First Quarter 2020 Financial Results Conference Call Transcript
May 7, 2020

Operator introduction:

Good morning ladies and gentlemen, and welcome to the Trinseo first quarter 2020 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 touch tone phone. I will now hand the call over to Andy Myers.

Andy Myers

Thank you, Jack 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. The replay will be available until May 7, 2021. Now, I would like to turn the call over to Frank Bozich.

Frank Bozich

Thanks Andy. I'd like to welcome everyone, and I hope all of you on the line are safe and healthy. Today I'd like to walk you through the current status of our operations and financial position; what we're observing in our markets; and what actions we're taking to not only navigate the near-term situation, but also to best position Trinseo for the eventual economic recovery.

As always, our first priority is the safety of our employees. To protect our employees during the crisis, we have taken many actions consistent with government and industry recommendations. I am very proud that during this period we have continued maintaining our world-class safety and EHS performance.

As we support our employees, we are also assisting in the health and well-being of many of the communities surrounding our plants and offices. Our Taiwan office sourced and donated thousands of children's surgical masks and hundreds of children's goggles which were used to protect orphans and children in foster care. Our Hong Kong office donated hand sanitizer to hundreds of families and cleaners throughout the city. Our Zhangjiagang manufacturing site in China sourced and provided protective materials including masks, infrared thermometers, and personal protective materials to volunteers in its neighboring communities. These are just a few of the many stories of community support occurring across our sites.

Many of our customers participate in industries that have been deemed essential during this pandemic. We are proud to continue to supply them with products that are intrinsic to their efforts, such as polycarbonate for use in protective shields and latex binders and polystyrene for food packaging. We are particularly proud to serve our customers involved in the production of medical devices, especially those used for critical patient care and respiratory therapy. We have taken specific actions to ensure the continued operation for these customers. We're grateful to do our part to support the medical community and we want to acknowledge and thank all of the healthcare professionals and manufacturing teams around the world for their dedication.

We have been able to meet all customer demand as all of our plants are currently able to operate, and our supply chain has continued to function without any significant delays or loss of business. The minimal disruption in our operations is the result of the diligent and dedicated work of our employees who have demonstrated an exemplary ability at problem solving and contingency planning. This is an example of the vital contribution our employees provide, and I want to take this opportunity to thank them for all of their effort to ensure the continued, safe operations of our facilities.

Turning to our business, our financial priority, during Q1 and for the near term, has been maximizing cash generation and enhancing our already strong balance sheet. During the first quarter, we had approximately $30 million of project-related spending. This was related to our systems and process transition from Dow, which is largely now complete, as well as for plant turnarounds, restructuring, and manufacturing systems upgrades. Despite these expenditures, $25 million in share repurchases, and the Q1 timing of our annual variable compensation payment, we ended the first quarter with $440 million of cash and an additional $500 million of liquidity through committed facilities.

In the second quarter we have already taken several actions to improve our liquidity position. First, as we previously disclosed, we drew $100 million from our revolver early in the quarter as a precautionary measure. Second, we plan to reduce full-year 2020 capital spending from $100 million to $80 to $85 million, by deferring non-essential maintenance and productivity projects. Lastly, we are undertaking a number of cost actions including a reduction in consultant, travel, and discretionary spending, which are expected to result in $25 million of savings this year. These savings are in addition to the previously committed restructuring savings of $20 million to $30 million per year announced in late 2019.

In the second quarter, we expect a release of working capital of greater than $100 million from a combination of lower raw material costs, an increased ability to manage our payables, and a reduction in inventory from optimizing our manufacturing and supply chain networks. Backed by our already strong balance sheet and additional liquidity levers, I am very confident in our ability to maintain a very strong cash position during the remainder of the year.

Before I talk about the current market conditions, I'd like to say a few words about the first quarter. In terms of demand, January sales volumes were the highest since the first half of 2019, showing a rebound from the second half of last year. We saw a similar trend in February in North America and Europe, but Asia slowed following Chinese New Year from Covid-19. While Asia recovered nicely in March, we started to see a decline in North America and Europe in the second half of March as government mandated shutdowns increased, and consumer concern over Covid-19 grew in those regions.

Overall, for the first quarter we estimate that we experienced a pre-tax $6 million headwind from Covid-19 impacts, primarily in Synthetic Rubber. We also had a $5 million unfavorable impact to the contribution to EBITDA from AmSty due to the significant turnaround they executed during the first quarter.

Looking at the start of the second quarter, the decline in demand that began in late March has accelerated in April, particularly in the automotive, tire, and textile markets. April automotive production was about 95% lower in both Western Europe and North America due to the large number of plant closings. This steep decline in auto and tire demand impacts both our Performance Plastics and Synthetic Rubber segments, and we expect second quarter sales to those applications to be down about 50% versus prior year. However, we expect auto production will return as inventories continue to be drawn down in many regions. For example, we estimate that North America finished vehicle inventory at the end of April was about 25% lower than prior year. As a reminder, sales to automotive make up approximately 40% of Performance Plastics revenue.

