Fourth Quarter 2019 Financial Results Conference Call Transcript
February 7, 2020

Operator introduction:

Good morning ladies and gentlemen, and welcome to the Trinseo fourth quarter 2019 Financial Results Conference Call. We welcome the Trinseo management team, Frank Bozich, President & CEO, David Stasse, Executive Vice President & CFO, and Andy Myers, Director of 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 furnished on a Form 8-K filed 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 Andy Myers.

Andy Myers

Thank you, Julianne 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 Item 1A, "Risk Factors". The Company undertakes no obligation to update or revise its forward-looking statements.

Today's presentation includes certain non-GAAP measurements. A reconciliation of these measurements to corresponding GAAP measures 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. Now, I would like to turn the call over to Frank Bozich.

Frank Bozich

Thanks Andy, and welcome to Trinseo's fourth quarter 2019 financial results conference call. As I look back at my first year with Trinseo, I'd like to start today's call by sharing some of my thoughts and observations. First, I am very optimistic about the future of Trinseo for several reasons. First and most importantly, we have a great culture. I believe our cultural strength shows up in the leadership that we have demonstrated in safety and sustainability. I'll share more on this later in the call, but it is one of the reasons that we were named as one of the 100 most responsible companies in *Newsweek*'s ranking of top US public companies. Another reason for my optimism is our ability to generate positive cash flow. Even in relatively weak market conditions like we saw in Q4, we've been able to generate significant positive cash flow in spite of large one-time capital expenditures. Another reason is our ability to identify and deliver on productivity initiatives. In 2019 for example we delivered on business excellence opportunities that more than offset fixed cost inflation and our opportunity landscape will grow in the future. Lastly, we have some very exciting organic growth applications that performed very well in 2019 and will continue to provide faster growth and higher margin opportunities for us in the future.

Now I'd like to discuss some of our specific achievements from 2019. First and foremost, I want to highlight what an exemplary year it was in terms of safety. We are very proud that

Trinseo's overall safety rating in 2019 was one of our best ever – with an OSHA-recordable rate of zero point one one, which puts us at the top decile in our industry. Of course, when it comes to safety, our goal is always zero incidents. So at the end of the year, we recognize those locations with zero injuries, zero spills, and zero process safety incidents for the calendar year with our Triple Zero Award. I'm happy to say that 24 of our manufacturing and R&D sites, which represents more than half of our locations, achieved Triple Zero.

In the area of sustainability, we announced in December that we are entering into a joint development agreement with two leading packaging companies to develop high-quality polystyrene containing recycled material that will be tested in a wide range of packaging applications. These collaborations will help demonstrate to the market that polystyrene is uniquely suited to circularity and offers the potential for closed loop recycling. Circular polystyrene is particularly advantaged, as it diverts waste material away from landfills and can be produced with lower energy and a lower greenhouse gas footprint than traditional resins.

We're also excited to launch our PULSE ECO-series of recycle-containing resins for the automotive market next month. These grades of PC/ABS contain up to 50% recycled content, and are specifically tailored for automotive interior applications. This series will deliver the same quality and consistency our auto customers are asking for but at 40% lower energy consumption than virgin resins. I am also pleased to say that the non-automotive grades of post-consumer waste containing resins grew substantially in 2019 with an 88% year over year volume growth.

Finally, CDP, formerly the Carbon Disclosure Program – is the premier emissions-reporting platform and rating provider related to climate change. They recently increased our rating from B-minus to B for 2019, reflecting our efforts on greenhouse gas reduction and Climate Change initiatives.

Our continued work and progress in Corporate Social Responsibility was one of the reasons that *Newsweek* magazine named Trinseo in its inaugural top 100 of "America's Most Responsible Companies." This high level of performance in safety and sustainability is what I and our executive team have come to expect from our company, and we should all look forward to further progress in these areas in the future.

One of the first things I implemented after joining the company was a Business Excellence process, which is a framework for optimizing business processes and driving productivity and efficiency improvements. As part of this, we established four Business Excellence committees which focus on: Commercial, Supply Chain, Operational, and Functional Excellence.

The Business Excellence process is already producing positive results. For example, in 2019, Polystyrene delivered its highest EBITDA since 2013 due largely to an increased commercial focus on strategic pricing and customer segmentation. On the cost side, we were able to deliver cost reductions equal to 150% of our total company fixed cost inflation.

