First Quarter 2017 Financial Results Transcript

Operator introduction:

Good morning ladies and gentlemen, and welcome to the Trinseo First Quarter 2017 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 Julie 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 May 3, 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. First, we continue to see strong fundamentals across our businesses. Reflective of that, our first quarter exceeded the guidance we gave in February for Trinseo, as well as for Basic Plastics & Feedstocks and Performance Materials.

Second, our Performance Materials growth initiatives are on track to deliver at least $100 million of Adjusted EBITDA growth from 2016 to 2019, as we outlined at our recent Investor Day. We're already seeing meaningful improvement in Latex Binders, with improved market conditions and cost savings, and our Synthetic Rubber and Performance Plastics growth investments are progressing as expected.

Lastly, we are updating our full year 2017 Adjusted EBITDA guidance to a range of $600 to $620 million.

Now, please turn to slide 4 where I'd like to discuss our highlights from the first quarter. I'm pleased to report first quarter net income of $117 million, adjusted earnings per share of $2.42 and adjusted EBITDA of $182 million.

The Performance Materials division had a record quarter with $110 million of Adjusted EBITDA and year-over-year volume growth in each segment. In Latex Binders, we are seeing substantially better results for three main reasons. First, over the last several years, we have made a significant amount of progress in diversifying our chemistries and markets. Almost 20% of our Latex Binders volume now comes from chemistries other than conventional SB latex, including SA latex and starch-containing emulsions. Our products based on these chemistries serve a wide variety of end markets, and generally carry higher margins than those based on conventional SB Latex. This will continue to be part of our strategy to grow the EBITDA of Latex Binders despite the secular decline of the coated paper market.

Second, through footprint reductions and other actions, we will realize about $10 million of fixed cost savings in 2017 versus last year.

Third, general market conditions have improved in Europe, North America, and Asia which has resulted in higher utilization rates and improved margins.

Synthetic Rubber also had a very good quarter with record sales volume in both SSBR and ESBR, as well as the total segment. The performance tire market continues to be very strong, with year-over-year market growth exceeding 10 percent. We are progressing on both the SSBR expansion and pilot plant at our Schkopau, Germany, manufacturing site, and expect both of them to be contributing to our profitability in 2018.

Performance Plastics fundamentals remain strong. However, the first quarter performance was adversely impacted by negative price lag. Sales volume was at its highest level since 2012 which

was largely driven by our continued work to grow in our existing markets and expand into new markets. For example, we had our highest sales volume ever in Europe CEM as work over the past couple of years has resulted in customer wins in areas such as smart meters and medical devices.

In addition, we continue to make progress on the new ABS capacity at our Zhangjiagang, China site, which we expect to come online in mid-2017.

The Basic Plastics & Feedstocks division Adjusted EBITDA was $99 million in the quarter. This exceeded our guidance. Styrene margins were very strong through the quarter, due to several planned and unplanned outages in North America and Asia. Increasing styrene prices through the quarter led to significant Polystyrene customer destocking. We've seen this destocking trend moderate early in Q2 as styrene prices have fallen.

As expected, Americas Styrenics' performance was lower than normal due to the extended outage at one of its St. James, Louisiana styrene reactors. That reactor came back online at full production in early April and we do not expect any financial impact to the second quarter.

Also, we closed on the sale of our 50% stake in Sumika Styron Polycarbonate to Sumitomo Chemical, for which we received sales proceeds of about $42 million.

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

Barry Niziolek

Thanks Chris, and good morning everyone, please turn to slide 5.

First quarter net income was $117 million dollars and Adjusted EBITDA was $182 million dollars. This included a $24 million dollar pre-tax benefit from favorable timing in the quarter. Recall that these timing impacts consist of raw material timing, which is the timing of raw material cost changes flowing through cost of goods sold versus current pricing, and price lag, which is the difference in revenue between current contractual prices and current period prices.

Cash used in operating activities for the quarter was $26 million dollars and capital expenditures were $36 million dollars, resulting in Free Cash Flow for the quarter of negative $62 million dollars. This included $16 million dollars in dividends from Americas Styrenics and Sumika Styron and $6 million dollars of cash interest payments. As expected, our first quarter free cash flow was negatively impacted by approximately $175 million dollars from higher working capital due to increasing raw material prices during the quarter.

In addition, we used $27 million dollars to repurchase approximately 427,000 shares.

Now, turning to slide 6, let's go through our segment results.

