First Quarter 2019 Financial Results Conference Call Transcript - May 3, 2019

Operator introduction

Good morning ladies and gentlemen, and welcome to the Trinseo first quarter 2019 Financial Results Conference Call. We welcome the Trinseo management team, Frank Bozich, President & CEO, Barry Niziolek, Executive Vice President & CFO, and David Stasse, Vice President of Treasury and Investor Relations.

Today's conference call will include brief remarks by the management team followed by a question and answer session. The company distributed its press release, along with its presentation slides at close of market yesterday. These documents are posted on the Company's Investor Relations website and by means of a Form 8-K filing with the Securities and Exchange Commission.

If anyone should require operator assistance during the call, please press *, then zero, on your telephone. 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. After our brief remarks, instructions will follow to participate in the question and answer session.

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 in our earnings release and in the appendix of our investor presentation. 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, 2020. Now, I would like to turn the call over to Frank Bozich.

Frank Bozich

Thanks Dave, and welcome to Trinseo's first quarter 2019 financial results conference call, my first as President and CEO. I'm excited to speak with you this morning to not only communicate our first quarter results but also to share my first impressions of Trinseo since joining the Company about two months ago.

This is an exciting time to join Trinseo. I was honored to accept the position of CEO because I saw the opportunity to be part of a team that has created a successful company, with talented people, that is well-positioned both strategically and financially for its next phase of growth. Under Chris Pappas' leadership since the carve-out from Dow Chemical in 2010, Trinseo has developed into a company with

a strong financial profile, diverse and high quality assets, a commitment to world class EH&S performance and a leadership position in multiple attractive markets.

Environmental, health, and safety is an integral part of Trinseo's culture. Last year 75% of our production plants operated without an injury, spill, or process safety incident. Our recordable injury rate is in the top 10% of peer companies. This achievement is a direct result of our employees' diligence, their commitment to following safety practices, and the quality of our site leadership.

I want to thank Chris Pappas for his accomplishments and all the hard work he's done at Trinseo to build an excellent foundation upon which further growth is possible. Together, we've traveled to the Company's offices, labs, and plants in Horgen, Switzerland; Terneuzen, The Netherlands; Schkopau, Germany; and Midland, Michigan. I am grateful for his support and for the insights he's shared with me during this transition period. I am also grateful that he has agreed to remain on the Trinseo Board of Directors.

I've thoroughly enjoyed getting the opportunity to meet many of our exceptional employees around the world and listen to their thoughts on the Company. It is clear to me that our employee's passion is at the core of Trinseo's success. It is my job to channel this passion, and leverage the strong foundation that I've inherited along with Trinseo's strong balance sheet to position the Company for further growth.

Over the last two months, I've been conducting reviews of each of our business segments. As an outcome of these evaluations, we've taken some initial steps to better position the Company for the future.

First, we are evaluating strategic alternatives for our polycarbonate manufacturing facility in Stade, Germany. This site, which is our only polycarbonate manufacturing facility, represents about 12% of European polycarbonate capacity and 3% of global capacity. As you may know, we consume about 40% of this facility's output in our compounding business, and the remaining 60% is sold into the merchant market. Polycarbonate margins have been challenged over the last three quarters due to lower demand and new capacity in China, and global operating rates appear to be headed lower, as more supply in China comes on-stream. Given this outlook and our relatively small position in the merchant market, we've commenced a study to evaluate the strategic alternatives that would allow us to lessen our earnings exposure to the merchant polycarbonate market.

Second, yesterday, we announced that we have signed a definitive agreement with The Dow Chemical Company to acquire its latex production assets in Rheinmuenster, Germany, thereby expanding Trinseo's capabilities to develop applications based on alternative latex chemistries. Since 2010, we have been producing primarily styrene butadiene latex at this facility under an operating services agreement with Dow. This acquisition is expected to provide us with full ownership and operational control of both latex production units providing more flexible production capabilities for both acrylic and styrene butadiene chemistries. These additional assets will enhance our ability to further penetrate the adhesives and construction market, which we've identified as core growth markets for Latex Binders. We expect to close this transaction before the end of the year.

