Second Quarter 2019 Financial Results Conference Call Script

Operator introduction:
Good morning ladies and gentlemen, and welcome to the Trinseo second quarter 2019 Financial Results Conference Call. We welcome the Trinseo management team, Frank Bozich, President & CEO and David Stasse, Executive Vice President & CFO.

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 [operator] 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 August 9, 2020. Now, I would like to turn the call over to Frank Bozich.

Frank Bozich
Thanks Dave, and welcome to Trinseo's second quarter 2019 financial results conference call. Before we discuss the financial results, I'd like to spend a few minutes on some of our efforts in the area of environmental, health, and safety, including two examples of which I'm particularly proud.

Last week Trinseo released its ninth Sustainability & Corporate Social Responsibility Report. This release marks the one-year anniversary of our adoption of the GRI framework for public sustainability reporting. This framework provides more global comparability, enhanced

transparency, and better quality of information about Trinseo's sustainability. On slide 4, you can see some highlights from our environmental footprint reductions, product innovations, volunteer programs, and most importantly of our safety record.

Trinseo's injury rate is at the top decile of the chemical industry. We are performing at a level that only a few companies can attain and one that is significantly lower than the average injury rate for manufacturers and the American Chemistry Council member companies. Trinseo includes both employees and contractors in its injury count because we believe we are responsible and accountable for the safety of everyone at our sites.

Our most significant environmental improvement in the report is the 48 percent reduction in Greenhouse Gas emissions versus our 2011 baseline, on a volume basis. This was achieved partly through employee-led projects to improve energy efficiency through optimization of processes and equipment. This report underscores that the tenets of Responsible Care®, respect for and commitment to Environmental, Health, & Safety, and sustainability are paramount to our organization at every level and in every decision we make.

The second example that I would like to highlight is that Nicolas Joly, Trinseo's Global Business Director of Polystyrene, was elected President of Styrenics Circular Solutions (SCS) earlier this year. This joint industry initiative is a driving force to take advantage of the inherent circularity of styrenics through recently proven recycling technologies and partner-driven solutions.

Polystyrene is a polymer with unique and proven potential to achieve circularity, as it is the most easily reversed into its original monomer at high yield utilizing the emerging game-changing recycling technologies. The liquid state of its monomer enables easy purification and the recycled monomer is identical to the virgin monomer. Therefore, it can be processed into styrenic polymers with identical characteristics and quality, enabling production for all applications, including food contact. Also, from there it can be continuously recycled indefinitely.

In July, Trinseo and Ineos, both members of SCS, announced plans to develop the first Polystyrene chemical recycling plant in Europe, building on technologies already established in North America between our joint venture, Americas Styrenics, and their partners. Given the urgency of reducing waste, litter, and the environmental impacts of plastic waste, SCS has set ambitious milestones to meet these goals and propel the circular economy forward. SCS is engaging the entire value chain – from partners in the supply chain to converters, recyclers, brand owners, and trade associations as well as universities, and research centers. Trinseo is proud to be one of the manufacturers leading this initiative to improve the environment.

Now, I'd like to walk through a few key points from our second quarter results as well as provide an update on our full year outlook and some of our key initiatives.

In the second quarter, we experienced a continuation of macroeconomic weakness from geopolitical stresses causing trade uncertainty and a slowdown in investment. Production continues to be weak in the automotive industry, particularly in Europe and China. Margins in Performance Plastics were adversely impacted as polycarbonate and ABS remain challenged from slower growth and economic uncertainty in China, which are impacting demand for those products. As we've discussed in prior quarters, these impacts are creating excess supply of polycarbonate and ABS in Asia, which is then being sold into Europe, leading to lower margins in that region as well. In addition, we continue to see weakness in the tire market, particularly in Europe and China.

On the first quarter call we mentioned that we had begun to see improvements in many markets in comparison to the second half of last year, which we were anticipating would lead to an ongoing improvement over the course of this year. However, market conditions weakened from Q1 to Q2 in styrene, ABS, and polycarbonate which resulted in lower sequential margins in those products.

