During the first quarter we expect prices of our major raw materials to increase by about 40%, and a significant portion of our revenue is a function of raw material pass through.

Turning to slide 18, we are affirming our full-year 2017 guidance of $580 million of Adjusted EBITDA. I'd like to make a few important points related to this guidance.

As we've discussed, raw material price swings can have a significant impact on our reported results. You can see the history in the Appendix on page 22 of our slide deck. It is difficult for us

to make price predictions or quantify associated timing impacts to EBITDA for the remainder of the year and our guidance of $580 million of EBITDA assumes essentially no timing impacts. However, our view is that benzene will moderate in Q2 as outages end and more supply comes back on line. In addition, we believe butadiene will remain firm through Q2, but we also expect it to moderate in the back half of the year.

This would result in continued strong fundamental margins and earnings while reversing the use of cash for working capital in Q1 into a source of cash in the back half of the year.

The business fundamentals of all of our segments are in very good shape to begin the year, and our thesis of generally rising operating rates leading to higher margins in Basic Plastics & Feedstocks is continuing to play out, as is our growth strategy in Performance Materials.

Finally, there are currently a number of styrene outages, and we think this will last into the second quarter. However, it is still early in 2017 for us to make a call on the level of outages we will have throughout the year. Incremental unplanned outages of significance beyond what we're currently aware of could present upside to our guidance in our Feedstocks segment and the equity income we realize from Americas Styrenics.

Before I turn the call over to questions, I'd like to say how proud I am of the Trinseo team for the record year. It was the result of a lot of hard work from a lot of people. While we have taken time to look back and recognize our accomplishments, we haven't stopped looking forward towards accomplishing the growth and other achievements that we discussed at our investor day. We remain focused on what lies ahead.

And now, Howard you may open the phone line for questions.

Operator:

Ladies and gentlemen, if you have a question or comment at this time, please press star, then one on your telephone keypad. If your question has been answered or you wish to remove yourself from the queue, simply press the pound key. Again, if you have a question or comment at this time, please press star then one on your telephone keypad.

Our first question or comment comes from the line of David Begleiter from Deutsche Bank. Your line is open.

David Begleiter, Deutsche Bank

Thank you, good morning. Chris, just given the very strong Q1 guidance, why didn't you raise the full year EBITDA guidance?

Chris Pappas

Thanks David. We gave our guidance for the year, as you recall, at Investor Day in November. We were one of the only companies then to give guidance at that time. As we thought about what we wanted to accomplish on this call, with all of the new items we've been discussing, including added transparency, incremental data that's going to help analysts and investors understand styrene movements from month to month, new segmentation information, we really felt that affirming our guidance was the right thing to do at this time.

Importantly, we have another call as you know on May 3. It's only 65 or so days away. And as we start to see the planned and unplanned outages of the styrene market unfold over that period of time, we will be in a much better position to update our guidance, Dave. We are off to a great start. We are extremely proud of that. We obviously think the first quarter is going to be quite good. We think that the second quarter should have some favorable dynamics as we look at the styrene market. But generally, we are not going to predict on an incremental quarterly basis styrene upside from unplanned outages. We just don't think that's a highly productive thing to do, but we are going to provide much more transparency with monthly data, so that you, David, and others can get a very good sense of those numbers from month to month.

We'll balance growth initiatives with returning cash to shareholders. We are continuing to look at return of cash to shareholders, we're also looking at dividends to shareholders.

David Begleiter, Deutsche Bank

Very good. And Chris, just on the use of cash in 2017, can you discuss the level of buybacks you are looking at this year?

Chris Pappas

I will turn that over to Barry. He will give you a comprehensive sense of our cash story for the year.

Barry Niziolek

Yes, David. As we said at Investor Day, we are going to balance growth initiatives with returning capital to shareholders. So, I think as you recognized, our CapEx has increased to $175 million from $125 million in 2016, which includes funding the 50 KT expansion in SSBR, the ABS expansion in China. Two-thirds of that – of our CapEx, as you are aware, is directed at Performance Materials to fund the growth initiatives to get the additional $100 million in

EBITDA that we have targeted in 2019. And then additionally, we are looking at bolt-ons and additional ventures as we go through this year. That said, we are continuing to look at return of cash to shareholders, including increasing our dividend as we go through the course of the year, but it's going to be a balance between investment and returning CapEx to - capital to shareholders.