We expect that this will be immediately accretive to earnings, with first year EBITDA contribution of approximately $6 million. We expect this should ramp up due to growth and productivity opportunities. The service cost for the assumed pension liabilities will be less than $1 million per year during the first 10 years and less than $2 million per year during the next 15 years.

Finally, we are implementing a framework for business and functional excellence aimed at reducing costs as well as improving our commercial processes and results. The aim of this is to build a structured program that becomes part of the fabric of the Company to accelerate cost and productivity initiatives with the goal of continually offsetting inflation.

Now, let's move on to our business results and outlook.

The challenging business environment we saw in the fourth quarter improved somewhat in Q1 but we saw weaker than normal demand across most end markets in China, and a continuation of slower tire and automotive markets globally.

However, despite a $17 million headwind from styrene outages and fixed cost under absorption related to an inventory drawdowns, our results in the first quarter showed marked improvement over Q4.

We remain cautiously optimistic about improved market conditions in the second half of 2019. Our data indicates that the fourth quarter of 2018 was the bottom in a number of our markets. Excluding net timing impacts, margins and volumes in ABS, Polystyrene, and Synthetic Rubber were higher in the first quarter than in Q3 and Q4 of 2018. Also, styrene inventories in China have fallen for 7 consecutive weeks from planned outages and derivative market recovery.

We are updating our full year 2019 guidance to a net income range of $237 million to $290 million and an Adjusted EBITDA range of $500 million to $560 million. Therefore, the mid-point of our guidance is $530 million.

The low end of this guidance range assumes limited economic recovery in China along with continued weak automotive and tire markets. The high end of the range requires material economic improvement in China beginning in the second quarter, with sustained improvement through the remainder of the year.

Similar to last quarter, we've included on slide 12 some key indicators we believe you should follow to assess the pace of recovery in our markets, and therefore gauge how we're doing relative to our guidance range.

Now, before we take your questions, I'd like to take a moment to recognize Barry Niziolek. This will be his last earnings call before a well-deserved retirement beginning at the end of June to spend time with his wife and family. We want to thank him for his leadership in strengthening the Company's financial performance, compliance programs, and operational discipline during his tenure. Barry, you have our utmost respect and appreciation. Thank you for being a great partner to me as I have transitioned into the Company.

During the last few months, with the assistance of an executive search firm, we completed a comprehensive evaluation of internal and external candidates for the CFO role at Trinseo. I want to congratulate Dave Stasse on his appointment as Chief Financial Officer, effective July 1st. His deep knowledge of our businesses, markets, organization and previous experience within complex global organizations make him ideally suited to take on this role. Since joining Trinseo in 2013, Dave has demonstrated strategic and financial leadership as we transitioned to a public company, while building our investor relations function and leading our treasury organization. Dave and Barry have worked very closely over the past three years and will continue to do so enabling a smooth transition. Barry, I'd like to invite you to make a few comments.

Barry Niziolek

Frank, thank you for your kind words. The very reasons that Frank articulated for joining the Company at the beginning of this call are the same reasons that brought me out of my FIRST retirement to join Trinseo. I too believe the Company is well positioned for growth, with a talented organization, strong balance sheet, an energetic, and operationally focused new CEO.

My wife, Susan, and I are excited about spending more time with our family, and the next year is quickly booking up with new adventures. It has been my honor to be part of the Trinseo Leadership Team, and I will watch with great interest the future successes of the Company.

With that, Julie, you may open the phone lines for questions.

Operator

Thank you. We will now begin the question-and-answer session.

Your first question comes from David Begleiter from Deutsche Bank. Please go ahead; your line is open.

David Begleiter, Deutsche Bank

Thank you, good morning. Frank as you've gone through the portfolio you've identified polycarbonate as a business to be sold. Are there any other businesses or assets that could be viewed in that same category of perhaps non-core or to be disposed of going forward?

Frank Bozich

First, I want to clarify a couple of points. We have a number of strategic options for polycarbonate assets, and the goal of that, that we're evaluating, and the goal of those would be really to minimize the earnings volatility that we have to the merchant polycarbonate market, while we ensure the supply of high-quality polycarbonate to our downstream compounding business. So there's a number of different options that were considering. But I would say in general, we will continually look at ways to reduce the cyclicality of our portfolio, and improve the quality of our earnings so this is something we're going to do as a matter of practice.