Latex Binders net sales of $289 million dollars was 38% above prior year primarily from the pass through of higher raw material costs. Higher sales volume increased revenue by 4% excluding the impact of the Latin America divestiture.

Latex Binders Adjusted EBITDA of $37 million dollars was ahead of guidance and was $18 million dollars higher than prior year. This was driven by overall very positive market conditions including higher margins in Asia, as well as cost savings initiatives including favorable raw material purchases. As Chris mentioned earlier, we are seeing substantially better results in Latex Binders.

Let's turn to Slide 7,

Net sales from Synthetic Rubber of $163 million dollars increased 60% versus prior year driven primarily by the pass through of higher raw material costs as well as higher SSBR and ESBR sales volume. First quarter volumes were a record for Synthetic Rubber due to very strong contractual take as well as spot sales to Asia and a continued strong performance tire market.

Adjusted EBITDA of $46 million dollars was $23 million dollars above prior year driven by $21 million of net favorable timing, as well as $7 million from higher volume and margin.

Now, turning to slide 8,

Performance Plastics net sales of $185 million dollars for the quarter was 9% above prior year driven by higher sales volume. Excluding the divestiture of the Latin America business, sales volumes increased revenue by 13%.

Adjusted EBITDA of $27 million dollars was $8 million dollars below prior year driven by unfavorable price lag. Higher sales volume was offset by increasing raw material costs during the quarter.

Moving to Slide 9,

Basic Plastics net sales of $381 million dollars for the quarter was 11% above prior year as the pass through of higher raw material costs was partially offset by lower polystyrene sales volume in Europe and Asia, with lower demand driven by rising prices.

Adjusted EBITDA of $39 million dollars was $1 million dollars above prior year as favorable raw material timing was mostly offset by lower sales volume and margin as well as startup costs related to the new ABS capacity in Asia.

Turning to Slide 10.

Feedstocks Adjusted EBITDA of $42 million dollars was $21 million dollars above prior year driven by higher styrene margins, including favorable raw material timing, which was partially

offset by lower production from the planned maintenance outage at the Terneuzen, Netherlands facility.

Americas Styrenics Adjusted EBITDA of $18 million dollars for the quarter was $15 million dollars below prior year due to the maintenance-related outage at the St. James, Louisiana styrene facility.

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

Chris Pappas

Thanks Barry, please turn to slide 11 for a discussion on styrene monomer. As expected, first quarter Europe styrene margin over raw materials was very strong due to planned and unplanned outages during the quarter. While still healthy margins, we expect the second quarter to be sequentially lower by about $135 per ton in Europe and about $120 per ton in Asia.

Several unplanned outages late last year, combined with very low inventories in China, caused global styrene prices to significantly increase. Additional outages in the first quarter led to further styrene price increases, ultimately resulting in a record-high Europe styrene contract price in March. These high styrene prices have led to a reduction in styrene derivative demand from substantial customer destocking.

The combination of high margins and very low inventories in China created an environment in China where small, non-integrated producers could run hard at profitable levels, despite their relative high cost of operating. We believe these producers, which make up about a third of Chinese production, ran at operating levels at least 10 percentage points higher than their normal operating rates of about 60%.

As outages in North America and Asia ended in the first quarter, we saw a significant rise in styrene inventory levels in China as customers continued to keep derivative inventories low. Styrene length has increased in North America as there have been fewer exports to China. All of this has resulted in a decrease in margins to what we believe will be a bottom in May.

We have already seen styrene derivative demand pick back up in China, and inventory levels have declined for the last 4 weeks and we see this trend continuing through the month of May. We believe this will result in a shift to more normalized levels of export to China from North America, and to higher styrene margins beginning in June.
Please turn to slide 12 to discuss our view on the global styrene supply / demand picture for the next several years.

The chart on the left shows net capacity additions that we expect through 2020. On a nameplate basis, these supply additions have a compounded annual growth rate over this

period of about 1.6%. However, it is important to note that over 85% of the capacity that we expect to come online over the next three years is from non-integrated plants in China. Non-integrated plants in China generally operate well below China's overall industry operating rate of about 70% due to feedstock availability and a lack of scale.

The chart on the right shows our view of the supply growth, our view of demand growth, and the resulting operating rates. We continue to forecast global styrene demand growth of about 2 percent per year, or about 550 kilotons per year. Over the four year projection horizon, this supports slightly higher operating rates when taking into consideration the non-integrated styrene monomer supply additions in China. Therefore, we remain constructive on the sustainability of our styrene margins over this period.

Now, please turn to slide 13 for a discussion on our second quarter outlook.