We had expected to see higher second quarter styrene margins due to the seasonal outage period. However, due to general economic weakness and lower demand for styrene derivatives, margins declined from Q1 to Q2. Due to an upstream supplier issue, we had an unplanned outage at our Boehlen, Germany styrene facility in the back half of the first quarter which extended through July, well beyond our planned second quarter outage. The plant resumed operations last week. The total pre-tax impact of this outage on the second quarter was about $12 million. This supply outage and general lower margin level led to a roughly breakeven Adjusted EBITDA for Feedstocks in the second quarter, versus Adjusted EBITDA of $17 million in the first quarter.

On a more positive note, we were encouraged by another strong quarter for Polystyrene due to business excellence initiatives. Overall we have seen better stability in this market compared to ABS and polycarbonate.

Cash generation was very strong in the first half of the year, delivering $234 million of cash from operations and $186 million of free cash flow. This was the result of continued operating discipline as well as a more focused inventory management approach and the impact of falling raw materials in the first quarter and the end of last year. We continue to have the benefit of a healthy cash position, even after continued share buybacks, with relatively low net leverage. As always, working capital management is a key area of focus for us, and is especially critical in these more challenging market conditions.

Now, let's move onto our full year 2019 outlook. We are updating our full year 2019 guidance to a net income range of $148 million to $177 million and an Adjusted EBITDA range of $410 million to $450 million.

While we have seen some stabilization in our end markets, the positive momentum we began to see in the first quarter did not continue. This, in combination with weaker sequential dynamics in styrene, ABS and polycarbonate, is leading us to remove any meaningful economic improvement from our full year forecast over the balance of the year. Given that we are assuming no economic improvement, expected second half volume and margin levels are, overall, at or near what we've seen in the first half of the year. Of course, any economic improvement is upside to this forecast, and as always, we will remain highly focused on cash generation and cost containment.

It's important to note that we're not just sitting back and waiting for the market to improve our results. During the last call I outlined some initiatives designed to improve future earnings and to better position Trinseo strategically.

First, our acquisition of The Dow Chemical Company's latex production assets in Rheinmuenster, Germany is progressing; we've received regulatory approval and we expect to finalize this transaction in the fourth quarter. We expect $6 million of first year EBITDA contribution from this acquisition.

Second, we continue to make progress in our evaluation of strategic alternatives for our polycarbonate plant in Stade, Germany. While pricing and margin conditions in the polycarbonate merchant market have been challenged recently, the material is still integral to our Performance Plastics segment as we consume about 40% of what we produce in our higher margin compounding business. There are a number of options that we are pursuing for the Stade facility with the objective being to maintain a secure supply of quality feed for our downstream compounding business while reducing our exposure to the merchant polycarbonate market.

Finally, we are proactively taking steps to reduce both fixed and variable costs as well as placing greater emphasis on business excellence programs, all with the objective of increasing profitability. For example, we aim to at least offset inflation in our fixed cost spending. Over the first half of the year we've more than accomplished this, as this spending has been about 2% lower than prior year on a constant currency basis. In addition, we've been managing inventory levels more closely, and inventory quantity was down 7% at the end of Q2 in comparison to the end of 2018.

These initiatives are critical to business success and have even greater importance in the current challenging economic environment. I am confident that our momentum in this area will carry us forward as we implement more programs to deliver shareholder value.

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

Operator
Thank you. Just to advise everyone, in order to ask a question, please press star and 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. Frank just on your revised EBITDA guidance $410 to $450 million, can you discuss the parameters about what you see for the top and bottom end of those ranges and really just how de-risked the bottom end of that range really is? Thank you.

Frank Bozich
Hi David, good morning. I would say at this, one, we have a high degree of confidence in this range, the low end of that range contemplates that basically we operate in the second half like we did during the first half in terms of demand, and margins, and keep in mind that in the first half we saw $7 million negative impact from inventory draw downs, that we were doing to optimize our working capital, and we also had approximately a $20 million impact from styrene outages. So we believe we have a high degree of confidence in the lower end of the range and that contemplates this continuing basically at the first half level. The higher end of the range, contemplates that we have no operational issues in the second half, that the issues we saw in Boehlen don't reoccur, and that we see some benefit from higher margins and styrene and that we get traction in our business excellence programs greater than we've already had in the first half.

