Second Quarter 2017 Financial Results Script

Operator introduction

Good morning ladies and gentlemen, and welcome to the Trinseo Second 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 Megan and Good Morning everyone. At this time, all participants are in a listen-only mode. After our remarks, we will conduct a question and answer session, and instructions will follow at that time. If anyone should require operator assistance during the call, please press *, then zero, on your telephone.

The slide presentation for today's call has been posted on the Company's Investor Relations website in the webcast viewer and with the financial results press release by means of a Form 8-K filing with the Securities and Exchange Commission. A replay of the conference call and transcript will be archived on the Company's Investor Relations website shortly following the conference call. The replay will be available until August 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 discussed, 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 five key points. First, we continue to see strong business fundamentals across our portfolio. We had a very strong second quarter

with net income of $60 million and Adjusted EBITDA of $126 million, which included $23 million of pre-tax unfavorable net timing impacts. Excluding these impacts, we were near the midpoint of our $145 to $155 million guidance range for the quarter, which assumed no timing impacts.

Second, our Performance Materials growth initiatives continue to be on track to deliver at least $100 million of additional Adjusted EBITDA from 2016 to 2019. We continue to see meaningful improvement in our Latex Binders, with favorable market conditions and cost savings, and our Synthetic Rubber and Performance Plastics growth investments are progressing as expected. During the second quarter, we were very proud to announce the acquisition of API ("AH-pee") Plastics which aligns nicely with our growth strategy. More on this later.

Third, we remain committed to returning cash to shareholders. We recently announced a 20% dividend increase as well as a 2 million share repurchase authorization. Additionally, in the second quarter we spent about $30 million to repurchase 467 thousand shares.

Fourth, we intend to launch a refinancing of our existing bonds and term loans over the next two weeks that we expect to result in a reduction in our interest expense.

And lastly, we are updating our full year 2017 net income guidance to between $294 million and $302 million and Adjusted EBITDA guidance to a range of $550 to $560 million. This guidance assumes $30 million of unfavorable timing impacts. Recall that our prior Adjusted EBITDA guidance of $600 to $620 million included $24 million of positive timing impacts. Exclusive of these timing impacts, the midpoint of our prior guidance was $586 million, which is fundamentally the same as our updated guidance.

Now, please turn to slide 4 for more on our acquisition of API Plastics.

In June, we announced the acquisition of API Plastics, a sophisticated polymer solutions provider with a strong position in soft-touch polymers – which complement Trinseo's strengths in rigid polymers. By leveraging API's advanced manufacturing operations, excellent management, deep technical expertise, and strong customer relationships, we will further strengthen our Performance Plastics businesses and create growth synergies with customers in all global regions.

API Plastics' products are distinct from Trinseo's and are complementary but have significant market overlap. Key markets for their products include Automotive, Construction, Medical, High-End Footwear, Appliances, Consumer Goods, and Packaging. The potential for combining the offering of rigid and soft polymers, as well as using our global presence to bring API Plastics' products into new geographies, means that this portfolio of Performance Plastics will be an engine of growth for Trinseo.

This is the Trinseo's first acquisition and it is directly aligned with our strategy to grow our Performance Materials division. At our Investor Day in November, we committed to $100 million of EBITDA growth in Performance Materials from 2016 to 2019, and at that time we said that about $75 million of that was from projects that had already been identified. The API acquisition significantly contributes towards the remaining $25 million.

Now, please turn to slide 5. In the past we've highlighted the impact that raw material timing and price lag can have on our results. These impacts are a result of price movements in our major raw materials – primarily, styrene, benzene, and butadiene.

Over the past three quarters we have experienced relatively large timing impacts due to large fluctuations in these raw material prices. We saw a rapid increase in the prices of benzene, styrene, and butadiene in the fourth quarter of 2016 through the first quarter of 2017, followed by a rapid decline in Q2 which we believe will continue through the third quarter. Price swings of this magnitude are relatively rare – in fact, we have only seen price swings of this amount once in the past six years.

Now, we've talked in the past about how these price changes can impact our raw material cost flowing through cost of goods sold versus the current timing. We've also said that a meaningful part of our Performance Materials revenue is on a contractual basis with a price lag on the raw material pass through. The net impact of these two dynamics has been large over the past three quarters, and we expect it be unfavorable by about $30 million in the third quarter. Our current projection for fourth quarter timing impacts is minimal as we expect a flat feedstock environment. Now, in order to help you understand the impact of these movements, we are enhancing our disclosure in our earnings presentations and calls.