The business fundamentals for the Performance Materials division in the second quarter continue to look very good, and we expect Adjusted EBITDA of about $85 to $90 million.

For Latex Binders we expect Adjusted EBITDA of about $32 million. This reflects the strong market conditions and cost actions I spoke about earlier.

We expect Synthetic Rubber Adjusted EBITDA of about $25 million. While still a very good quarter, this is sequentially lower than the first quarter due to a return to more normalized sales volume levels, as well as no timing benefit in comparison to the favorable Q1 impact.

In Performance Plastics, we expect Adjusted EBITDA of about $30 million. Volumes should be strong, similar to first quarter levels.

Now, moving to the Basic Plastics & Feedstocks division. We expect Basic Plastics Adjusted EBITDA of about $35 million. The second quarter business fundamentals should be sequentially stronger as we expect some polystyrene restocking due to lower styrene prices.

We believe the Feedstocks second quarter Adjusted EBITDA will be approximately $15 million. Margins should be sequentially lower as previously discussed; however, higher production volume in the second quarter, following our first quarter planned outage, should partially offset this.
Equity income from Americas Styrenics Adjusted EBITDA should be about $35 million, similar to last year's run rate, as its St. James styrene reactor is back online.

In total for Trinseo, we expect to generate between $78 million and $86 million of net income and $145 million and $155 million of Adjusted EBITDA in the second quarter. This assumes no net impact from raw material timing and price lag. In addition, we expect positive second quarter free cash flow that should more than offset the first quarter net outflow.

We are guiding to second quarter Adjusted EPS of $1.71 to $1.89 per share.

Turning to slide 14, we are updating our full-year 2017 guidance to between $337 million and $353 million of net income and $600 million and $620 million of Adjusted EBITDA, inclusive of the approximately $24 million of pre-tax favorable timing from the first quarter.

In the Performance Materials division we expect $365 million of Adjusted EBITDA. Our full year guidance in Latex Binders is $125 million. While we don't expect the business conditions of the first quarter to repeat through the rest of the year, we do believe that this business is now operating at closer to a $110 million annual run rate, or $25 million to $30 million per quarter. In addition to this improvement, we continue to work on longer-term growth in the board, textile, and construction markets including potential bolt-on M&A opportunities.

We expect Synthetic Rubber Adjusted EBITDA of $110 million for the year. Excluding timing, this is in line with our previous expectation of a year-over-year decline which is driven by one-time impacts from the SSBR growth initiatives.

Our Performance Plastics guidance for the year is $130 million of Adjusted EBITDA. We believe the second half of the year will be stronger than the first half. As raw materials are expected to be less volatile and at a lower level, we should be able to return margins to levels more similar to last year. With higher volumes due to our growth initiatives, this should translate into much stronger second half performance.

Moving to the Basic Plastics & Feedstocks division, we are guiding to about $340 million of Adjusted EBITDA for the year. This includes approximately $135 million of Adjusted EBITDA in Basic Plastics where we still expect a year-over-year decline driven by the expiration of a royalty agreement and incremental fixed costs related to our ABS expansion in China. In addition, the sale of our Sumika Styron Polycarbonate ownership will result in almost a $10 million year-over-year equity income decrease.

In Feedstocks we expect $80 million of Adjusted EBITDA which is about flat to 2016.

Finally, we are guiding to Americas Styrenics Adjusted EBITDA of $125 million. This is below prior year due to the first quarter extended Styrene Monomer outage at the St. James facility. Now before I turn the call over to questions, I want to be very sure that a few points are clear.

First of all, we exceeded our guidance for Q1 in Performance Materials and Basic Plastics and Feedstocks, and for the company.

Two, we see continue to see strong business conditions into Q2 and beyond and our updated 2017 guidance reflects that.

Three, we are delivering on the commitments we made at our Investor Day in November of 2016, which are sustainable Basic Plastics and Feedstocks EBITDA, and $100M of EBITDA improvement in Performance Materials from 2016 to 2019.

Now there are those who will overly focus their attention on styrene margin over raw material, and the dynamics of the first five months of this year.

The styrene margins we saw in March were an anomaly, and a product of the short term dynamics of planned and unplanned outages. Our view is the margins in May are a direct result of this anomaly, and most importantly the fundamentals of styrene monomer through 2019 are unchanged; relatively strong operating rates, sustainable margins and strong cash flows. We have often discussed how short-term inventory adjustments, outages, and other factors can influence monthly or quarterly styrene monomer margins.