David Begleiter
Very good. Frank, just looking at 2020 there is some capacity coming out of styrene. What's your expectation for styrene margins next year? I know it's early, but any early insight would be helpful. Thank you.

Dave Stasse
Dave, hi -- it's Dave, I'll answer that. Well, I think, obviously, it's heavily dependent on the demand situation. But I think the way we see it now, we do see capacity coming later in 2020. All of this new capacity is in China and, as you'd expect, most of it has been delayed from its originally announced dates, so the data which this capacity is going to actually come online is a little bit hard to tell even now as we approach it. But, I think order of magnitude we'd see probably capacity coming online in 2020 being a little bit higher than demand growth rates. I mean a little bit high over the annual period, which would put a little bit of pressure probably in styrene margins in 2020 relative to 2019. But having said that, one of the things we've always talked about, Dave, is the impact that's going to have on guys at the right end of the cost curves the non-integrated producers in China, which make up about 40% of Chinese production. So the numbers I just outlined don't contemplate any shutdowns from those producers, which we think may very well happen and that in fact could even be exacerbated by the economic situation in China right now.

David Begleiter
Thank you very much.

Operator
Our next question comes from the line of Frank Mitsch with Fermium Research. Your line is open.

Frank Mitsch, Fermium Research
Yes, good morning. I was wondering if you could step through the pace of business through the second quarter and into July, particularly any auto and the tire markets. What have you guys been seeing so far this quarter?

Frank Bozich
Yes, so great question. Thanks, Frank. When we look broadly across our segments through Q2, what we saw is that while it was lower than Q1, it didn't deteriorate by segment during the quarter and remained relatively steady or stable in most of the segments. And we saw that performance continue into July and so far in the order book for August. So we see it steady during the quarter and continuing into Q4.

Frank Mitsch
Steady into the first part of the Q3 correct, right?

Frank Bozich
Yes, sorry.

Frank Mitsch
And then you're guiding full year free cash flow $210 to $250 million. I was wondering if you could talk about the priority uses of cash, and how does share buyback factor in.

Dave Stasse
Yes, Frank, hi it's Dave. I think we did have a strong quarter in the first half of the year as Frank outlined, $186 million of free cash flow for the first half. So you can see obviously that guide implies a lower second half and it also implies working capital neutral, in other words feedstock prices kind of staying flat through the second half of the year. In terms of capital allocation, I don't think a lot has changed for us. I think we'll continue with the balanced approach that we've implemented for the last several quarters. We did buy back a little bit less stock as you may have noticed on our cash flow statement. We bought back 500,000 shares for $22 million in the second quarter, which on a dollar basis is a little bit less than what we what we had bought back the prior several quarters, and the reason for that was because we had exhausted our shareholder repurchase authorization limit. So we got that refresh to our proxy process in our annual general meeting at the end of June, so we have a fresh authorization going forward.

Frank Mitsch
So we should anticipate that level to pick up at the pace that it was prior to the second quarter, correct?

Dave Stasse
I don't think we want to comment on how much we're going to buy in individual quarters. I would just say that, overall I don't think our capital allocation approach has changed from what we've outlined in the past in terms of being balanced between, allocation between the return to shareholders via dividends or purchases, and reinvesting in the business.

Frank Mitsch
Alright. Thank you, Dave.

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

Dylan Campbell, Goldman Sachs
Good morning. This is Dylan Campbell on for Bob. So when you first laid out the guidance earlier this year, you included kind of assumptions for the low end of the range, including a limited economic recovery in China, continuation of weak tire markets, no recovery in Western Europe, etcetera. So is the assessment now that in absence of kind of those things have actually gotten worse incrementally and then I guess as a follow up with your new guys range, it seems like the low end of the range you're assuming things stay relatively the same. So what gives you comfort that the economic environment won't continue to get worse in the second half of the year?