David Begleiter, Deutsche Bank

And just some buybacks in 2017?

Chris Pappas

Well, that would be a portion of that returning of cash to shareholders, David, in the balanced approach. So, we obviously were active in the prior year and will continue to report our activity appropriately quarter by quarter. But I think Barry said it well; we are looking at what we said at Investor's Day: a balanced use of cash, including returning cash to shareholders.

David Begleiter, Deutsche Bank

Very good. Thank you very much.

Operator

Thank you. Our next question or comment comes from the line of Frank Mitsch from Wells Fargo Securities. Your line is open.

Frank Mitsch, Wells Fargo Securities

Hey, good morning gentlemen and congrats on a record year. Chris, let me follow-up on the guidance question. So you are saying that no timing impact is embedded in that $580 million number, so given that you expect $40 million in Q1, assuming that stays flat, that number would be $620 million, I am guessing for the full year, but I guess, the other broader question on the guidance, yes you gave that $580 million number in November, early November I believe. And since that time, how would you describe the business outlook: better, flat or worse and I understand that the styrene margins are materially better, but AmSty is taking a longer than expected turn. How would you broadly assess the business conditions today versus what they were, or what the expectation was back in November?

Chris Pappas

Better across the board, it's a great question. I love the way you framed it, better across the board. Of course, we have been sold out in rubber, that continues. Good performance tire markets, that continues. Our latex binder business, I would describe as better. Price increases are taking hold. Cost reductions are taking hold. Performance Plastics continues to be strong, better. And ABS has been – was good at that time Frank, probably incrementally better. Polycarbonate, I mentioned earlier, we are sold out. So I think it's pretty clear across the board, we would generally say better.

Frank Mitsch, Wells Fargo Securities

That is better, awesome. And just on the delayed restart for AmSty, obviously they postponed it once and now it's sometime in Q2. A. I guess how is the confidence level on it being restarted during the second quarter and B, just in general on plant reliability, since we seem to be going through a state of industry outages, how would you describe your view of Trinseo's plant reliability?

Chris Pappas

We have – well, first of all, on the accuracy or confidence, Frank, that's the best information we have from them. We are pretty aware of their plan, of course and we think it makes a lot of sense. So we have pretty good confidence in that outlook. We have really four styrene plants, if you will, in Trinseo, and I include AmSty in that. They have the two trains on one site and we have of course our assets in Europe, the two different sites. I would consider us better than the industry. But having said that, we obviously have within our system, at AmSty, we have an extended outage that is kind of a surprise to us and I think a surprise to them. So we consider ourselves a pretty darn good operator. We have put a fair amount of capital into our own styrene plants. They have been attentive to theirs, but when you have plants that are old as these plants are, even under those conditions, you can have surprises. We are having one now. There are several as you point out in the industry, but I stand by my view, which is we have put in more capital and more attention to our styrene facilities over the last half a dozen years generally than the industry. And that should bode well for us going forward for these kinds of events.

Frank Mitsch, Wells Fargo Securities

Terrific. Thank you so much, Chris.

Operator

Thank you. Our next question or comment comes from the line of Robert Koort from Goldman Sachs. Your line is open.

Bob Koort, Goldman Sachs

Thanks very much. Chris, just curious, I recall at the time of the IPO, I think the major selling point to Trinseo was the quality of the rubber business and the value of that business. Obviously, since your IPO, the stock's done wonderfully but it seems like a lot of that fuel has been on the commodity side. How do you think about monetizing or getting fair value for that rubber business?

Chris Pappas

Well, I'd broaden that out, I think Bob a little bit. In fact, we had really two things at the time of the IPO. One was that we felt Performance Materials, we have a little different nomenclature then, but in any case, Performance Materials businesses were going to be steady and growing in the relatively higher margins and relatively more stable, but we also had a thesis then that the Basic Plastics & Feedstock businesses would benefit from rising operating rates - limited capacity rising operating rates and you're right that has in fact been a large part of the fuel for the stock.