The real focus needs to be on the next few years' fundamentals of styrene monomer supply and demand, operating rates and margins.

Finally, you can clearly see the shift in mix to more EBITDA for Performance Materials. This has been our focus and commitment, and I believe it will be a driver of the valuation of Trinseo going forward.

And now Julie, you may open the line for questions.

Operator

At this time I would like to remind everyone, in order to ask a question press star, then the number one on your telephone keypad. We'll pause for just a moment to compile the Q and A roster.

Your first question comes from the line of Frank Mitsch with Wells Fargo. Your line is open.

Frank Mitsch

Good morning gentlemen.

Chris Pappas

Hey Frank.

Frank Mitsch

Hey Chris, you know, one of the things that I have been hearing over the past 12 hours or how many hours it has been since your release came out, it's more than that, sorry. But is the expectation of a rebound in Europe in June on the margin side for styrene? How confident are you in being able to see that rebound?

Chris Pappas

Well, Frank, I think that's probably on a lot of people's minds. We went through a lot of discussion here in this call, about why we believe there was this dynamic that went on in the first quarter. We had a very unusual set of circumstances that allowed some interior based Chinese producers to make styrene. That anomaly looks like it's behind us. The destocking looks like it's behind us. Producers in these very high styrene environment, cost, our prices, literally were cutting back production in many, many materials, including Synthetic Rubber and EPS. We now see that reversing itself.

So we think we have been through this, kind of what I would call Frank, the large boat comes roaring through the harbor and all the other ships get bounced around, whether it's inventory levels or production of EPS, or polystyrene. We think the wake from that event has kind of leveled out, and we believe June is going to be the start of the return to kind a more normalized period.

So in a short way, we think March was an anomaly. When you have a rapid run up like that, all kinds of strange things happen to the derivative markets, and that led to where we are in May, and we don't think that's sustainable, and that's why we believe, June will be back to what we forecast.

Frank Mitsch

All right. So an overcorrection in May, normalizes in June?

Chris Pappas

Correct. An overcorrection -- an over event in March, leading to an overcorrection in May, leading to a normalization in June.

Frank Mitsch

Got you, got you. Okay. And then also, just on -- what was it, slide 12; the global styrene supply-demand outlook, you have a rather flat operating rate line at a very elevated level. What percentage of unplanned outages is baked into that forecast?

Chris Pappas

Well, we can see unplanned outages, I would say really for 2017, and even in that case, about six months. But the normal amount, Frank, is the answer. The heavier turnarounds are in the spring, the lighter turnarounds are in the fall. But as we study these planned turnarounds, which I think what you are asking about.

Frank Mitsch

No, actually. Chris, I apologize. Not really looking at the planned outages, but my sense is that this industry that had been fundamentally underinvested in a long time, you will see a lot of unplanned outages?

Chris Pappas

Yeah. These are nameplate operating rates, and they don't include any unplanned outages, Frank. I am sorry, I didn't hear your question right. Any unplanned outages would deviate that line-up, in any given short period of time.

Frank Mitsch

Terrific. Thank you so much.

Operator

Your next question comes from the line of David Begleiter with Deutsche Bank. Your line is open.

David Begleiter

Thank you. Good morning.

Chris Pappas

Hey David.

David Begleiter

Chris, just on Synthetic Rubber, very strong Q1. Can you discuss the volume issue, the volume benefits in Q1 and we are looking for a little bit lower EBITDA in Q2. Can you discuss that sequential decline, what's driving that quarter-over-quarter decrease?

Chris Pappas

Well, butadiene as you know spiked strongly in Q1, and that allows us to generate substantial spot sales in Asia, primarily in our ESBR, and to some extent in our nickel PBR business. It also created an environment, David, where even the kind of regular purchasers of SSBR were buying a little bit heavier in the first quarter, and that's really what drove that volume uptick. We do not expect that to repeat itself in Q2, particularly, because the butadiene numbers in Asia have come down, the arbitrage has closed, and we expect more normalized purchasing.

Now, we also had some positive timing effects in rubber in Q1. So it's the combination of both the volume, and the timing effects Q-over-Q that are driving that change, David.

David Begleiter

Very good. Just in latex Chris, you talked about, maybe normalizing EBITDA below this year's level of maybe $110 million versus $125 million this year. Can you discuss why we can't sustain level in that $120 million, $125 million range going forward?