Starting this quarter, we are providing the net timing impact by reporting segment, which you can see in the Appendix. We believe this will give you a better understanding of the impact of raw material volatility on each of our reporting segments.

Now, please turn to slide 6 where I'd like to discuss some highlights from the second quarter. I'm pleased to report second quarter net income of $60 million, adjusted earnings per share of $1.39 and adjusted EBITDA of $126 million. Timing impacts in the quarter were an unfavorable $23 million.

Overall, the Performance Materials segments had a solid quarter, with an aggregate $87 million of Adjusted EBITDA, which included a $5 million unfavorable net timing impact.

In Latex Binders, we continue to see stronger results driven by our diversified chemistries and cost actions.

Synthetic Rubber also had a very good quarter with SSBR sales volume near the record total from the first quarter. We continue to see strong demand for these products, particularly for our differentiated SSBR grades.

In June, we celebrated 80 years of synthetic rubber production at our facility in Schkopau, Germany, where we have a team with a proven, long-standing commitment and dedication to customers with close integration of operations, maintenance, technical service and development.

The upcoming SSBR pilot plant, which begins operations in the fourth quarter of 2017, will reduce the time between development and commercialization of our high value Rubber products. It allows Trinseo to be more efficient and flexible in developing high quality products, and supports Trinseo's need to meet increasing customer demands. We are also on track for the first phase of new capacity related to the 50 kilo ton SSBR expansion, which is expected to come online in the first quarter of 2018.

Performance Plastics fundamentals remain strong. Sales volume was one of the highest quarters ever when you exclude the impact of our Latin America divestiture, despite generally weaker US auto production. In the US, sales of SUVs and light trucks continue to be stronger than the rest of the market, and this portion of the market makes up about 70% of our sales in the region. In Consumer Essential Markets, we continue to see a higher sales level in Europe, matching last quarter's record level, as work over the past couple of years has resulted in customer wins in areas such as smart meters and medical devices.

In aggregate, the Basic Plastics & Feedstocks segments had an Adjusted EBITDA of $61 million in the quarter including an unfavorable net timing impact of $17 million. As we forecasted on our last earnings call, styrene margins bottomed in May after an inventory correction in China. Margins increased in June and increased further in July, as the market has returned to a more balanced state after the volatility of the last eight months.

Now, please turn to slide 7 where I'd like to summarize the first half results. From this table you can see that overall for the first half, the net timing impact was about zero, with offsetting impacts of greater than $20 million in each quarter. Please note two items. First, the primary variance between the first and second quarter performance was these timing impacts. Second, you can see the very strong performance in the first half of the year with essentially no net timing impacts.

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

Barry Niziolek

Thanks Chris, and good morning everyone. Please turn to slide 8.

Second quarter net income was $60 million dollars and Adjusted EBITDA was $126 million dollars. This included a $23 million dollar pre-tax impact from unfavorable net timing in the quarter. On our last earnings call we guided to a net zero timing impact for the second quarter. The variance to this was driven by key raw material costs declining faster than expected, particularly butadiene and styrene. Compared to prior year, almost 75% of the drop in second quarter Adjusted EBITDA is attributed to timing and to styrene margins.

Now, turning to slide 9, let's go through our segment results.

Latex Binders net sales of $292 million dollars for the quarter increased 25% versus prior year, primarily driven by the effects of higher raw material costs.

Adjusted EBITDA of $36 million dollars was $15 million dollars above prior year, driven by higher margins and $5 million dollars favorable timing compared to prior year. Higher margins were driven by several factors, including the diversification of our chemistries and markets, higher operating rates, as well as cost reductions. In addition, as mentioned on previous calls, our contractual arrangements can result in higher margins in times of elevated raw material prices; in the second quarter we saw the benefit. However, this benefit can impact us on the negative in times of declining raw material prices.

Let's turn to Slide 10,

Synthetic Rubber net sales of $174 million dollars for the quarter increased 56% versus prior year driven by the pass through of higher raw material costs and higher sales volume.

Higher volume and improved product mix increased Adjusted EBITDA versus prior year. However, those improvements were more than offset by $7 million dollars of unfavorable net timing impacts in comparison to the prior year.

Now, turning to slide 11,

Performance Plastics net sales of $190 million dollars for the quarter was 3% above prior year driven by the pass through of higher raw material costs.