We are also seeing demand declines for latex binders in graphical paper and carpet applications in the second quarter. However, there has been strength from latex binders and polystyrene in food packaging applications; polycarbonate, for use in isolation sheets and face shields; and engineering materials used in medical device applications such as respirators. We expect these trends to continue through the second quarter.

Earlier I mentioned the near-term cash and liquidity actions we are taking to mitigate the risks caused by the pandemic; however, we are taking additional steps to improve the long-term position of Trinseo and to enable our future success, especially when the economic recovery begins.

First, we have largely completed our multi-year project to achieve systems independence from the Dow Chemical Company. This will enable significant cost savings and cash flow opportunities in the future now that we have control over our systems and the related processes.

Second, sustainability initiatives are part of our long-term strategy to increase demand for products while operating in a socially and environmentally responsible manner, and we remain extremely focused on this. During the first quarter we launched our new PULSE Eco-series of recycle-content-containing resins for the automotive market. These grades of PC/ABS contain up to 50% recycled content and are specifically tailored for automotive interior applications. The PULSE series was targeted by Daimler as an example of the materials it is looking to utilize to attain its 2039 goal of a carbon-neutral fleet.

In March we announced a new latex binder for interior paints, which offers exceptional performance balanced with reduced environmental impact. This is part of our Coatings, Adhesives, Sealants and Elastomers, or CASE, applications offerings, and it provides exceptional scrub resistance, touch up, and hiding performance, with low-to-zero emissions of VOC's.

Our annual Sustainability Report will be published and available this summer. We will have further information on our progress in this area and I look forward to sharing more exciting updates in the future.

Lastly, we continue to take actions to improve our portfolio. We will continue to invest in applications that display higher growth and less cyclicality such as CASE in Latex Binders, SSBR in Synthetic Rubber, and Engineered Materials in Performance Plastics. We are already observing some positive results from increased investment and focus in these areas such as first quarter CASE volumes grew 11% versus the prior year.

As we move toward applications with higher margins and less cyclicality, we are taking steps to improve the cost position of the more commoditized parts of our portfolio. To that end, we have initiated a consultation process with the Economic Council and Works Council of Trinseo Deutschland regarding the disposition of our styrene monomer assets in Boehlen, Germany and the polybutadiene rubber assets in Schkopau, Germany. The combined Adjusted EBITDA of these assets in 2019 was negative $18 million.

We are also keeping a close eye on trends and market actions that are emerging because of the pandemic. Future trends could include increases in food packing applications, greater demand for consumer electronics at home, and additional needs for plastics for isolation sheeting and medical applications. To ensure that we identify and address new developments and trends, we have increased the frequency of our executive team reviews to weekly. Additionally, during the quarter our Board of Directors created a COVID-19 Response Committee, which meets bi-weekly, to allow the Board and Company Management to respond quickly to COVID-19 related financial, operational and health and safety issues.

Before going into Q&A, I'd like to take a few minutes to discuss the recent decline in oil prices and the resulting decline of our raw material prices, and what that means for Trinseo. First, for our derivative products, the large portion of these have contractual pricing, where the cost of raw materials is passed through to our customers either formulaically or through contractual pricing adjustments. For those not under contracts, the pricing is typically adjusted monthly based on raw material cost changes and market supply / demand dynamics. In these cases, changes in raw material prices do not meaningfully impact our margins.

In some cases, where we have differentiated product advantage and more value-based pricing, we have more of an ability to expand margins in a decreasing raw material environment. But for the most part, we generally do not experience a significant margin change as raw material prices change, except due to temporary net raw material timing impacts.

The significant drop in oil prices and fuel demand has resulted in a dramatic and favorable change in the cost position of naphtha-based cracking in Europe. This greatly reduces the cost of our raw materials such as butadiene, ethylene and benzene and could create new opportunities for us. For example, lower butadiene in Europe could create new opportunities for the sales of Synthetic Rubber to other regions. Regarding styrene production, these lower benzene and ethylene costs have enabled our facilities in Europe to become more cost competitive. Therefore, we've seen fewer styrene imports into Europe and higher relative margins in comparison to the beginning of the year. In fact, May margins are coming in higher than the first quarter average, and this could continue based on the current outlook for oil prices. In addition, we are seeing lower than average utilization rates at POSM plants in Europe due

to lower demand for propylene oxide. A continued low fuel demand environment will make our network more cost competitive as demand returns.

In closing, the financial outlook beyond the second quarter is very difficult to estimate and will largely depend on the speed and scope of the economic recovery of various geographic regions and end markets. As a result, we have suspended our full-year guidance as well as additional share purchases. While we remain hopeful that the second half of the year will provide economic recovery and a significant increase in demand, we are preparing for various economic scenarios.

Due to the strength of our balance sheet, our low capital intensity, the capabilities of our employees, and the strategic actions we continue to take, I believe we will emerge from this challenging time well positioned to grow the business and preserve our dividend.

With that, Jack, you may now open the phone line for questions.

Operator

Certainly. At this time, if you'd like to ask a question please press * 1. Frank Mitsch with Fermium Research, your line is open.