In Supply Chain, we reduced overall inventory levels on a volume basis by 5 percent in 2019, which contributed to another strong year of cash generation. Over the last two years, we've generated $689 million of cash from operations and $457 million of free cash flow and returned $394 million to shareholders via dividends and share repurchases. Even in the fourth quarter of 2019, with Adjusted EBITDA of $59 million, we generated positive free cash flow despite spending $34 million on our plant automation upgrades and systems separation projects, both of which we view as non-recurring. This ability to generate cash even in a generally weak macroeconomic environment speaks to the strength of our portfolio and the health of our balance sheet.

In the fourth quarter of 2019 we announced changes to our executive leadership team which is now built on a global functional structure. This new structure will increase organizational effectiveness through business process optimization. This effort will accelerate in the future

as we achieve systems independence from Dow in the first half of the year. The control of our systems and business processes will be a rich area of opportunity for productivity in the future. This new structure will also enable the organization to better focus its efforts and investments on product offerings serving three application areas which we believe are less cyclical and offer higher growth and higher margins.

The first is coatings, adhesives, sealants, and elastomers, or CASE, within the Latex Binders segment. These applications, which we serve with our styrene butadiene and styrene acrylic technologies, are expected to grow at GDP-plus rates over the next five years. Our sales volume into these applications increased 14% in 2019, and had margins of more than 2 times the segment average.

The second group of applications are consumer electronics, medical, and thermo-plastic elastomers (TPE) within the Performance Plastics segment, which we are calling Engineered Materials applications. The specialty compounds we sell into these applications, which comprise approximately 17% of the Performance Plastics segment revenue, have margins of more than two times the Performance Plastics segment average. As I mentioned earlier, our post-consumer waste containing resins being offered into these applications are particularly exciting as they are growing rapidly and offer much higher margins than our standard grades.

The third is high performance tires within the Synthetic Rubber segment, which we serve with SSBR produced at our Schkopau, Germany site. High-performance tire demand has grown 3 times the growth rate of standard tires over the last five years, and we believe the electrification of vehicles and fuel efficiency standards will accelerate this trend in the future. SSBR comprised 65% of total Synthetic Rubber segment revenue in 2019, and its margins are typically two to three times those of ESBR.

Now, I'd like to briefly discuss the fourth quarter, and describe for you the market dynamics we're currently in, and how we see them impacting our full year 2020 results.

Our fourth quarter results are reflective of similar business conditions to what we experienced in Q3 but with year-end destocking. Customer destocking in Polystyrene was more pronounced than usual due to rapidly falling feedstock prices. In our automotive markets, we saw customers shutting down production at the end of the year earlier than usual. This contributed to lower styrene margins as well.

Before I move onto the 2020 outlook, I'd like to take a moment to discuss the coronavirus and how we see it impacting our business in Q1. First and foremost, I'm pleased to say that our employees are safe and we've had no infections among our workforce. In addition, our operations in greater China have had no interruptions and the supply of our raw materials have not been affected. However, based on input from our customers, we are anticipating lower first quarter demand from the automotive, consumer electronics, and carpet markets due to the postponed startup of their operations following the Chinese New Year. We estimate the first quarter impact to be $5 to $10 million. Please note, this is a preliminary estimate for Q1 only and to be sure, this is a dynamic situation that we will continue to monitor closely.

Turning to 2020, we are guiding to a net income range of $95 million to $112 million, and Adjusted EBITDA of $325 million to $350 million. These ranges are based on an assumption of similar economic conditions to what we observed in the second half of 2019, and include the first quarter impact from the coronavirus that I mentioned.

So far this year we are seeing positive signals in several segments outside of China. This includes restocking in Polystyrene and better order patterns in Synthetic Rubber.

While European styrene margins declined through the second half of last year, they have been essentially flat since December, which we believe is an economic response to margin levels that have dropped to near cash break-even for most on-purpose styrene producers. For example, we estimate that 13% of global styrene production has voluntarily been taken offline

in the last two months due to these conditions. In addition, we are already aware that one large styrene project in China has been delayed indefinitely. We believe that styrene margins have reached a fundamental threshold where further decline is not sustainable over the long run. In addition, we are seeing similar dynamics in Polycarbonate with signs that prices are increasing in many applications.