Adjusted EBITDA of $23 million dollars was $15 million dollars below prior year due to increasing raw materials costs through the quarter. Performance Plastics has a longer price lag, the longest of our businesses, so margins can be impacted in quarters when raw material prices increase. In addition, the second quarter also saw margin compression as polycarbonate and other raw material prices increased, and we were unable to pass all of that through in our

pricing, which had a negative impact on margins. We are focused on raising prices in the third quarter to reverse this margin compression.

Moving to Slide 12,

Basic Plastics net sales of $382 million dollars for the quarter was 5% above prior year driven by the pass through of higher raw material costs.

Adjusted EBITDA of $32 million dollars was $11 million dollars below prior year driven primarily by timing impacts, which was an unfavorable $6 million dollars in 2017 versus a positive $2 million dollars in 2016. Polystyrene margins were lower in comparison to a very strong prior year. Polycarbonate remains sold out in a strong pricing environment.

Turning to Slide 13.

Feedstocks Adjusted EBITDA of negative $1 million dollars was impacted by an unfavorable $11 million dollars of timing impacts in the quarter. Exclusive of this, the result was slightly below guidance from lower than expected styrene margins in June.

Americas Styrenics' Adjusted EBITDA of $30 million dollars for the quarter was $8 million dollars below prior year, driven by lower styrene margins from Styrene purchases related to the first quarter outage. We received a $38 million dollar dividend from Americas Styrenics during the quarter.

Please turn to slide 14.

Year-to-date cash from operations was $37 million and free cash flow was negative $38 million dollars, which included more than $200 million dollars in higher working capital due to increasing raw material prices. We expect this working capital build to reverse in the second half of the year due to falling prices.

For the full year, we expect cash from operations of about $400 million dollars and free cash flow of about $240 million dollars.

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

Chris Pappas

Thanks Barry. Please turn to slide 15 for a discussion on styrene monomer. As we forecasted on our first quarter call, Europe styrene margin over raw materials increased in June due to increasing styrene derivative demand and decreasing inventory levels in China. In fact, the

China styrene inventory levels are currently about 70% below peak levels, and about 50% of normal levels.

These conditions, along with some industry supply issues, resulted in a second consecutive monthly margin increase in July, and we expect another increase in August due to additional supply issues. Our outlook for September assumes the supply issues will be resolved and margins will moderate to levels that are indicative of the seasonally lower level of planned turnarounds.

Now, please turn to slide 16 for a discussion on our third quarter outlook.

The business fundamentals for the Performance Materials division continue to look very good.

For Latex Binders we expect Adjusted EBITDA of about $30 million. This reflects a continuation of strong market conditions as well as the cost actions we spoke about earlier.

We expect Synthetic Rubber Adjusted EBITDA of about negative $5 million. While Rubber's fundamental performance remains strong, the third quarter is expected to be impacted by an estimated $30 million of negative net timing impact. This is driven by the steep decline in butadiene prices that we discussed earlier. In addition, the third and fourth quarters should each be negatively impacted by about $5 million from project costs related to our SSBR expansion. These growth-related impacts are consistent with our guidance when we announced the projects late last year.

In Performance Plastics, we expect Adjusted EBITDA of about $30 million. Volumes should remain healthy and Adjusted EBITDA should improve sequentially, benefitting from cost actions and margin recovery.

In our Basic Plastics & Feedstocks segments, we expect an aggregate third quarter Adjusted EBITDA of about $80 million. Excluding the impacts of timing, this is an improvement from the second quarter due to higher styrene margins in Europe and Asia as well as better performance at Americas Styrenics. Basic Plastics performance should be sequentially lower after the second quarter restocking in Polystyrene as well as seasonally lower volumes.

In total for Trinseo, we expect to generate between $50 and $58 million of net income, and $110 to $120 million of Adjusted EBITDA in the third quarter. This is inclusive of a pre-tax $30 million unfavorable net timing impact.

We are guiding the third quarter EPS and Adjusted EPS of $1.10 to $1.28 per share.

Turning to slide 17, we are updating our full-year 2017 guidance to between $294 million and $302 million of net income and $550 and $560 million of Adjusted EBITDA. This guidance is essentially the same as we provided for full year 2017 on our first quarter earnings call except for $55 million of additional unfavorable net timing impacts.

In aggregate in the Performance Materials segments, we expect $330 million of Adjusted EBITDA, which includes an unfavorable net timing impact of $35 million. This outlook is also in line with prior expectations excluding the net timing impact.

Our full year guidance for Latex Binders is $125 million, unchanged from prior guidance.