Chris Pappas

Well, we had a great quarter obviously in latex. It had a number of factors that were going our way, some of which we really don't expect to continue through the year. We had some favorable raw material dynamics. We had some very good volume trends. We have some very good margin trends. So when we look at what we think is really continuous through the year, that's how we come up with that run rate, of say, $110 million to $115 million as a normalized run rate, which as you know, is above where we have been. And it's above where we have been, because we have the cost reductions, and we have generally higher operating rates in Europe and in Asia, and we have generally higher margins.

But the first quarter had some additional benefits that we just don't expect to ratably repeat themselves. But the main point is, our latex business is taking a step up year-over-year, we believe of significance. And another factor is what I mentioned: 20% of our latex sales now are from non-SB chemistries. We have been working on that for a number of years, and we now have it at that volume level, which is higher margin, and helps the equation.

David Begleiter

Very good. Thank you very much.

Operator

Your next question comes from the line of Robert Koort with Goldman Sachs. Your line is open.

Ryan Berney

Good morning. This is Ryan Berney on for Bob.

Chris Pappas

Hey Ryan.

Ryan Berney

Hey Chris. I had a question for you, not to belabor it, but on the Feedstocks guidance. I think your full year guide was $80 million and then you have got, obviously $42 million in the bag this quarter, $15 million in the guide. So it seems to me that you've got, call it two-thirds of it or more already in the books, and the main reason I am asking as I realize that fourth quarter sequentially tends to be a weaker demand quarter for the Feedstocks business. So I guess I am trying to tease out whether or not from 2Q levels that you're currently forecasting, if we need any help at all in the back half of the year, on the margin side to reach that $80 million guidance.

Chris Pappas

The answer is no, I don't think we need any help. I think we see the second half of this year in Feedstocks, frankly, kind of similar to last year. You will notice, if you go back in the quarterly by segment data that we give you, that the second half of the year is always a lower half Feedstock EBITDA year for us. And that's because, there are generally less planned outages in that time of the year. And only in the event, where we would have significant unplanned outages, would you expect that trend to be different. So we are planning on a kind of normal, lower second half Feedstocks, a total year, about the same as last year, unless there are certain market dynamics that would change that, Ryan.

Ryan Berney

Great, thanks. And then secondarily, wanted to ask you on some of the divestitures here. And I think when you gave guidance back in the third quarter of 2016, that $580 million you gave may have included earnings from the Sumika Styron business that you have now exited, and then, perhaps also this Latin America divestiture that you talked about today. I was wondering if you could kind of help us understand, what the earnings contributions from those businesses included in that $580 million might have been, and what basically you have kind of passed through from an operating standpoint, to your updated guidance, at the positive?

Chris Pappas

Sure. The divestiture in Japan, the polycarbonate joint venture, is about a $9 million sequential difference. And the Latin America, Ryan, really is nil. There is really no net effect from that of substance.

Ryan Berney

Thank you very much.

Chris Pappas

So $9 million is the answer to both of those, added up.

Ryan Berney

Great; thanks.

Operator

Your next question comes from the line of Hassan Ahmed with Alembic Global. Your line is open.

Hassan Ahmed

Good morning, Chris

Chris Pappas

Hey Hassan.

Hassan Ahmed

Chris, you talked about destocking on the polystyrene side of things. You know, just wanted to get a sense of where we are in terms of the inventory side of things? I mean, where do you see -- call it, in terms of days of inventory? Where do you see normal - relative to normal - where are we right now?

Chris Pappas

I think we are quite low. The producer inventories appear to be, I would say, normal. I think our customer inventories and chain inventories are low. And the reason we believe that is, these new levels of styrene, we start to see order patterns that reflect that, and also reflect a view that the styrene should be moving up. So we are expecting to see, and are seeing, some improved polystyrene volumes as we enter May.

We also know that styrene, in China, over the last four weeks has come down, each week in inventory, and like I said on the comments, we expect it to continue to fall through the month of May. So the answer is pretty low in polystyrene in Europe. Purchase is coming back. Chinese inventory has been falling and styrene looks like it's continuing to fall. We think all of that is a reasonable setup to the outlook we gave for June and for the quarter.

Hassan Ahmed

Understood, understood. Now changing gears a bit, in terms of raw materials, you touched on the spike that we saw on the butadiene side of things. Obviously, a bunch of your raw materials have been quite volatile, be it benzene. Obviously, ethylene pricing has recently come under pressure as well and is, at least the perception that, as we move towards the back half of the

year and more capacity comes online, ethylene pricing may come under further pressure. So with all of these sort of moving parts on the raw side of things, how do you see things shaping up for you guys, with all of these sort of dynamics in 2017?