David Begleiter

Very good and just of course your impression of the overall styrene market and the styrene cycle given potential new capacity coming on in Asia over the next couple of years.

Frank Bozich

Well, at this moment we see operating rates at fairly high levels. We see margins improving, and so for the near-term we see a very favorable outlook. Obviously if all those announced plants come on stream, that will put pressure on operating rates. But in the near-term we see it as a favorable environment.

David Begleiter

Thank you very much.

Frank Bozich

Maybe I just want to add one last point that is specific around China and as, I think we've all heard about some of the recent environmental issues and tightening environmental regulation in China, and we have to keep in mind that 30% of the Chinese styrene capacity are non-integrated local manufacturing facilities that we would anticipate being the target of some of these, or impacted by tighter regulatory environments. So we haven't seen this effect our value change yet, but there has certainly the potential to do that.

Barry Niziolek

Maybe one other thing to add going back to the Styrene Monomer point. Recall David, about 30% of the assets in China are non-integrated and so it is one of the things I've said since joining the company it's kind of interesting if the capacity comes on stream because at least for the past three years, it seemingly has always been a move out because of potential delays or issues that have been raised with the Chinese capacity coming online.

Operator

Frank Mitsch from Fermium Research. Please go ahead; your line is open.

Aziza Gazieva, Fermium Research

Hi, good morning, guys. It's Aziza on for Frank. First and foremost, congratulations to all three of you.

My first question was could you possibly walk us through the various regions and discuss the pace the pace of business through the quarter and maybe, what you've seen in April thus far across the segments?

Frank Bozich

So, I guess what I would say is that in general this is a segment by segment story in Q1, and when we look broadly at and I'll maybe take you through the segments. But I would say in general it's a China story, and when you think about the impact that China has on our portfolio, around the value chains that we're in, they represent a significant global demand for most of those commodities. And so I'll give you some statistics: China represents 60% of the global demand for ABS, 55% of the polycarbonate demand, 35% of styrene demand, and 30% of the SSBR, obviously the world's largest auto market. So when things we can in China, it has a global effect and changes trade flows.

Now with that said, if you look at our segments at relatively speaking market volumes held up globally, and latex was up from a volume standpoint versus prior year quarter, but the driver was really that we won a large new piece of business in Europe that offset market weakness and customer slowdowns in China. But margins were compressed by lower market demand. Rubber volumes were down mainly in China, due to OEM tires and replacement tires, and we had unfavorable net timing of $7 million and $3 million of under absorption from inventory management. But, margins here in that segment were stable. In performance plastics, volumes were up year-over-year, due to our new ABS plant in China that had not fully ramped up in Q1 2018. However, polycarbonate and ABS margins were under pressure due to weaker demand in Q1 and prior year, and that was largely due to China. Polystyrene volumes were up due to restocking after customers destocked in Q4 because of the drop in feedstocks prices.

So that's sort of the overview I would give you.

Barry Niziolek

Maybe, I would just add taking it to the broader region, say North America, it's probably holding up as good. For Europe, as Frank just reiterated, we have the over wash from China and a weak automotive market.

Aziza Gazieva

Perfect. That is very helpful. Thank you, guys.

Just curious is the latex field if that slows down buybacks at all and if you guys have a preference to repurchase shares over bolt-ons or how you think about that.

Frank Bozich

Could you please repeat the question?

Aziza Gazieva

Sure. I was just curious if that latex deal slowed down buybacks and how the shares have been trading if there is a preference over to execute buybacks rather than bolt-ons at these levels.

Frank Bozich

So, let me make a good important point the acquisition of the Rheinmünster plant required no cash as consideration, so it was the assumption of the pension liabilities of the employees who will be joining us, and so, as I said in the call, this is accretive to earnings immediately, and we expect that to grow as we drive productivity through over time and also use those assets put those assets to use in our portfolio and the service cost, if you will of that assumed liability for the first decade will be less than $1 million a year, so it virtually only has a positive impact on our cash flows and earnings.

Aziza Gazieva

Thank you very much.

Operator

Laurence Alexander from Jefferies. Please go ahead; your line is open.