On the other hand, we announced in detail at Investor Day a $100 million EBITDA growth plan for Performance Materials in aggregate, taking it from $335 million, which was the year-end estimate at that time, year-end 2016, to $435 million of EBITDA in 2019. So, we believe we can grow Performance Materials, we outlined in detail how we're going to do that, including growing our rubber business, including growing ABS in China, including growing Performance Plastics, including the steps we're taking Latex Binders to remove costs and raise price. And all of that we think is beginning to show on that side of the business.

On a valuation/monetization question, Bob, we're not looking to do anything different than what we've been doing, which is deliver results, grow our EBITDA in Performance Materials, continue to show sustainable and growing EBITDA in Basic Plastics and be smart, thoughtful and patient in terms of use of our cash. So, we have no plans to do any monetization. Our multiple has moved up, as you know. We still think it has ways to go, but it has made significant progress in the last year or so, because frankly, we have been delivering results. And I think the market understands that Basic Plastics & Feedstocks is experiencing sustainable rising margins and we

are delivering in Performance Materials. And I think, Bob, if we continue to do that, we should be rewarded in the market.

Bob Koort, Goldman Sachs

Would you consider acquisitions on that side of the business as a means to getting more attention and more credit for it?

Chris Pappas

We said we would, Bob. We said we would look at it at this point bolt-on acquisitions there. We haven't gone so far as to say we look at anything of major scale. I guess that's always a possibility, but it's certainly not something that we have an immediate attention to. But yes, we would like to grow that business for the reasons you mentioned, to increase its scale relative to the scale of the other side of the equation.

I should point out, Bob, in our new segmentation, you can now calculate rather precisely the amount of EBITDA that this Company generates from styrene monomer, which I think is really the piece of Basic Plastics that's the most volatile. That number in 2016 is about 22%. So, I think your point is, if we could raise the EBITDA of the Company generally, and lower the percentage of the influence of styrene, that should be a valuable thing in terms of the multiple of the Company. If that's your thesis, we would share that thesis and we would be trying to do that. I'm not sure that's precisely where you're going Bob but I think it is.

Bob Koort, Goldman Sachs

No, I think that's right and we appreciate the added disclosure. That certainly makes our lives easier and probably makes your story better as well. So, I appreciate it.

Operator

Thank you. Our next question or comment comes from the line of Vincent Andrews from Morgan Stanley. Your line is open.

Matt Gingrich for Vincent Andrews, Morgan Stanley

This is Matt Gingrich for Vincent. To clarify the possible upside to guidance that unplanned styrene outages may present, are you currently embedding no unplanned outages or a

normalized level of outages. And secondly, is it possible to quantify the extent to which unplanned outages have weighed on utilization rates historically and more recently?

Chris Pappas

Let's start with the last part of that first. We have given numbers, particularly in 2015, where we indicated what we believe to be the amount of our EBITDA that was influenced by unplanned outages in styrene. That number for 2015 was $50 million. In 2016, you now have our results, and you also have results by segment including Feedstocks, and our view would be that, very little of our results in 2016 were driven by that dynamic. Going forward, the planned outages for the spring of this year are rather healthy. It's a strong turnaround season around the world in the spring of this year. And so, we would expect that to have an influence on the spring of this year; March, April, May. Unplanned outages, of course, we have no way of forecasting, but obviously, there are unplanned outages of magnitude at the moment in the styrene market. There have been since the end of December, and they are continuing, it looks like into the second quarter. So, at the right time when we start to see how all those numbers work out, we'll be able to and as I said, you'll have monthly data, so you'll be able to see how those numbers are flowing through our styrene margins, and you can make your own judgment on whether they were highly influenced or not influenced by planned or unplanned outages.

But look, guys, we have said for several years, in a rising operating rate, which we have in styrene, because of limited supply and some growth in demand, and the age of the assets, the pressure that puts on the system for the potential for unplanned outages is higher, and more importantly, if those occur because you're starting from a generally higher operating rate, the effect on margin can be higher. And that has been our thesis frankly for two and a half years or more, and it has played out. So, you're asking us to predict with precision the numbers, and we're just not going to do that because it's just very hard to do, and I think that should be obvious. We have 1.5 million tons of styrene; just do the math, $30 a ton of margin is $45 million a year of added EBITDA.