In Synthetic Rubber, we expected Adjusted EBITDA of $90 million for the year. This includes $20 million of unfavorable net timing, as well as $10 million of growth-related impacts in the second half of the year. Overall for the year, we expect record sales volume and continued, steady margins in Rubber, so a very good year for this segment.

Our Performance Plastics guidance for the year is $115 million of Adjusted EBITDA, and includes $10 million unfavorable net timing as well as lower margins due to higher raw material costs.

Now, moving to the Basic Plastics & Feedstocks segments, in aggregate we are expecting $320 million of Adjusted EBITDA for the year, which includes a $5 million favorable net timing impact. Excluding this impact, our outlook for the total of these segments is in line with our prior expectations.

Moving to slide 18,

Here you can see a summary of our first half 2017 results as well as our second half expectations. There is a sequential decline in profitability, about half of which is driven by net timing impacts. Outside of those impacts, the decrease is driven by several factors including one-time impacts from our Rubber growth-related projects, as well as lower Latex Binders and styrene margins, and seasonally lower volumes. We expect improvement at Americas Styrenics with no expected outage effects in the second half of the year.

Now, please turn to slide 19. From this bridge you can see that on a consolidated basis net timing is the primary driver of our lower guidance for the year. Business fundamentals remain strong, and I'd like to reiterate the improved mix in our profitability, with growth in Performance Materials this year, and more expected in 2018.

Before I turn the call over to questions, I want to be sure a few points are clear:

One, our businesses performed in line with our expectations when excluding unfavorable timing impacts.

Two, in general, we see continued strong business conditions for the remainder of the year, and as usual, our guidance does not include any upside from unplanned styrene outages.

Third, we expect to be very cash generative in 2017. As I said earlier, the net working capital outflows in the first half of the year should reverse in the second half leading to a third consecutive year of well over $200 million dollars of free cash flow. The refinancing we plan to

launch in the next few weeks should result in interest savings that will add to our cash generation in the future.

Finally, we continue to make very good progress on the commitments we've previously outlined. These include Performance Materials growth, including our recently completed acquisition of API Plastics, as well as balanced cash deployment and return to shareholders, including our 20% dividend increase, and share repurchases.

We remain focused on continuing to deliver on our short and long-term commitments, including Performance Materials growth, sustainable Basic Plastics & Feedstocks results, and balanced cash deployment.

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

Operator

At this time I would like to remind everyone, in order to ask a question, please press star, followed by the number one on your telephone keypad.

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

David Begleiter - Deutsche Bank

Thank you. Good morning. Chris, very strong styrene margins in July and August. Could you give us your view of the styrene cycle over the next 15 to 18 months; new supply that might come on stream as well as structural supply drivers that could maintain these margins at these levels? Thank you.

Chris Pappas

Sure, thanks David. Before I get to that, I want to just make a couple of comments for all of you that were general covered in the prepared remarks we made, but just to go back in time a little bit. Now there's a lot of confusion around this topic of timing and so on, but I just want to go back to memory lane a little bit with you.

On November 2, we gave guidance for this company for 2017 of $580 million of EBITDA with no timing assumed, we reiterated that on November 11 at our Investor Day. On February 23 we affirmed that guidance at $580 million with no timing. On our May 3 call, we increased our guidance to $610 million at midpoint, but we advised a positive $24 million net timing effect, so in essence we were still at the $585 million number at that point.

Today, we guided to $555 million for the year, but $30 million of negative timing. Again, essentially the $585 million. So all the way back to November 2, including November 11, February 23, May 3, and August 3, we have consistently said that this company was going to be about $585 million of EBITDA in 2017 and that's exactly where we are today.

Now, a number of you wonder why timing can be a big issue for our company like it was in this quarter, and in the first quarter. And the reason for that is, and we've talked about this, because we have very large volumes of styrene, butadiene, and benzene moving through our cost of goods and at times when those three materials are moving in the same direction in a rapid fashion down or up, that does create a rather large timing effect for the company. You saw that in the first quarter with a positive $24 million effect, and now you've seen it in the second quarter with a negative $23 million effect, and those two have washed each other out, of course, in six months.

Now these kinds of steep declines or gains in those raw materials really haven't happened that often in our company, in fact the last time we saw something this dramatic was really back in 2011 and 2012. The other question is, you're all wondering 'when are we going to get this timing back.' That's been a common theme that we've heard post our discussions yesterday. I'd like to direct you to Slide 22 in the deck that you have. It's an Appendix slide. This is instructive because we have often said that over time these timing effects do, in fact, equalize out. And on this slide you have Q1 of 2015 through Q2 of 2017 and you can see that the net timing effect on the company over that period of time is essentially zero. And there are, of course, times in the quarter where, because of what I mentioned earlier, the timing effects can have an impact on the quarter. So I'd like you to reflect on that on that chart a little bit as you think about 'when is timing coming back.' It depends on the Feedstocks. Let's see how the rest of the year goes. If Butadiene and other Feedstocks move up, then the $30 million negative that we have in our full year estimate will be different. It will be less. If they go down it could be slightly more. But over long periods of time they tend to equalize out.