Laurence Alexander, Jefferies

Good morning, so I guess a couple of questions, first can you maybe give us a feel for where you see either low hanging fruit or good opportunities to inflect the growth equality of the business, maybe like where do you see things that, were sort of waiting to be done so to speak I mean apart from the polycarbonate action that you've already flagged. And secondly, can you talk a little bit about the AmSty JV – the Regenyx - just thinking back of the envelope can that recycle existing polystyrene back into feedstock grade material at about $50, $60 an oil or can it do it cheaper than that.

Frank Bozich

So, thanks for the two good questions. I'll take the first one, I'll ask Dave who sits on AmSty's board to talk about the second one. Where I see a lot of opportunity for us, in the near term, is to drive business excellence across our portfolio and frankly this wasn't waiting to be done, but the timing is perfect because now we're rolling out the T2020 program to separate our systems from Dow Chemical, and at its core it's about us redesigning our business processes so, when I look at our work processes, I think that there's significant opportunity for us in four dimensions: in our plant operations, in our supply chain, in our functions, and commercially. Commercially I think our program and commercial excellence is focused on addressing under-leveraged pricing power that we have in our portfolio, and I believe we have that. So as we roll this out, we will gain momentum, and again, this is a journey that we'll be on to bring productivity across our different functions in those dimensions, and again to drive our commercial processes within a more - I'm going to use the word excellence - you drive more excellence in commercial operations.

Dave Stasse

Good morning, Laurence. Hi it's Dave, and I'll comment just to give the other listeners the background so our joint venture Americas Styrenics in North America formed a JV recently and the purpose - and it's called Regenyx - and the purpose of that JV is to recycle polystyrene into virgin grade styrene monomer that can be back through the facility and improve the recyclability of polystyrene as a polymer. The announcement was made I think last week, and they've actually already received their first shipment, America's Styrenics has, of styrene monomer has run it through its system. So the technology is proven. It's obviously in its nascent form and they're only working really right now with one recycling facility in one jurisdiction and the idea would be to grow that obviously and improve on the technology and to scale the technology. I think it's too early to comment now probably, Laurence, on operating efficiency relative to different price levels of oil, but I would just say that at this kind of early stage of the program the technology is proven, again on a relatively small scale. Amsty has received its first shipment of styrene monomer from the joint venture, and has run it back through its system. I think that's a very positive outcome for not just Trinseo and Americas Styrenics, but for the whole polystyrene industry improving the outlook for the sustainability of it as a polymer.

Laurence Alexander

Thank you.

Operator

Duffy Fisher from Barclays, please go ahead. Your line is open.

Mike Leithead, Barclays

Hey guys. It's Mike Leithead on for Duffy this morning and congrats again to all three of you, on your new roles and transitions. I guess first if we look at Slide 12, and the China styrene inventories graph in particular, if we were to stretch that back say five, ten years, how anomalous is the current high level of inventories we're seeing, and with all that pressure in Asia, can you talk about any bleed-over impacts you're seeing in Europe as well?

Dave Stasse

Hi Mike, it's Dave again. I would say if you were to stretch that graph back five years, there's probably at least two other periods over that timeframe when styrene inventories have reached that level. That's just off the top of my head, there may be more, and that's over a five-year period. So I wouldn't say it's it's that anomalous. We talked about, in our last call, we kind of predicted that the inventory would start to bleed off as we got into the turnaround season, which it has, and it looks like we have a trend now developing, as Frank mentioned, with derivative operating rates, ABS expanded polystyrene, polystyrene operating rates improving in China, so it looks to us that is going to continue, as we head into the second quarter. As you know Mike, styrene is a global commodity, and China is a huge importer

of styrene. So, that inventory overhang, if you will, does have an impact on global styrene margins, not just in China, but other parts of the world. As we head into Q2, I think we had contract settlement recently; we're already seeing styrene margins improving in the second quarter versus the first quarter, which gives us optimism, but I think the reduction of inventory levels in China is part of the reason for that increase.

Mike Leithead

Got it, and then I just want to follow-up on the strategic review of the polycarbonate unit. I think if I heard you correctly earlier in the call, Frank, you said 40% of the production is consumed internally. So if you do choose to sell that unit, would you need some sort of off take agreement with the buyer to supply you back that polycarbonate, or would you be okay with being short that supply in what hopefully is a weak price environment.