Matt Gingrich, Morgan Stanley

Great. And just a follow-up, I was hoping for additional color on the drivers and potential resolution of the recent butadiene inflation and what the risk is to Synthetic Rubber demand if prices continue to rise to offset the inflation?

Chris Pappas

Butadiene obviously has come roaring back from the sleep, if you will, of couple to three years. That's driven, we think not by structural, but by some unplanned outages in butadiene in Asia and otherwise. We expect those to continue into the second quarter, through the second quarter, our forecast is what I mentioned relatively high butadiene through the second quarter. We would expect it to moderate in the back half of the year. It has had no impact on our ability to continue to be sold out in rubber, nor do we expect it to, nor is it had any impact on our latex business, which is doing very well, because we have contractual pass through of prices, of costs of butadiene and importantly in rubber, because we have very, very good products for high performance tires. A benefit of higher butadiene for us in our rubber business is we get some arbitrage value out of rubber we sell from Europe to Asia. Now, you'll recall, we don't have a lot of volume there because we've contracted most of our rubber business. But to the extent that we can sell product from Europe to Asia in rubber in the first quarter, for example, we would have arbitrage value from that delta in butadiene. And that's a dynamic that is occurring, I might add, at the moment, but in small volume.

Matthew Gingrich, Morgan Stanley

Great. Thank you.

Operator

Thank you. Our next question or comment comes from the line of Duffy Fischer, from Barclays. Your line is open.

Mike Leithead for Duffy Fischer, Barclays Capital

Hey guys, this is Mike Leithead on for Duffy. I guess, tying in with David's question earlier, can you just talk a bit about your free cash flow expectations for 2017? If we get some sort of walk from EBITDA and kind of what you guys are seeing the full year headwind from working capital to be?

Barry Niziolek

This is Barry. We had mentioned at the Q1, we expected a working capital outflow. But we expect that to moderate as we go through the course of the year. You have our EBITDA guidance of $580 million and then it mentioned that CapEx is $175 million. We're expecting interest payments of approximately $75 million and taxes of about $90 million is where we are to go ahead and come up with a cash flow estimate for the year.

Mike Leithead, Barclays Capital

Okay. And you guys talked, I guess in your Investor Day a few months back and earlier in your response to another question, around one of your growth goals being targeted M&A. I was wondering if you guys could update us on kind of what you're seeing in the M&A markets you hope to participate in, either I guess in terms of activity, or multiples right now?

Chris Pappas

High prices, patient, thoughtful process at our end. How is that for an update? Multiples are high, prices are high, there are a lot of high expectations out there. We're not in a rush. We have no burning desire to go do anything dramatic. If the right opportunities were to come along, we'd have to assess and think about them. But the fact is the price, generally, the prices in the market are pretty high; makes it a little bit difficult to think large acquisitions or things like that.

Mike Leithead, Barclays Capital

Great. Thanks.

Operator

Thank you. Our next question or comment comes from the line of Hassan Ahmed from Alembic Global. Your line is open.

Hassan Ahmed, Alembic Global

Good morning Chris. Chris, just wanted to revisit, you obviously talked a fair bit about the sort of effective utilization rate side of things. Obviously being buoyed by sort of variety of planned outages. Question around sort of what you're seeing in terms of utilization rates in China in particular? In the past, you've talked about subscale facilities in China, those facilities, running at relatively depressed operating rates, and a lot many times the operating rates of Chinese styrene facilities being dictated by refineries, right? So obviously, kind of an interesting dynamic

these days where refining margins aren't that great, styrene margins have picked up, you have a variety of outages. So, just wanted to sort of get your thoughts about what you're seeing in terms of these Chinese operating rates at these subscale facilities with all of these dynamics in mind.

Chris Pappas

Right, hard to be precise as you can imagine with all the complexities of where the assets are in China and the various forms of feedstock and so on, but our best guess would probably be in the mid-70s, Hassan. There is a little bit of product interestingly starting to flow styrene from China to the Americas, which is unusual trade flow, frankly, but there is a little bit of that going on and I think that's of course driven by the tremendous turnaround and unplanned outage issues going on in the US right now. So, there is a bit of a shift in trade flow, minor, I would add, which might indicate that they're moving monomer through the system a little bit better, Hassan, at the moment, but mid-70s I think is where we characterize it.