Quick comment on cash flow. We talked about strong cash flow coming by the end of the year. We talked about the reversal working capital, which you would expect. We can report that in July we've already seen about a $50 million positive reversal of cash flow; working capital I should say, effects on the Company. Our view of cash flow remains very strong as outlined in the call. So frankly, we think you ought to continue to look at our adjusted EBITDA, exclusive of raw material impacts. We know it can at times create some noise in any given quarter but we think that's the right fundamental basis.

And then finally, if you want to think about, and I know some of you are wondering, well 'what's your baseline profitability at today's Feedstock levels?' That answer is about $585 million. So we think the baseline for the company that you think about as you move forward into your 2018 thought process is $585 million of EBITDA at Feedstock levels where we have them, excluding the improvements we would expect in 2018. And of course we'll be getting to that when we give you our guidance for 2018. But you already know we have a $100 million of performance materials lined up for 2019. We have various projects etcetera, etcetera.

Now David, to your point, I think it would be helpful to think about this in relationship to that $585 million. Clearly right now the margins in styrene have moved up in July and August. There are some unplanned outages again. They appear to be short-lived; we'll have to see. But the pieces of styrene we've been on for many years now continues to play out. About 1.8 percent global growth and demand, limited capacity, old asset base, That leads to, we think, a relatively sustainable set of styrene margins, and the opportunity for rising styrene margins when we have these unplanned outages. That has been our thesis, that has been occurring now for several years, and we believe it will continue to occur over the next several years because, David, there is no real new capacity coming, in our view, until about 2020. If you look at next year in 2018, there's no styrene capacity coming to the market. So, 15- 18 months, same dynamic, is the fundamental answer Dave to your question.

David Begleiter

Very good, and Chris just on rubber, I know it's early to look at 2018 but any early look on how the walk might take us from 2017 to 2018 given the new – the expansion and a reduced cost we're incurring in this year?

Chris Pappas

Well this year we've guided rubber, as you know, to $90 million of adjusted EBITDA, but that includes $20 million of timing effects, at least for the moment, and $10 million of cost effects, which is what you're referring to. And so, on that basis, how much can we improve that in 2018? We have a new capacity starting the first of the year, the new rubber capacity SSBR. We are continually sold out in SSBR. The demand for our products is strong. We're entering commercial agreements now for that new capacity. So it's going to be part of that $100 million 2016 to 2019 change; a little bit early to put an exact number on it, Dave but certainly it's going to be contributing to a growth in rubber in 2018 versus 2017.

David Begleiter

Thank you very much.

Operator

Your next question comes from the line of Laurence Alexander with Jefferies. Your line is open.

Laurence Alexander - Jefferies

Good morning. Can you just flesh out that discussion just a little bit more in terms of how do you see timing facts rippling through to free cash flow? So if you think just as a general rule of thumb is the timing effects on a six month basis basically a wash because it's offset by working capital, or is there some other rule of thumb we can be thinking about?

Chris Pappas

I think that's about right, Laurence, and I'll turn it over to Barry for a second here. But the fundamental thing you're driving at is, the timing effects end up being the opposite the working capital effects. And it's not a one for one, and I don't want you to think that, but of course directionally that's the case. So why did we have a big working capital draw in the first six months of the year? The answer is because raw materials were rising dramatically and that of course, obviously that's a draw on working capital. Why is working capital being released into the second half of the year, including the $50 million we've already seen in July? It's because as those Feedstocks come down, we, of course, release that working capital, and then you get the reverse effect of course on the timing. So they're related symmetrically in that sense, but not exactly in quantum. And Barry, I don't know if you want to add to that, but that's fundamentally the way it works.

Barry Niziolek

The only point I would add is to reiterate something that Chris had already said, that in July, we're already seeing about $50 million of that flow back into our free cash flow.

Laurence Alexander

And then, just secondly, is there, are there, what are the constraints on how quickly you can purchase shares given your authorization?