In the first half of this year, we'll complete the transition of IT and other administrative services from the Dow Chemical Company, a project that we started about two years ago. The first-year costs of these services will be higher than they were last year, but this will decrease over time through productivity and efficiency efforts. We expect to largely offset lower styrene margins and higher administrative costs with cost savings from our restructuring program and Business Excellence initiatives, as well as growth in SSBR, Latex Binders to CASE applications, as well as specialty compounds to Engineered Materials applications.

So, to close, we are entering 2020 with a full year outlook reflecting similar conditions to what we experienced in the second half of 2019, but with some added uncertainty due to the coronavirus outbreak. However, January demand was stronger than Q4 levels across all our segments, which we view as a positive sign for improving economic conditions in our markets. We will continue to monitor the situation in China as it develops and adjust as appropriate. As always, we are taking appropriate measures to improve our cost structure, reduce working capital, and allocate resources toward resilient, faster growing markets that are complementary to our capabilities.

Before we turn to Q&A, I would like to share that yesterday evening we received a letter from M&G Investment Management, our largest shareholder. They informed us they intend to file a 13D with the SEC and intend to engage the company in discussions on various topics, but with a focus on governance. We look forward to these discussions and are always willing to consider the views of our shareholders.

Now, Julianne, you can open the line for questions.

Operator

Certainly. Thank you. If you would like to ask a question, please press star followed by the number one on your telephone keypad. Our first question comes from David Begleiter from Deutsche Bank. Your line is open.

David Begleiter, Deutsche Bank

Good morning. Thank you. Frank, on the styrene capacity that's offline right now, what's embedded in your expectations relative to your guidance as to how this capacity comes back onstream, if it does, over the course of the year?

Frank Bozich

David, what we believe is that at these levels that the industry will moderate its output to sustain the margins or to operate at a level that is economically feasible. So we don't see them trying to chase volume or trying to place that capacity, rather we see the industry moderating. And we would also say that those operations that are at the right-hand side of the industry cost curve will likely be evaluating their future and we could see some structural changes going forward.

David Begleiter, Deutsche Bank

Very good. And Frank, just on the coronavirus impact, at the low and the high end, what's the expected duration of these planned shutdowns post the New Year holiday? Is it through the end of the month, the end of the quarter on the higher end of the range? Any help there would be appreciated.

Frank Bozich

So what we've been told right now, and the information that we based the outlook that we provided, is that they extended the Chinese New Year holiday for a week. So they would be back online on February 10th. So that's the information that we based that forecast on and, again, it's a dynamic situation and we'll have to see.

David Begleiter, Deutsche Bank

Thank you very much.

Operator

Your next question comes from Frank Mitsch from Fermium Research. Your line is open.

Frank Mitsch, Fermium Research

Terrific. Thank you. And just to follow up on that. So your expectations on coronavirus are really more volume related assuming things come back on February 10th. Now since that's happened, we've had styrene monomer pricing really plunge in Asia. Is any of that negativity also embedded in that $5 to $10 million number or is the expectation that we're going to see a reversal there?

Frank Bozich

Yeah, the current margin levels are reflected in our outlook.

Frank Mitsch, Fermium Research

All right. Terrific. Thank you. And if I could just follow up on slide 12, if I'm looking at your Adjusted EBITDA for 2020 and then I look at some of the calls on cash, it almost implies that your Free Cash Flow might be $50 million or lower. How are you thinking about Free Cash Flow in 2020?

David Stasse

Frank, this is Dave, I think I'll try and take a stab at that one and Frank can add if needed. I think the point I would point out is 2020 is somewhat of an unusual year for cash generation for us for a couple of reasons. One is it's the second of two, 2019 and 2020, of peak spending years for our multi-year control room refresh project that Frank talked about earlier. Spending for that, which is in capex, is about $30 million in 2020 and that drops to $15 million in 2021 and then drops further after that. We also have $15 million of spend as we wrap up the transition from Dow services project in 2020. That will obviously go to zero in 2021.