Frank Bozich
So there's a number of questions there. Compared to Q1, we did see a deterioration in performance in some of the key sectors into Q2 compared to Q1. And I want to point out that in China, the auto production declined 9% from Q1 to Q2, and in Europe, in particular German auto exports, declined 7% Q1 to Q2. So, Q2 was a lower level than we saw in Q1, and also, if you remember, in Q1 we were seeing some uptick from Chinese stimulus and some increased volumes toward the end of the quarter, and those were erased immediately early into Q2. So I would say, where we are in Q2 reflects a lower level than we anticipated and we started the year with, and that's reflected in our guidance. Relative to our confidence that it won't change, again, we have a high degree of confidence that if markets continue at the levels they're at in Q2, we're going to be solidly in our range.

Dylan Campbell
That's helpful, and a quick question on AmSty, it seems like benzene prices have ticked up quite a bit, I guess in July, and likely August as well. And I think you had talked about lower margins

for that segment or for that JV. Kinda hoping you could scale that kind of margin back Q2 to Q3 for that business.

Dave Stasse
Look, I would say generally you're right, there has been styrene margins going Q2, Q3 have dropped a little bit in terms of terms of, how much that is if you spread it out there to move that to AmSty's business and what they might recover on the polystyrene side is probably a couple million dollars.

Dylan Campbell
Thank you.

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

Angel Castillo, Morgan Stanley
Hi, this is Angel Castillo on for Vincent. Just a quick question. I wanted to clarify on the free cash flow. You talked about the deceleration in the second half, and I'm just I guess trying to understand how that deceleration you mentioned. I think that, you see feedstock prices sustained flat but and you had a pretty good strong first half. But I think about, you generating at least $20 million in EBITDA, but I think about that free cash flow. It's pretty low compared to from an EBITDA perspective in terms of conversion and also just versus prior years. So could you bridge that for us, please?

Frank Bozich
Maybe just one comment and then I'll hand it to Dave. If you look at the sort of reduction and free cash flow generation in the second half of the year, remember that in the first half we had a significant inventory reduction. So by volume we reduced inventory 7% versus the end of last year. So that liberated a significant amount of cash, and frankly we're at levels that are sustainable given our current demand outlook and our business performance. Now, then, doing the walk over to the full year, I'd hand it to Dave.

Dave Stasse
The other thing Angel, you have to take into consideration is CapEx. We do have somewhat of a back-end loaded CapEx forecast for this year. It's really driven by the capital we're spending for the transition project to move our administrative services away from Dow. It's a project that's been going on for about 2 years now really. But I do want to highlight the capital forecast from the last guidance we gave was $125 million and we spent I think $48 million year-to-date. So there's a back-end load in the CapEx in the second half of the year.

Now, moving forward to 2020, we're going to see that the capital for that Dow transition project substantially go away. So, we're spending about $25 million full year 2019 for that project, that's going to be pretty close to zero or a couple million dollars next year, for that particular project.

Angel Castillo
Very helpful. Thank you. And then just probably I was wondering if you could help us just internationally. Could you talk about the inventory levels at just in the various regions, for instance China and how those are trending in the first couple of months here in the quarter?

Frank Bozich
I think in general, I couldn't give you precise reduction levels where that 7% came out around the world. What I would anticipate, it was largely European-based because that's where our biggest asset base is, but we could probably follow up on that.

Dave Stasse
Yeah, there's one inventory metric that is published on a weekly basis and we would comment on periodically, and that's styrene inventory held at the China ports. And the normal level, if you look at that over the cycle is about a 100 KT's. On the last couple of calls, we've talked about it specifically, because it's been much higher, it's been well over 200 KT's.
And the last quarter call, I think it was around 180 if I remember correctly. So there was a bit of inventory overhang going into the outage season at the spring outage season and Q2. Those inventory levels are now down to 86 KT's, so below the normal level. So, going into the fall outage season when sometimes historically we've seen some lift in styrene margins because of planned outages that happen in the fall, we don't have that inventory overhang now going into the fall season, which typically is September, October time frame. That's generally the only kind of industry reported inventory metric that we would talk about.