Frank Bozich

Our goal as an outcome of this effort will be to secure, by whatever means, a long-term supply at best economics of high-quality polycarbonate for that downstream business so, we have a number of options to accomplish that goal.

Barry Niziolek

This is Barry. Again, I think Frank reiterated a couple times, but the questions of sale. There are multiple options we are exploring and all options are on the table, so just want to make sure that's the message that's heard.

Frank Bozich

And I just want to emphasize one point. We will approach this with the sense of urgency while we're running to ground a number of alternatives. We're committed to urgently resolve this and reduce uncertainty for the site, too.

Laurence Alexander

Got it. Thank you guys.

Operator

Eric Petrie from Citi, please go ahead. Your line is your line is open.

Eric Petrie, Citi

Hi, good morning, Frank.

Frank Bozich

Good morning.

Eric Petrie

What is your view on a high level of Chinese stimulus coming into the market this year? I believe the NDRC had an internal draft policy to promote consumption of home appliances, consumer electronics, and autos, which I think would be positive for you, but any thoughts there?

Frank Bozich

Yes. So, actually we have seen some encouraging signs so far in China. I think in Q1 there was strong industrial output, improving industrial output and retail sales in March. The Chinese appliance production turned positive in Q1, which is good for our ABS and our HIPS, high impact polystyrene. Performance plastics volumes increased steadily through Q1, and then as we talked about staggering inventories dropping.

I'd also point out that despite the weakness in the general internal combustion are passenger car market. There was a very bright spot underlying that for electric vehicles so, while it might not be super impactful in the short term the 120% year-over-year growth and Electric Vehicle sales in China is a great long-term trend for our performance plastics business, and our synthetic rubber business, because EVs require a high performing tire. So, in general it feels like there's momentum building and the stimulus is gaining some traction. We haven't seen it flow all the way through our markets today.

Barry Niziolek

And I think it's a good reminder ~~is~~ that while momentum's building as with any economic stimulus, there's somewhat of a time lag. My opinion probably about 90 days to 120 days a type of time lag that you start seeing this more fully into the economy.

Eric Petrie

Okay. Thanks for that insight. Secondly, feedstocks did a bit better than I thought and you absorbed the $17 million incremental cost, so how much did you benefit from purchasing styrene because prices were lower year-over-year.

Frank Bozich

I'm going to make a comment and then Dave and Barry can add color or correct me if I'm wrong. But we had a negative impact from styrene purchases in Q1 of $5 million because of outages, so the net impact on styrene purchases was negative, and it was part of that $17 million.

Dave Stasse

Right, and the other part of that $17 million impacted AmSty, also. AmSty had a planned outage in January - February with $5 million as well.

Eric Petrie

Okay. Thank you

Frank Bozich

The other $7 million of that was related to under absorption due to the intentional drawdown of working capital and finished good inventories in our operations delivering cash.

Operator

Robert Koort from Goldman Sachs. Please go ahead. Your line is open.

Dylan Campbell, Goldman Sachs

Good morning. This is Dylan Campbell on for Bob. So if I take the low end of your $500 million EBITDA guidance for 2019, and assume that is generated equally throughout the last three quarters, that implies about a $130 million of EBITDA per quarter, compared to a $102 million for the first quarter. I'm just curious which segments drive that sequential improvement across the quarters.

Frank Bozich

I would say in general, if you look at our underlying performance in Q1 it was $119 million as we pointed out due to those two factors.

The other thing that we have gaining traction that would lead to the low end of the guidance, is very well defined productivity and cost initiatives that the company has been driving that will see hit the P&L in the second half of the year. And then the low end of the guidance would contemplate that the improving Styrene margins that we have due to the planned outages which is in the lower inventory levels that we're seeing in the beginning of Q2 play themselves out. So that's sort of the scenario that gets it to the low end of the guidance with minimal uplift from China and some of our downstream markets. To get higher into our guidance range would require additional tailwind in various markets and different segments.

Dylan Campbell

Thanks.

And then on free cash flow you guys generate pretty strong free cash flow for the first quarter. What is your expectations for a full-year 2019.