The other kind of broad category I'd point out for 2020 is turnarounds. We have about $30 million of spending that we'll do, and this is not in capex it shows up in the cash flow statement obviously but, $30 million on turnaround spending in 2020 which is about three times our average. Our average is more like $10 million a year. And the reason for that is we have a turnaround that we typically do once every eight to ten years at a styrene plant in Terneuzen which is a very large project, several months long including replacing the catalyst. So all of that is $30 million. And then also AmSty has a large turnaround where they're actually replacing a reactor. That turnaround is once every thirty years. So AmSty's capex will be considerably higher in 2020 also. So all of those things contribute to somewhat of an anomaly I would say for cash outflows in 2020.

The other thing I'd like to highlight though, Frank, you can see on the bridge we included on slide twelve that one thing we didn't mention was working capital. In 2019 we had a big release of working capital. It was about $125 million. And a lot of that was just due to price declines in feedstocks through the course of the year. But we also reduced our inventories on a volume basis by five percent in 2019 and that's through our supply chain excellence process. We've got a similar target, in fact even a larger target, for 2020 for reducing inventories and we've already identified $50 to $75 million of incremental inventory reduction that we're going to be able to do in 2020. Again, that's not in these numbers. Now I want you to also just keep in mind, Frank, as you know changes in feedstocks prices can over-wash anything you're doing on the volume side of inventory. But if feedstock prices are flat, pretty stable through the course of the year, we would expect to have a working capital reduction in the year of $50 to $75 million in 2020.

Frank Mitsch, Fermium Research

If we have feedstocks flat, we're going to get a $50 to $75 million benefit on working cap?

David Stasse

Correct.

Frank Bozich

That's the target.

Frank Mitsch, Fermium Research

All right. Terrific. Thank you so much.

Frank Bozich

Just to add one last point to that. Now clearly if raw material prices increase and feedstock prices increase, we would have a proportionate reduction or draw on working capital but that would come with economic improvements or business improvements that would drive that feedstock improvement. So we would see that as beneficial.

Frank Mitsch, Fermium Research

Gotcha. All right. Thank you so much.

Operator

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

Laurence Alexander, Jefferies

Good morning. Two questions. First, can you give a feel for how you're thinking about the longer term productivity opportunity after the full separation from Dow systems is completed? And can you frame it in terms of the potential outlays you might do and the return hurdles you have for those productivity investments?

And then secondly, for the targeted growth areas, where do you see opportunities or how much can you accelerate penetration in those markets without pursuing M&A and what would your M&A criteria be?

Frank Bozich

Okay, so, let me take the first question. When we look at the opportunity landscape for our productivity going forward we would see it in the tens of millions of dollars range and that would include both operational benefits that we would get in supply chain through better control of our order to cash and purchase to pay processes as well as actually functional spending reductions that would come, for example, in IT. So to capture those we will have to spend some money and have to scope out some IT systems improvements to migrate away from the systems that we will separate with from Dow but those would have a very quick and strong payback so we're excited about those opportunities. And like I said, they're in the tens of millions of dollars range.

Can you repeat the second question? The organic growth opportunities?

Laurence Alexander, Jefferies

Right. So the growth opportunities that you highlighted. Because they're all each smaller parts of different segments, how do you think about the levers to accelerate the growth of those? Is M&A a component? If you did do M&A what the criteria might be? Just trying to get a feel for what this could look like in five years.

Frank Bozich

So let me just first characterize each of those, that group of three application areas. We find them attractive because they offer much higher margins, greater than GDP growth rates, and they tend to be more resilient and less cyclical than our other markets. So we think we have very good traction right now on organic growth opportunities and we're funding those through increases and reallocation of our commercial and R&D resources. So we're well positioned in the market and if we expand geographically our presence commercially and with technical resources. For example, we announced we would put up a prototyping line in Hsinchu, Thailand related to engineered materials. That will help grow those organic growth opportunities. Now, again, M&A is a tactic or a tool that you use to support that so if the right opportunities came along, we would consider those but, again, we would have to consider those against the opportunities, the market segments, etc. I couldn't tell you right now what specific hurdle rates we would put on those would be.

Laurence Alexander, Jefferies

Thank you.

Operator

Your next question comes from Bob Koort from Goldman Sachs. Your line is open.

Dylan Campbell, Goldman Sachs

Good morning, this is Dylan Campbell on for Bob. Quick question or follow-up on coronavirus. On the $5 to $10 million impact, it sounds like you guys are baking in activity levels start to return following February 10th. Should that last longer, what would be the sensitivity to your EBITDA let's say every week or so that it could be extended?