Chris Pappas

We have the new authorization for the 2 million shares. We have, from our board, the ability to act under certain parameters, and of course in the second quarter, you can see what we were able to do under those parameters. And as we move forward in the third and the fourth quarter, we'll report that on a quarterly basis Laurence.

Barry Niziolek

And this is Barry, again I think as we mentioned on Investor Day, we're going to take a more balanced approach as we go forward. And if you take a look at our reinvestment and organic investments, and our acquisition relative to returning cash to shareholders, as we went through year-to-date in 2017, it's pretty well balanced consistent to what we set back in November.

Laurence Alexander

Thank you.

Operator

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

Dylan Campbell - Goldman Sachs

Hi. Good morning. This is Dylan Campbell on for Bob. So, quick question, given that you also buy butadiene and latex, do you not face the same pressures there for timing? I guess we're just kind of looking at effect date and change guidance for that segment in a similar fashion to what you did for synthetic rubber. And as a follow-up to that, if it's related to more favorable timing for synthetic rubber versus latex, why can't you do the same in that rubber segment? Thanks.

Barry Niziolek

Recall – this is Barry. Recall there are two components of our timing, one is raw material component and then there is a price lag component. When you look at latex, you're exactly right, we do have that same impact from butadiene. However, we also have a different level of inventory. So, it's pretty well matched there, which is about 30 days of inventory, so you won't see the impacts as amplified as you would in synthetic rubber.

Chris Pappas

There is also a chemical composition thing Dylan that you should know about. Rubber on average for us is 70% to 75% butadiene in composition. Latex is less than that, it's styrene, butadiene, and latex. So styrene tends to be the larger component. So, there is also kind of a volume metric difference, if you will, in addition to this inventory time – amount of inventory and so on that Barry mentioned. And that's what makes latex less vulnerable to strictly butadiene movements.

Dylan Campbell

Alright. Thank you.

Operator

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

Vincent Andrews - Morgan Stanley

Thanks, and good morning, everyone. Just two questions: one, with your customers as we've seen all this raw material volatility and have you seen any change in their purchasing patterns and on top of that, maybe on the auto side of things, are you seeing any desire from your customers to hold less inventory?

Chris Pappas

Yes, Vince, hi, we do. So, the customers across I would say all of our products try to manage to the degree that they can and it varies, it varies. But they try to manage their purchases against their view of the future, especially when things are quite steep. So, in the first quarter, we talked about how, with styrene running up so steeply, the polystyrene customers were holding back on purchases, waiting for what they believe to be the top of the styrene market, and then they would start to buy more heavily, which of course they did when the price of styrene started to move down into May. And in the other businesses, I use synthetic rubber, although, it's less significant there. Our tire customers, because their tire customers try and buy less when they see raw material spiking. So yes, we do see it. But I would say it's most pronounced in polystyrene, polycarbonate, and less pronounced in the other businesses, and that has to do with supply chain dynamics, the way the supply chains are configured, and frankly the amount of effect of our product in the finished product. You can imagine in a tire, our SSBR rubber is an

important component, but against the final price of the tire, it's not that significant, so the effect of gaining against rubber is not that high. But in polystyrene, where the polystyrene pellet might be 50%, 60% of the cost of the product, the ability, or the customers' view of trying to get timing in place has a bigger impact. That makes sense?

Vincent Andrews

Yeah. No. That's great. Thanks. And just maybe finally on the working capital reversal, is there sort of a rough area where say, butadiene needs to get to by the end of the year to get that reversal, just sort of, can you ballpark it for us?

Chris Pappas

No, right now the reversal is going to happen with butadiene where it is. Butadiene doesn't have to go through working capital. If butadiene stays where it is, our working capital forecast is as we suggested, outside of wherever we do inventory and things like that. If butadiene goes up, then some of that timing will be reversed.

Vincent Andrews

Okay. Great. That's perfect. I appreciate it. Thanks very much.

Operator

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

Hassan Ahmed - Alembic Global

Good morning, Chris.

Chris Pappas

Hey, Hassan.

Hassan Ahmed

Chris, I wanted you sort of revisit the question asked by Dave Begleiter, just around styrene supply demand fundamentals and the like. Obviously, we've seen some sort of interesting moves through the course of this year. Shell obviously stepping away from the SADAF joint venture for the longest time we had heard that they would consider for POSM sort of unit out

in Saudi Arabia and now, them sort of working away from that JV obviously implies that's not going to be the case. And then Lyondell coming out and saying that they had set up a PO/TBA facility. From the sounds of it more and more people are sort of not moving in the POSM direction. So with that sort of – with those sort of movements going on for the course of this year over the last couple of years, what's your updated view about the next couple of years in terms of styrene monomer sort of supply demand fundamental roles in, how they may sort of eventually impact polystyrene as well?