Chris Pappas

Well, through the second quarter, we have obviously said, we expect the styrene market to come back as we described. We expect Feedstocks to continue to be about where they are. If that happens, the net effect on our timing for the year -- for the quarter, will be nil. The timing effects due to -- the timing effects or raw materials or the price lag. If you are asking me about the rest of the year, which I think you are, I would tend to think, that butadiene could have some upside through the balance of the year. I think it has come down pretty substantially. It has been more volatile this year, than it has been in a long time. We think styrene, well, we have already made our case for styrene, we think that's going to return to a little bit more normalized. So our call would be probably a trend slightly up in those two through the balance of the year. But look, if you look at what we just lived through, these things can move quite dramatically in three months. But that would be my call, at the moment, a slight uptick in those two through the balance of the year.

Hassan Ahmed

Got it. Thank you so much, Chris.

Operator

Your next question comes from the line of Vincent Andrews with Morgan Stanley. Your line is open.

Matt Gingrich

Hi. This is Matt Gingrich on for Vincent. To follow-up on the demand structure that took place in polystyrene, I was just wondering if you can speak to the degree of substitutability between polystyrene and some of the other plastics, and the relative price differences that tend to drive that substitution?

Chris Pappas

Hi Matt. We have said before, that at about $200 a ton delta, that's an economic point, where polypropylene and some applications can move into polystyrene. We have also said that most of that substitution has occurred. And by that, I mean, the technical ability for that to occur. We did hit a number, where, in the first quarter, that spread for a short period of time was greater than 200, it's not there today; and we know of only one application in our business, in polystyrene over the last six months that has shifted from polystyrene to something else, and it was a very small application in the cosmetic packaging, where they went from a polystyrene to

a paper product. And that's the only shift that we have in our entire customer base that we are aware, of polymer or other substitution into polystyrene.

And as you know, in the polystyrene portfolio of ours, only about 5% of it interfaces with polypropylene at all. So that's not the factor that's driving this. The factor is, inventory movement against rapidly rising styrene, and positioning for the bottom of the styrene market to rebuild inventory. That's what we believe is going on in the market.

Matt Gingrich

Understood. Thanks for clarifying. And then switching gears, I was just -- it looks like your corporate expense guidance is now a little bit higher than it was before. I am just wondering if you could clarify, what's driving that?

Barry Niziolek

Yes, this is Barry. Two things are driving really, is growth investments and it's also -- it's funding of longer term cost reduction initiatives. So both of those combined is what's driving up the corporate expense a bit.

Chris Pappas

And the growth initiative costs comes from some consulting and other expenses, associated with analysis for bolt-on M&A, and things of that nature, Matt.

Matt Gingrich

Great, thanks guys.

Operator

Our last question comes from the line of PJ Juvekar with Citi. Your line is open.

Eric Petrie

Hi, good morning Chris. This is Eric Petrie on for PJ.

Chris Pappas

Hey Eric. How are you doing?

Eric Petrie

I am well, thanks. As China builds styrene monomer capacity as you show on slide 12, and self-sufficiency increases, what's the impact to global prices, as imports are backed out of North America?

Chris Pappas

Well, remember today, China imports about 2.4 million tons of styrene. These builds that are shown here, would only equal about their domestic demand growth. So if you were to plot the net import of styrene into China from 16 to 20, including the supply additions in China, the net import numbers would not change by that much. They might be a couple of hundred thousand tons different, but that's it. Because remember, that's the region of the world, where you are seeing the growth of styrene, at a higher rate than the rest of the world. So those builds don't do much more than offset their domestic growth. And remember, there are 85% of those are these interior plants that also have challenges, or have had challenges, in operating at high rates for the reasons we have mentioned. So I would not expect a big change in the net import of styrene into China, off of this. This is not a move to self-sufficiency.

Eric Petrie

Okay. Secondly, your rubber volumes in the quarter were a record 179 million pounds. Do you still have spare capacity in SSBR?

Chris Pappas

No. Our capacity in SSBR is fundamentally sold out. We have the new capacity coming first of the year, which the market and our customers in particular are really anxious to get. So, we have been able to squeeze out a few more pounds. The plants ran well. We worked off some of our inventories. But we don't have head space in SSBR. Where we do, and we took advantage of it in Q1, was ESBR and nickel, and largely because of the butadiene arbitrage into Asia.

Eric Petrie

Thank you.

Operator

We have now reached the end of our question-and-answer session. This concludes today's conference call. You may now disconnect.