Frank Bozich

Yeah, I think that's really difficult to say because it depends on which customer segments it is and what part of the geography that it's going to. Maybe stepping back, I'd like to characterize our business in China for you for a bit. We produce and we take raw materials from our suppliers who are generally in the northern coastal region of China. And these areas

have not yet been affected and it's unknown whether they will be affected significantly by the coronavirus. If I characterize where we ship to and our customer locations, those customers are largely in the northern and eastern coastal regions of China also. So we've gotten feedback that customers are coming back to work. Already plants are restarting. Again, very difficult and dynamic situation other than what we know today with specific feedback from customers to give you any more specifics on that but I would say in general the signals we're getting is that the customer plants are restarting or continue to plan to restart on schedule, or the revised schedule they've given us.

David Stasse

Dylan, just to add one other thing, the $5 to $10 million estimate that we talked about. What that assumes is a phased return. In other words, they don't return on February 10th at one hundred percent demand. It's more of a phased approach.

Dylan Campbell, Goldman Sachs

Got it. That's helpful. Thank you. And on Free Cash Flow, it's less than $50 million notwithstanding the working capital benefits for 2020. It seems to undershoot last year's dividend payment. Can you talk a little bit about the capital deployment priorities are in 2020 considering lower Free Cash Flow and talk a little bit about your ability to repurchase shares and whether you can do that a similar pace in 2019?

Frank Bozich

I'll talk about our capital expenditure priorities first. Given that we have significant one-time spending related to the DCS conversions and also our systems migration, that's a top priority. We've also made a priority end of life in EHS capital as always. So where we've moderated our view is on growth capital and what projects that we would fund from a growth capital standpoint and also on productivity capital. So we've prioritized those productivity capital related projects that offer very quick returns. So that's how we would set the priority and that's how we get to the $100 million. As it relates to our program going forward in returning value to shareholders, we're going to continue to take a balanced approach and use the tools as dividends and share repurchase to do that.

Operator

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

Hassan Ahmed, Alembic Global

Good morning, Frank. That chart that you guys shared with us about curtailments in styrene production, very helpful. My question is about some of the new supply that's coming online in the near term, particularly in China some of the green field styrene supply that's coming online. What are you guys hearing about that? Should we expect some delays over there keeping in mind the way the economics are and then for the out-years are you hearing anything in terms of even some of the out-year projects being canceled?

Frank Bozich

I'll answer the last question first. So we have heard that one project scheduled for 2024 in Shengdong has been put on hold indefinitely. We would see that the newer projects are the projects that were already scheduled to come onstream in 2020 and 2021, that they will. And again, those are generally world scale plants that have very favorable economics or more

favorable economics than certainly the Chinese non-integrated producers. I guess I refer back to our slide 11 where you look at the industry cost curve. If you look at the right side of the industry cost curve there's, and we've brought this up before, there is a significant portion of the industry in China with those non-integrated producers that, in this environment, will be significantly disadvantaged. And, again, we believe even the integrated producers in the middle of the cost curve will be evaluating their long-term viability at these economics. Without increased demand at these levels, we would anticipate structural changes as it relates to the industry with capacity being rationalized. That would be a logical thing to expect.

Hassan Ahmed, Alembic Global

Understood. Very helpful. And as a follow-up, it just seems, still many moving parts, still a bit vague, the recently announced Chinese plastic ban. But as you look at that and how it pertains to Trinseo, what impact would you guys expect and, again, very cognizant of the fact that not too many details are available but how are you guys thinking about that?

Frank Bozich

So, in general, we see that as a minor impact on our business. When we look at our Asian polystyrene volume, only ten to fifteen percent of that goes into packaging applications but even a fraction of that go into the targeted single use areas that the Chinese regulation is targeting which is plastic bags, straws, hotel single use items. So, again, if you think about what our product mix and end use mix is, it's largely appliance applications – refrigerators, white goods, etc. So we see that as having minimal impact on where we serve our markets. I guess maybe stepping back and making a more general statement about it, our belief is even in the affected applications, it will take time for technically viable substitutes to emerge that would reduce the demand on those applications and I've heard estimates of several years before technically viable substitutes emerge that would be widespread in the industry. So, again, we see very little impact in our end uses and where it is impactful, it would take time.