Angel Castillo
Very helpful, thank you.

Operator
Our next question comes from the line of Eric Petrie with Citi. Your line is open.

Eric Petrie, Citi
Hi, good morning.

Frank Bozich
Good morning, Eric.

Eric Petrie
We've seen other companies announce that they're focusing on downstream, so I'm wondering with the Stade, Germany 60% merchant exposure to PC, how likely is that you could take an increase your derivative downstream compounding capacity to absorb that?

Frank Bozich
Well, that would not necessarily be our objective as it relates to Stade. So when we think about our options, while we want to secure the volumes that we would have in that downstream compounding business, we have discrete projects that we're running and developing with our customers that would be around market-based growth type initiatives. But clearly we won't be able, through commercial efforts in the short term, to be able to absorb that. So our efforts, as it relates to Stade, really focus on a range of opportunities and are options ranging from restructuring the site to even possibly divesting some of those assets.

Eric Petrie
Okay. Secondly, what is the potential to change some of your contract terms in either performance plastics or latex and minimalize the pass-through of the lower raw material cost and the deflationary environment? Or I guess another way, how specialized would you say your product lines and those businesses are?

Frank Bozich
Well, I think one of the things that if you look at our portfolio, we've seen that in rubber, and in latex, and in sub segments of our performance plastics, we've had less margin erosion than we've seen volume impact. So the margins have held up very well and in fact, we have opportunities to value price those products because they're highly specified and enable customer solutions. So I would say in sub-segments, we have the ability to value-base price those, because they're a solution, and others where other parts of our portfolio, and polycarbonate is a great example, where it's really a market-based price and the market price is based on raw material pass through.

Dave Stasse
I think Eric, this is Dave, just to add onto that, I think Frank's right, it's a bit of a mixed bag on the Performance Plastics side. On latex it's different regionally. Asia latex is generally a spot market so pricing without explicit pass through agreements. And so prices are set on a monthly basis in a spot negotiation. Generally speaking in Europe and North America, it's more contracted business, and those contracted terms have various lengths. It could be from a couple months up to a year or 18 months, and you have to wait for an opener to renegotiate that.

Eric Petrie
Helpful. Thank you.

Operator
Our next question comes from the line of Mike Leithead with Barclays. Your line is open.

Michael Leithead, Barclays
Thanks and good morning guys. Bit of a longer term question to start. There's a number of naphtha crackers I believe being built in China right now. Do you have a sense of how many will seek to derivatize into styrene and maybe what that means for the styrene market outlook?

Frank Bozich
Yes, I wouldn't have, I don't think we would have an outlook on that and, we would sort of rely on our outlook for styrene production based on announced styrene capacity.

Dave Stasse
Yes, Mike, it takes generally three years to build a styrene plant and we have a pretty good idea based on what's been announced in China, what's coming over the next three years. Obviously, beyond that it's very difficult for us to predict. And as I said earlier what's impossible for us to predict is the impact that these new integrated styrene plants in China that operate on the lower end of the cost curve are going to have on the non-integrated producers. But, over the next three years I think we have a pretty good handle at least on what's been announced. As you know, whether it's styrene or polycarbonate, particularly in China, these things tend to come online several quarters up to years beyond the announcement date.

Frank Bozich
But I guess, just to go back to the original question. I wouldn't necessarily draw a conclusion that having more naphtha crackers come on stream and that raffinate would ultimately be destined to the styrene value chain. So there's a lot of different derivatives and directions that the outputs of the naphtha cracker can go, and frankly I think it'd be difficult to draw the conclusion that would be destined for styrene value chains.

Mike Leithead
Okay. And then I appreciate your conserving some inventory and managing working capital a bit tighter just given the lower earnings outlook. But if I just go back to the original guidance for this year, it looks like CapEx is held fairly constant this year. So could you maybe just talk about the composition of what your capital spending is this year? And if you've looked or rerun the numbers on some of that just given the market deterioration?