Hassan Ahmed, Alembic Global

Right, right. Now, a bit more sort of macro on the demand side of things, I mean as I take a look at sort of company-wide end market sort of revenue exposure, you know what I mean, for you guys, it's quite diversified, right, you talked a bit about market share gains within the paper and sort of carpet end markets, particularly in Asia, I mean I would imagine you are not really seeing spectacular demand growth in autos. So could you just help me sort of think through what you are seeing in terms of numerically speaking, demand growth above trend, below trend, at trend, and some of the puts and takes associated with the different end markets?

Chris Pappas

Okay. Well, first of all, I mentioned earlier to Frank's comment, compared to early November, we would generally be more constructive overall. Certainly, the European economies look a little bit better. The U.S. has potential to be better. We will have to see, a lot of noise about changes, tax reform and other things. Asia looks about the same, maybe incrementally better. If you break that down getting underneath, looking at our businesses, in rubber, the performance tire business is good. We are just sold out. If we have that new capacity up right now, we could grow rapidly. In polycarbonate, we are sold out. We have one plant. We are sold out. In latex, demand has been pretty good as mentioned. And because we have closed assets and cut costs,

our margins are going up. We have been able to raise price. Performance Plastics, where we have I would say the most ability, Hassan, to react to market volume, we see pretty strong volumes across automotive and electronics and medical and consumer laptops, electronics, things like that. So I think we are constructive is really where we are right now on that across the board. I kind of wish we had more capacity. We were pretty much sold out in ABS, that's why we are adding in China. So particular to Trinseo, we have some sold out positions that of course we are improving; rubber, ABS, Performance Plastics. And that's part of why we believe we can grow Performance Materials by $100 million of EBITDA between 2016 and 2019, taking advantage of the markets with new assets and growth.

Hassan Ahmed, Alembic Global

Perfect. Thank you so much, Chris.

Operator

Thank you. Our next question or comment comes from the line of PJ Juvekar from Citi. Your line is open. Mr. Juvekar you may need to unmute your phone.

Eric Petrie, Citibank

Sorry about that. It's Eric Petrie on for PJ. Hi Chris. Could you give us an update on the timing of your Performance Materials growth initiatives and the cadence of the EBITDA realization over the next 3 years?

Chris Pappas

At Investor Day Eric, we indicated that year-over-year 2017 in Performance Materials would look very similar to 2016 and we gave some specific reasons for that. As we start to transition into the new rubber capacity, we are going to have to slow-down and take out some rubber capacity. As we start to get ready for our ABS capacity, we have to make some investments to be ready to start the plant itself. So that was the thesis we laid out at that time, and so then you are left with 2 years, right, 2018 and 2019, on that basis. And I think the best split we could give you is something like $35 to $40 million in 2018 and the balance would come in 2019. Now we are off to a really good start in Performance Materials this year as you guys pointed out. We gave you guidance for the first quarter of about $95 million, minus some favorable timing effects. So maybe we will do a little bit better than that. Let's wait and see how the year develops. I am talking about that growth rate Eric, that we mentioned.

Eric Petrie, Citibank

And secondly, into first quarter, are you seeing any of your styrenics customers delay orders in hopes that prices for styrene monomer go down?

Chris Pappas

Yes. They – absolutely, so you can imagine with the rise in styrene, the derivative markets are trying their best to wait until things change, and that's of course an obvious activity that occurs in these market dynamics. They have limitations on that. They have orders. They have certain inventory levels. But clearly, they take down their inventories. They wait and they are hoping for lower styrene, which will lead theoretically to lower polystyrene prices for them. So the answer is yes, we are seeing that.

Eric Petrie, Citibank

Okay, thanks.

Operator

Thank you. I show no additional audio questions at this time. I would like to turn the conference back over to management for any closing remarks.

Chris Pappas

All set, Howard and everybody, thanks for joining us. Take care. Bye-bye.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect. Everyone have a wonderful day.