Chris Pappas

Well, you're exactly right. It's pretty clear that the POSM investment curve is not what it used to be. We've been talking about that also for a number of years. For the reasons stated, other technologies are available. Profitability of PO and its derivatives is being driven by those market dynamics, not coupled with styrene. So we've seen very little interest in POSM, only the one facility in China that Shell is doing, that's roughly 2020 in our view start -up.

So, we're constructive again on styrene for the reasons I've talked about. Limited capacity, we don't see POSM is a threat and in fact we know what the POSM builds right between now and 2021, it's the one we've talked about. There is limited traditional styrene coming. Remember, the margins in styrene today look better than they have in 2012, 2013, but they're not that great. And so it's hard to see how new investments can get floated, even with today's margins in styrene, because they're just not that great on the return on capital basis. They just happen to be better than things were in the past, which of course were, were not very pleasant.

So, going forward we don't expect new investments of any significant amount, the investment curve that's in place is limited, and we would expect an upwardly sloping operating rate, again with a bad asset base, outages happen. We're almost going to have to talk about outages as normal, because I don't – can't think of a year in the last three years that we haven't had a full number of outages, and it's kind of an expected thing for this asset base.

Hassan Ahmed

Fair enough. Very helpful. Now as a follow-up, coming back to the timing impact and the like. We've, obviously, seen these steep declines in the butadiene prices, benzene prices, and the like. And you're, obviously, guiding to a residual sort of timing impact in Q3. But you know, as you've given your guidance for the back half of the year, what sort of -- obviously, most of these rollers are highly correlated to crude oil. Embedded in that guidance, what sort of a crude oil pricing environment are you sort of forecasting?

Chris Pappas

To the extent that they're related, so remember, the third quarter, in the forward look we've given you, the third quarter is the only quarter right now that has timing effects. It has the timing effect we just described.

By definition, our fourth quarter has essentially no timing effect in the guidance we've given you, which, working back to your question, would suggest that the Feedstock curve that we forecasted into the fourth quarter is relatively flat, which if you believe those are tied to oil, which suggests that oil is going to stay in that period in $45 to $52 or something dollar range, $42 – $52 whatever bracket you want to pick. But clearly, we are not suggesting in that feedstock forecast, that there is some big run up in the oil price. Now, I'll remind you that oil and our feedstocks can be somewhat correlated, naphtha as an example, which leads to a butadiene and other things. But as we've shown you guys before, there are many, many times when the feedstocks move off of the oil curve for their own reasons. Outages in butadiene take butadiene up dramatically independent in the oil market. We have seen that many times.

Hassan Ahmed

Absolutely, certainly early this year.

Chris Pappas

Yeah. But that's the way it's built, Hassan, is flat. Feedstocks, oil in that range, and then we'll see how it develops, of course, month-by-month going forward.

Hassan Ahmed

Very helpful. Thanks so much, Chris.

Operator

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

Roger Spitz - Bank of America Merrill Lynch

Thank you and good morning. Regarding the bond and bank refinancing you spoke about in the introductory remarks, do you intend to fully refinance both of your bond issues in full, and would you be bringing a new bond issue, as well as presumably new term loan issue to market?

Barry Niziolek

In the coming weeks, it's going to get clear. At this point, we can't really say anything about that, but it's going to get clear as we come forward in the coming weeks.

Chris Pappas

I don't know if you've heard that, Roger. We'll you'll learn more over the last couple of weeks when it becomes a reality.

Roger Spitz

I did. Thank you very much

Operator

And your next question comes from the line of Matthew Blair with Tudor, Pickering, Holt & Co. Your line is open.

Matthew Blair - Tudor, Pickering, Holt & Co.

Hey, good morning, guys. Chris, I was wondering if you might be willing to speculate on the net impact of the Pernis refinery outage to Trinseo, because there's a lot of moving parts, right, I think ethylene and benzene supply would probably be reduced, but then there's also some reports that styrene production from one of your competitors is shut down, and we're seeing styrene spot prices move up as well. So, how do you think about the total net impact of that outage on your company?