Hassan Ahmed, Alembic Global

Very helpful, Frank. Thanks so much.

Operator

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

Angel Castillo, Morgan Stanley

Hi this is Angel Castillo from Morgan Stanley. Just had a quick question Frank, around the cost curve you discussed the high end producers or the high cost producers, just curious as to how trade impacts the entire dynamic of who goes offline in terms of where prices are at today? If China is a net importer, how does that become a factor to all of this dynamic?

Frank Bozich

Well, I think everybody will be in a reduced demand environment and the industry will be looking at their landed cost or landed revenue as they supply. And in general we think they'll factor in those economics and that's why the world class plants that are being launched in China will be viable over the long term and why we believe the non-integrateds in China will

be particularly disadvantaged and I guess I'm going to add one other point that is interesting about the Chinese non-integrated producers. They're sourcing ethylene and benzene from the market to operate. And in an uncertain environment, let's say a prolonged or a declining fuel demand environment or petrochemical demand environment in China, the availability or cost of benzene and ethylene would likely go up and be less available. So we would see this as a very challenging environment for those non-integrated producers where availability of ethylene, because of low output, could curtail what they could bring to the market so we're watching that closely.

Angel Castillo, Morgan Stanley

That's very helpful. Thank you. You noted some restocking in Polystyrene as well as just some better order patterns in Synthetic Rubber. I was wondering if you could give us some more color on those dynamics that you're seeing in the first quarter and perhaps a little bit more color around the regions as well?

Frank Bozich

So as it relates to polystyrene destocking, what we saw was a more pronounced destocking in Q4 than normal year-end destocking simply because of the sharp drop in the feedstock prices. And the consumers anticipating lower polystyrene prices coming out of that in the future. Now I want to remind you that in Europe in 2020, 7% of Europe's polystyrene capacity is actually going to be rationalized. These are the announcements from Total and INEOS last year. So in anticipation of that, we took a value over volume approach in Q4 and we opted to hold margins rather than try and place a lot of volume so as that demand drop occurred, anticipating there would be less supply in 2020 and better fundamentals for us so I'm happy to say that what we're seeing so far in Q1 is strong restocking at good margins. So the tactic that we deployed there in our PS business is paying off so far as what we see.

Sorry, that was Polystyrene and you asked about – was it tire?

Angel Castillo, Morgan Stanley

Synthetic Rubber as well. You mentioned order patterns?

Frank Bozich

Yeah, so Synthetic Rubber actually, demand for SSSBR has been very strong in Q1 or in January. It was very strong over Q4 run rates. We're optimistic that the continued growth in performance tire and the replacement tire market in North America and Europe will continue to drive that.

Angel Castillo, Morgan Stanley

Very helpful. Thank you.

David Stasse

Angel, I would say that just generally speaking, if you look across the whole portfolio, I think it's safe to say what we see early in the quarter in January is better order patterns, higher demand than we saw on a Q4 run rate basis, across all of our businesses notwithstanding the coronavirus in China so I think that generally holds true across the whole portfolio but, again, it's very early obviously.

Angel Castillo, Morgan Stanley

Got it. Thank you.

Operator

Your next question comes from Eric Petrie from Citi. Your line is open.

Eric Petrie, Citi

Hi, good morning Frank. So, China is adding ethylene capacity. Roughly three crackers are starting in 2020 and by 2023 there's roughly ten crackers with at least a million tons capacity. So how does that impact the ethylene availability and the cost economics of these non-integrated styrene plants?

Frank Bozich

So, again, those crackers and that ethylene is destined for basically polyethylene and the economics of a non-integrated producer who's not attached to one of those crackers is particularly disadvantaged because you have to ship and deliver a compressed gas to those sites. So, inherently they're disadvantaged versus an integrated producer. But, I guess the point I was trying to make is that if we see lower demand or lower outputs for fuels and petrochemicals in China early this year or in the first half of this year, the destination for that ethylene will not be prioritized to non-integrated polystyrene, styrene producers. It will be prioritized to those polyethylene applications. So they could see a very challenging environment with availability of ethylene. And that's a situation that we've seen in the past during periods of slowdown in petrochemical demand. I don't know if that helps.

Eric Petrie, Citi

Okay, thank you. And broader picture, Germany industrial production today fell three and a half percent month over month. What are you seeing in terms of broader Europe and then any comments on China demand?