Frank Bozich
Sure. Our total CapEx budget is $125 million. And if you look at how that's built up, maintenance capital is about $45 million and then you have 2 strategic projects that are approximately $55 million of spending, and that's divided between our ABB conversion in our plants, that's our distributed control systems at the plant, and then also spend the $25 million for our project to become systems independent from Dow Chemical services. So, what's left is

growth in productivity capital of about $25 million. Now each of those and I would say it's heavily weighted toward productivity and those have good paybacks. So given the current outlook and the heavy emphasis on maintenance, as well as strategic spending that we have in this year, it's unlikely that we'll cut much from that capital spending budget. But as Dave pointed out, as we go forward and those strategic initiatives are rolling off and coming to completion, we would see a significant portion of that being freed up for free cash flow, and we would have a decision to make whether we have strategic initiatives or productivity initiatives to absorb that, but I would anticipate a lower capital spending level going forward after this year.

Mike Leithead
Okay. Thank you.

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

Nick Cecero, Jefferies
Hi, this is Nick Cecero on for Laurence. So I think in the past it was mentioned that styrene margins need to be somewhere in the range of $500 per ton on a consistent basis for the economics of a new greenfield to work. And I believe the current margin environment is underneath those levels. So is there a chance that some of the new capacity you mentioned gets completely shelved?

Frank Bozich
Well, you have two different kinds of styrene capacity that comes into the market. One you have the P-O-S-M plants or POSM plants that are being built, and the driver is demand for propylene oxide, and we would anticipate that propylene oxide demand will drive that, which is really consumer spending and population growth. So, we would anticipate that the two that are announced and under construction would begin and they'll come on stream. The non-integrated plants in this environment, it would seem to us very likely that they would not be putting in new non-integrated styrene monomer plants given this current outlook and the current margin levels.

Nick Cecero
Thank you very much.

Operator
As a reminder, if you would like to ask a question, please press star, then the number one on your telephone keypad. Our next question comes from the line of Hassan Ahmed with Alembic Global. Your line is open.

Hassan Ahmed, Alembic Global
Morning Frank and Dave.

Frank Bozich
Morning.

Hassan Ahmed
In your sort of initial remarks, you spend a fair bit of time talking about the whole sort of questions surrounding recycling and the noise we hear nowadays about various states, counties, countries, and the like coming out with polystyrene bans. I mean as you guys run your own sort of internal supply demand balances near to medium term, how should we think about the sort of demand growth impact of all of these moving parts? More recycling happening some of these bans kicking into place and the like. What sort of impact do you do feel it would have on longer-term demand growth?

Frank Bozich
Clearly demand destruction from regulated deselection of plastics could happen. But we believe that the characteristics of polystyrene offer some real positive options for the market and then consumers to take advantage of, and those are proven. We're already seeing very good traction from our JV at America Styrenics and the JV that they formed to recycle polystyrene, and we're getting very positive feedback from our downstream customers that if we could offer a recycled solution, it would not only stabilize demand, but it could even increase the selection of those materials over other non-recycled materials. So I think it's still early, it's difficult to tell, but I think there's some inherent advantages and why we're excited about polystyrene and its potential for recycling that offer a solution to the industry.

Hassan Ahmed
Understood, understood. Now, going back to the CapEx side of things. During a response to one of your earlier questions, you talked about how there are a couple of projects that you guys are involved in and maintenance CapEx is around $45 million, and obviously the guidance for this year is around a $125 million. So let's take a Draconian view and let's assume that there's some sort of a recessionary period we get into. I mean, how, there are some companies that have announced some steep CapEx cuts. So in that sort of a Draconian environment, I mean, how low could that CapEx number be? Do we fall down to maintenance levels, maybe even for a short duration below maintenance levels? I mean, I'm just trying to get a sense of, what free cash flow generation would look like in a sort of recessionary environment.