Barry Niziolek

For the full year, there's really no update to the cash assumptions that we put out on slides; essentially unchanged from last quarter. But one thing to reiterate working capital, and feedstock prices are very hard to predict, and so hence has an impact on our working capital. I think you'll note we started out the year really strong with feedstocks prices unchanged, and we were aggressively managing inventories down, to the extent that we had a release of working capital about a $100 million. We're committed to continually and aggressively managing our inventories, and barring a spike in feed stock prices, I think you could see there's a potential upside in our cash flow numbers.

Dylan Campbell

Got it thank you.

Dave Stasse

Just to clarify the upside I think that Barry is referring to is if you just take the midpoint of the guidance minus the CapEx interest tax assumptions, which are all unchanged from the prior guidance, and are listed in our slide deck.

Dylan Campbell

Thank you.

Operator

Hassan Ahmed from Alembic Global. Please go ahead. Your line is open.

Hassan Ahmed, Alembic Global

Morning, Frank, Dave. Just wanted to sort of start where you guys left off on the working capital slash feedstock pricing side of things. It's been a bit of a strange sort of start to the year, where we saw a fairly major rally in crude oil prices and just some of the major Feedstocks that you guys procure: be it ethylene, be it methanol, be it propylene. They haven't historically obviously the correlation including feedstocks was quite high. And these products really haven't moved up that much. So my question is, what are your expectations as you think about your full year guidance about the back half of the year in terms of these Feedstock (unintelligible). Are you baking in a move up in the prices of these products along with crude, or are you sort of just factoring in an environment similar to right now.

Frank Bozich

I guess I'd make a couple comments. Only a portion of our products have direct correlation to crude oil and then heavy naphtha cracking in oil refineries. A big percentage of our portfolio comes from NGL derivatives in natural gas. So again, there's not complete or a direct correlation to all of our feedstocks, and all of our segments to crude oil and naphtha cracking. The second thing is that we have in many

other parts of our business contract pricing where we protect our margin via an adder. Those contracts are established at the beginning of the year and mute any significant volatility that we would have in underlying raw materials as we can pass that on. And where we don't have those contracts we would you leverage our commercial activities to more than recover any impact.

Hassan Ahmed

Understood, very helpful. And as a follow-up in terms of usage of cash, Frank, as you started your new role and the like. How are you thinking about the balance between buyback dividends that they down and like.

Barry Niziolek

This is Barry, I'll take it as a goal going forward you'll see we're going to continue to see growth investments while we return cash to our shareholders.

Hassan Ahmed

Got it. So no real change relative to what we've seen over the last couple of months' quarters?

Barry Niziolek

I'd say if you look at our first quarter, we bought back about $37 million. I think the important point, Hassan, is focusing on the kind of growth investments were looking at like Rheinmünster. It's good use of cash generating what we would call organic growth.

And one thing I would add when you emphasize our strong balance sheet, there'd be no plan for any kind of debt pay down.

Hassan Ahmed

Understood, understood. Very helpful guys

Operator

Vincent Andrews from Morgan Stanley. Please go ahead your line is open.

Angel Castillo. Morgan Stanley

Good morning, thank you for taking my question. This is actually Angel Castillo on for Vincent. Just a quick question around the raw materials there was a report this morning about ACN, and how prices there have been rising quite a bit at least in Asia, and just curious as I think about that in comparison to your comment about being encouraged on ABS margin levels. Just curious if you reconciled the two and just what that means for you guys I guess in this quarter.

Dave Stasse

I can take that Angel, I mean I think Acrylonitrile is what you brought up and obviously one of our large exposures to Acrylonitrile is in our ABS business. As Frank mentioned in his prepared remarks, we've seen a nice pick up in ABS margins and volumes going into the first quarter versus Q4, and we see that going into early Q2 also. So I don't think we're seeing any impact. We're able to pass that Acrylonitrile through in ABS pricing. And again I think that's due to the increase in operating rates that we're seeing in some of these polymers, specifically in Asia.

Angel Castillo

Got it. That's very helpful, thank you.

And then just on SSBR just curious in the past you talked about the ramp up of the capacity that you had there, and as I think about China and the comments that you made about the regulatory, brass scrutiny because of the explosions that have taken place there, I think you had mentioned in the call also about permits that you were working through that were perhaps holding back a little bit of that ramp up or ability to grow volumes there, so just curious if you could one give us an update on the SSBR ramp up and just two how that, the China regulatory process may be impacting your permitting and just around that.