Frank Bozich

I would just go back to the comments that Dave made about how we're seeing the start to the year. In general and in the applications we're serving and some of our grow applications, we see that we're starting the year with good fundamentals. And in the tire industry, there's pent up demand we believe in replacement tire from last year. So we're seeing some strong demand in that area and we're seeing some recovery in the polystyrene side, etc. And then there's fundamentals for us in automotive that are somewhat different from the broader automotive market because it's driven by light-weighting and fuel economy drivers that necessitate the use of plastics in interior applications where we serve. So, again, we feel generally pretty good about what we're seeing so far in this year on the demand side in automotive despite the macro automotive market.

Operator

Your next question comes from Matthew Blair from Tudor Pickering Holt. Your line is open.

Matthew Blair, Tudor Pickering Holt

Good morning everyone. Frank, I was intrigued by some of the comments in the release just regarding the improving trends you're seeing in the consumer electronics market in Asia. Could you provide any more details here?

Frank Bozich

Yeah, so actually that's exciting and we really like that. We had a position historically in consumer electronics with our compounds but it was narrow I would say, concentrated with a few large clients and we've invested in the past several years to broaden our commercial opportunities, our commercial activities and technical activities to other consumer electronics suppliers and so we're getting good traction by broadening who we're going after. So our big clients, if you will, are becoming a smaller percentage of our overall demand. So that's what's driving the results we're seeing. And then the other thing I would tell you that the desire for post-consumer waste recycle content in your product is really exciting for us because the demand is very very strong especially in consumer electronics. So those customers are particularly interested in sustainability and so that's driving very strong demand and we were quick, if you will to, we were early and on the front edge of offering recycled content resins. So we're seeing the benefit of that.

Eric Petrie, Citi

Sounds good. And then just thinking about the turnaround schedule for the year. So you have AmSty with a $10 million impact in Q1. On the Terneuzen turnaround, what quarter would that roll through and would that be about a $20 million EBITDA impact?

David Stasse

Hi Matthew, it's Dave. That turnaround is starting February and it will last into May I believe. So it's several months. And it's already, the impact of that is already baked into our guidance number.

Eric Petrie, Citi

Sounds good. Thanks.

Operator

Your next question comes from Duffy Fisher from Barclays. Your line is open.

Duffy Fisher, Barclays

Yes, good morning. Just wanted to ask a question about the reduction in the economy of plastics and the push from that. How do you think the polystyrene molecule will end up doing versus polypropylene, polyethylene? My guess is that at the end of this road we'll find out there were meaningful differences and how much you can de-content. Do you have any preliminary views on how polystyrene will fare versus the other two major molecules?

Frank Bozich

It's a great question and I would tell you that we believe the fundamentals for polystyrene demand to be sustained or polystyrene, because of its inherent chemical circularity, to be sustained or very strong relative to the other plastics. Now, this isn't casting any negative aspersions to the other plastics. They're always purpose appropriate for their applications. But polystyrene is unique in the fact that it can be chemically recycled at very favorable economics back to a virgin monomer. And that's what we've demonstrated through our joint venture at Americas Styrenics and we think that as that gains traction and the demand by the end consumer for circular materials continues to drive, we see that being widespread. And then collection networks being set up that would feed recycling plants that would bring us recycled polystyrene that we could turn back into virgin monomer. So I really like the fundamentals of polystyrene for those reasons, simply on its chemical…it's a chemical engineering basis for my bias there.

But the other thing I think that's really important for everybody to understand is that the end consumers really want this. And so there's very high demand, very high interest and a very high level of engagement with our customer base to bring a solution and they're talking significantly higher prices they're willing to spend for materials that have recycled content or could be even be one hundred percent recycled. So, bottom line, very optimistic about the future of polystyrene because of those reasons.

Duffy Fisher, Barclays

Great. Thanks. And then just to clarify, your comment that January volumes were stronger than Q4. To level set that, what would that look like year over year?

Frank Bozich

It would be difficult to say. It would be hard to extrapolate that because there's always some seasonality that factors into that but it's materially stronger, demand in January than the Q4 run rate but I couldn't extrapolate that to the full year.

Duffy Fisher, Barclays

Okay. Thank you.

Operator

We have no further questions. This will conclude today's conference call. Thank you for your participation. You may now disconnect.