Frank Bozich
So maybe, let me make a couple of comments and I'll ask Dave to add onto that. The thing to remember is there's $55 million of strategic spending that we have to do that makes us stronger and more sustainable going forward in this $125 million. So that will come off in the future. What I would tell you is that through our business excellence programs, we will identify

opportunities for investment in our sites to take cost out and become more efficient, and we'll prioritize those and put appropriate hurdle rates on them. But as a practical matter, maintenance spending is, for the size of our asset base at $45 million, is appropriate. And frankly, we will not sacrifice safety or the stability of our assets for short-term, to reduce the CapEx spending in the short term. So, the area that probably is subject to flexibility is the growth and productivity capital, which this year is $25 million. Now again, we'll be very focused on identifying good projects in the future that deliver very fast returns and have appropriate hurdle rates, but that's the level of flexibility I believe we have after we get through the strategic initiatives.

Dave Stasse
Hey, hi Hassan, it's Dave. I mean in terms of the other numbers. I mean interest is pretty much fixed at about $40 million a year. Cash taxes, I think you can use a recessionary environment probably a high 20's tax rate on whatever EBITDA you're using. But again back to capital, we're going to spend as Frank said, $55 million this year on those two projects combined. That number next year should be more like 30 or 35, and the maintenance again, I don't think we would cut, we would continue to spend for maintenance so that would be in the probably $40 to $45 million run rate, and then what's on top of that for growth and productivity would be clearly the decision there would be made in the context of the economic environment.

Frank Bozich
Just one other last point that the strategic spend goes to $7 million in 2021. So it's almost entirely gone by 2021.

Hassan Ahmed
Understood, very helpful guys. Thanks so much.

Operator
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.
Good morning, Frank and Dave.

Frank Bozich
Morning.

Matthew Blair
I was hoping you could provide a little bit more commentary on the rubber market. I think your rubber volumes were down roughly 11% quarter-over-quarter, 18% year-over-year. Is it fair to say that you're losing share in this market and can you talk about any trends in OEM versus replacement that you're seeing?

Frank Bozich
So what we're seeing is that OEM tires broadly, our demand for OEM tires are down because they're consistent with the decrease in the auto builds. Replacement tire hit with the branded companies, the global branded tire producers, has been relatively flat. It's the commodity tire markets that have been hurt more significantly more than non-performance tire markets and that's where our ESBR technology would typically go. SSBR volume has been relatively stable and has held up because it's destined more for performance tires. So, that's sort of the high-level color, I would say that we would see performance tires that utilize SSBR technology growing much faster than the broader tire market in the future, and that's why we think that's a very important place for us to continue to invest and broaden our offering related to performance tires, but that's sort of the broad backdrop that I would give you.

Matthew Blair
Great, that's really helpful. And then Dave, I thought your comments were pretty interesting regarding this upcoming battle between the integrated and non-integrated styrene producers in China. I was hoping you could just talk about the overall global cost curve, and how does Trinseo's European and American styrene capacity fair on the cost curve versus these integrated China producers.

Dave Stasse
Sure. So on the far left side of the cost curve you've got Middle East and North America styrene, Americas Styrenics clearly would be in that. And then you've got a step up - we actually showed a chart on this back at our Investor Day in 2016. So, after North America and the Middle East, you've got a step up where I put the European producers, and they're generally pretty close. I don't think there's a lot of separation amongst the European styrene producers, and I would put those on a par with the Chinese large integrated sites. And then at the far right, several $100 per ton higher, you've got these smaller, non-integrated, independent producers in China that in normal, healthy, economic environments operate at 60% operating rates for two reasons. One is because they only operate obviously when it's economic. And second because they have a hard time getting ethylene and benzene feedstocks, but really ethylene. So they, literally, these guys are trucking in ethylene. And the environment where we are today, you know, in a more difficult economic environment in China, ethylene is plentiful and cheap, so these producers are running. But I think you're right - what it sets up for the China styrene market in the coming years and the question that we'll have to wait and see how it plays out, is after all of this China capacity comes online over the next couple of years is what happens to that 40% of Chinese production that's comes out of these non-integrated producers.

Matthew Blair
Great. Thank you.

Operator

There are no further questions at this time. This does conclude today's conference call.