Barry Niziolek

It may be just to clarify because there's a couple things in your question. The reference to permitting what we saw was relative to our Zhangjiagang site, which is really for ABS facility, and recall, we started that up about a year ago.

Frank Bozich

That was ramping up in Q1 of 2018, so that's completed. If you go back to SSBR, SSBR is primarily targeting a high-performing tire market, and the high-performing tire market has actually held up very well. Where we've seen in this downturn, the consumer sentiment or consumer buying patterns changes around the commodity tires, which is largely an ESBR lower performing rubber so, our mix actually SSBR is good. We've seen relatively good demand but where the big pressure we've had is on our ESBR. That goes in destined for lower performing tires.

Angel Castillo

Got it. That's very helpful. Thank you.

Operator

Matthew Blair from Tudor Pickering Holt, please go ahead your line is open.

Matthew Blair, Tutor Pickering Holt

Hey. Good morning everyone. Not sure if I miss this, but could you provide an update on the operations at your styrene plant in Germany. There are some reports that your Benzene supply was disrupted in March and April. And then, are you still planning a fairly large turnaround at that plant in May and June?

Dave Stasse

Good morning, Matthew, it's Dave. The question was about our Böhlen, Germany styrene manufacturing facility, and you're correct. There were some disturbances with getting upstream supply that cause an unplanned outage in the first quarter. We did have a planned outage in the second quarter that's actually already started, so we've kind of entered that planned outage right now, we pulled it forward a little bit and started that planned outage now. So our hope is that we would be up kind of mid to late Q2 with that site after the plant maintenance events are over.

Matthew Blair

Sounds good and then just in regards to your Q2 guidance, you talk about a modest quarterly sequential improvement. I just wanted to clarify, what do you consider to be the starting point? Would it be the $119 million on EBITDA or would it be the $102 million?

Frank Bozich

No, the starting point is $119 million.

Matthew Blair

Great. Thank you.

Operator

Roger Spitz from Bank of America / Merrill Lynch. Please go ahead your line is open.

Roger Spitz, Bank of America / Merrill Lynch

Thank you and good morning.

Can you speak about JRS's hungry SSBR JV plant with what the status is there and the impact on the market?

Dave Stasse

Yes. Good morning, Roger. I think you're referring to JSR. JSR is a Japanese manufacturer of SSBR and other grades of rubber that is formed was announced several years ago that they would be entering into a JV with an SSBR manufacturing facility in Hungary with an Eastern European company. I believe, the site is up and running now going through qualifications with customers for SSBR. That's really the only

update I can give. I haven't heard anything beyond them being in production and going through qualifications and sampling. I'm fairly sure it's not fully commercialized and running at capacity, but that's really the only update I can give you right now, Roger.

Roger Spitz

Thank you. On Americas Styrenics as you re-evaluate your assets and want to reduce cyclicality where it doesn't necessarily help you, does Americas Styrenics help the rest of your wholly owned business? I mean the EBITDA peaked at least for a very long time in 2018, and parenthetically I assume they're rofo should you wish to exit that JV.

Frank Bozich

Well, we think of Americas Styrenics as part of our overall portfolio and as we evaluate our, continue the strategic review of our portfolio, we would include that as part and parcel for our overall styrene position globally but we like the performance of Americas Styrenics and it's performed while here today.

Rogers Spitz

And lastly, when you acquired Dow Chemical's Rheinmünster, Germany facility, you already had control I guess of the SB latex, I guess they were producing it at your behest. Do you get additional capacity maybe that you referred to as two lines. Is there a second line that you didn't have access to? Were they making acrylics there or is this additional capacity you're getting?

Frank Bozich

So, we get additional capacity, but more and also importantly, we get a different type of asset than we have in our portfolio that lends itself to the manufacturer of products that go into other higher value and higher growth markets. So, that's what's exciting about it. We can leverage those new assets, not only to expand the capacity, but expand the capabilities that we have to serve some additional growing markets.

Dave Stasse

And those assets are alternative chemistries Roger, beyond styrene, butadiene, and latex.

Operator

Thank you. We have now reached the end of our question-and-answer session and this does conclude today's conference call. Thank you for your participation and you may now disconnect.