Chris Pappas

Well. I think you described it pretty well, Matthew. The net impact is at that facility and its outage is connected to the world of POSM styrene facility, and, in fact, that facility is running at reduced rates. There are other styrene problems going, on both in Asia and in Europe. And if that facility in Pernis stays down for a long period of time it'll have a continued effect on the styrene market. That's part of what's been driving the margins you see in styrene in our grey bars in the immediate future that's one of the components. There are a couple more. There is a plant down in China, there is another outage or reduced rates in Europe. So there are couple of things going on right now, that are driving these styrene margins. They have not announced, to my knowledge, a timeline. Several weeks I think is the best data anybody has, but we'll have to see how long it takes.

Matthew Blair

Yeah, that's what we're thinking too. And then, and Barry, I'm not sure if I missed this, but I think previously on the refinancing, you were targeting a savings of $20 to $25 million. Is that still a good number to use?

Barry Niziolek

I think at this point, it's as good as any. Again, I just want to reiterate, as we come forward here in the coming weeks, that's going to get a lot more clarity.

Matthew Blair

Got it; thank you.

Operator

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

Aziza Gazieva - Wells Fargo

Hi guys. This is Aziza, on for Frank. I guess, to switch gears a bit, could you guys update us on how we should be thinking of the cadence through 2019, related to the $100 million growth initiative within Performance Materials? Thanks.

Chris Pappas

Well, at our Investor Day, we gave a sense of that. We talked about roughly 40% of it would be in place in 2018, and the balance in 2019. And that's, I think, the best data that we have today. We'll say more about that, of course, when we get into 2018 guidance. But that's what we thought then and the projects are on-time essentially. And so that's the best data what we've got at this point. That's the guidance that we gave in Investor Day, and we will give you more as we move forward. But, look, we've been pretty clear. The projects are on time. The rubber train is coming up. We've seen some improvement in 2017 already in performance materials, as you know. Some of that is going to flow into 2018. We've made an acquisition, of course, with API Plastics. That's part of the contribution to the $100 million. So, we're tracking, I think pretty well to the end goal, and reasonably well to the split that we gave back in Investor Day.

Aziza Gazieva

Okay. Thank you.

Operator

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

Eric Petrie - Citi

Hi, good morning, Chris. This is Eric featuring on for P.J.

Chris Pappas

Hi Eric.

Eric Petrie

Could you talk a little bit about the cost curves in styrene, and how it's changed, specifically to Chinese competitiveness with lower ethylene and benzene costs?

Chris Pappas

The cost curve in styrene is relatively flat, with the exception of plants that are cited with much lower ethylene costs than the rest of the world. And that means U.S. Gulf Coast or Middle East. And outside of that, there's really not a lot of differentiation, except for scale and age. But the biggest driver, otherwise, would be that. Now remember, ethylene is only 20% of the molecule of styrene. It's really 80% benzene. So you don't have a benzene cost advantage, you may or may not have an ethylene cost advantage.

In China, you have two types of styrene capacity. You have capacity that's integrated to ethylene crackers, either from refineries or otherwise. And in that scenario, if there's a low cost ethylene in China, which I'm not convinced there is long term, but if there is, they would have a slight advantage compared to ethylene, say in Europe or other parts of Asia. On the other hand, most of the capacity in China for styrene is not of that type. It's mostly the unintegrated, and that's the capacity that struggles to run, does not have ethylene on-site or benzene, is always at risk to other uses of that ethylene, and that's the capacity that has been held back, if you will, as an operating rate in China.

Eric Petrie

Okay. Thanks. And with the completion of the acquisition of API Plastics, what's the pipeline look, and are you planning to do another bolt-on in the next couple of years and what kind of multiples are you looking at?

Chris Pappas

We just closed on API. We are very pleased with that acquisition. It gives us lots of advantages as talked about on the call. In terms of product technology, we can take globally into the market rent and industry new market. So, really excited about it. Doing acquisitions in that space is really difficult. We have a pipeline – we had a pipeline. We've been working on that pipeline for a year and half, and so far we've been able to execute one. So, it's a difficult space to execute in because these tend to be family owned or small companies. And it just takes a lot of time and effort to bring them into the fold.

So, we'll keep working on it, hard to predict whether we'll have more or not. From a multiple point of view, we've said continuously that if we buy something in that space like API, then we would expect to pay a multiple that's consistent with the multiple of our performance Plastics Business, if that business were in a public market environment. And those multiples for those kinds of businesses in a public market environment are in the nine times range and you would expect you've to pay that if you're going to buy a business like that to bolt -on to performance plastics. And that's how we think about the multiple there.

Eric Petrie

Thank you.

Operator

There are no further questions at this time. I'll turn the call back to presenters for closing remarks.

This concludes today's conference call. You may now disconnect.