Frank Mitsch, Fermium Research

Good morning and glad to hear you folks are sounding well. Frank, I appreciate the commentary with respect to low raw materials. But I was curious if you might be able to parse out what the purchasing patterns of your customers would be in response to that? Typically, we do see some drop off as downstream customers anticipate lower pricing and so you see some inventory destocking. Now, I understand these are unusual times. I'm wondering if you have any color on how it might be impacting the purchasing patterns of your customers?

Frank Bozich

Yeah, first let me point out that one of the impacts related to what you described was that we actually did see significantly lower polystyrene demand in Q1 as people destocked anticipating lower costs and now we're seeing that demand recovery in Q2, and in April, very strong recovery. So that relates to the dynamic that you're describing. But in general, what I would point out is that, I can take you through a little bit of the dynamic of what we're seeing in April for demand. Overall, we saw demand decrease consistent with what we described to about 20 percent overall for the whole portfolio. But that was with increases in polystyrene applications and also in some of our latex binders applications that are actually growing versus prior year. But generally, the overall percentage of decline that we have seen has been consistent with our guidance.

Frank Mitsch, Fermium Research

Gotcha. Understood. And that's helpful that you're seeing polystyrene come back. And I do appreciate some of the color, I want to ask a question on Synthetic Rubber. Obviously, you mention that you think, or at least in the slides, that volumes are down 50% in the second quarter. Obviously so much of that is auto related. Can you parse out your expectations on a month by month basis? Because obviously we're hearing of auto production sites coming back up this month and so if it's down 50, would you say

that it was down greater than that in April and your expectations are for recovery or how are you looking at a pace of recovery from your auto related businesses?

Frank Bozich

Yeah, so tire demand was down 60% year over year in April and we're actually seeing an improved order flow for May and so we would anticipate that we end up at that 50% through that recovery, gradual recovery and reopening of those tire plants. But May is certainly significantly better than April was, and we are already seeing bookings for June. So, in general we're seeing a good order flow to start May on a reduction from April of 61%.

Frank Mitsch, Fermium Research

Terrific. Thanks so much.

Operator

David Begleiter with Deutsche Bank, your line is open.

Katherine Griffin, Deutsche Bank

Hi, this is Katherine Griffin on for David. Thanks for taking the question. Could you talk about how you expect decremental margins to look in Q2 and maybe on a full year basis? Any color there would be helpful. Thank you.

Frank Bozich

So actually, we're seeing margins improve somewhat across the portfolio as an outcome of the low feedstock prices. So, net of timing impacts, and Dave can maybe comment on timing impacts that we would see. We're seeing an improvement based on the reduced feedstocks. And what I would also point out specifically on styrene monomer margins is that we're seeing styrene monomer margins in Q2 at the highest level since we saw in the first half of last year.

David Stasse

Katherine, this is Dave. I think the other thing I'd point out, and Frank mentioned this in his prepared remarks, is a lot of the derivative businesses operate with passthrough agreements. So, for example, Synthetic Rubber, substantially all of our sales or 85 to 90 percent of the sales in that business are sold with contractual passthroughs of feedstock prices. And we make a fixed dollar margin on top of that depending on the grade. Latex Binders in Europe and North America works the same way. So, a lot of the derivative business has kind of built in price per pound, if you will, margin. Now as a percentage of revenue that would go up obviously in a declining environment. So, I think you have to keep that in mind. The other thing is Frank did highlight with timing. We've seen a substantial drop in feedstock prices that really began at the end of March and continued into the second quarter. And I think as we stand here today, our best view of net timing impact for the quarter, Q2, is negative $40 to negative $50 million. Now that's the P&L impact. Obviously, the counter to that is cash flow in a declining environment, will have a big release of working capital as we highlighted in our slides of over 100 million dollars in the second quarter.

Katherine Griffin, Deutsche Bank

Okay, thank you!

Operator

Bob Koort with Goldman Sachs, your line is open.

Dylan Campbell, Goldman Sachs

Good morning. This is Dylan Campbell on for Bob. Appreciate the kind of analysis you put in there on the cost curve. When we think about the AmSty business which actually represents a pretty significant amount of your EBITDA in 2019, it looks like on this cost curve, it seems like the cost advantage you were assuming that AmSty business has, has kind of gone away or lost a lot of that feedstock advantage on declining oil prices. How does that impact in terms of margins for AmSty along with your competitive positioning within that business?

Frank Bozich

So, there's two factors that play out for AmSty. One is that North American POSM plants are seeing the same reduction that European POSM plants are having as automotive demand and propylene oxide demand goes down. Those are scaled back and North American POSM plants represent about 20 percent of North American capacity for styrene monomer. So in general we'd see that versus Q1 we're going to see an improved contribution from AmSty going through the rest of the year because largely not that much impact from their unit margin, them able to place their demand and then they've gotten through this substantial turnaround that they had that had a negative headwind. So, we see improvement from the contribution of AmSty for the remainder of the year.

David Stasse

Dylan, this is Dave. Just to add another point there. One thing I think you need to consider also is the integrated nature of Americas Styrenics. The extent to which they're long styrene, if you will, in other words, styrene that's not used by themselves in their own polystyrene production is much less than our styrene length if you will. We produce 700 kts of styrene in Europe and we're exposed to that styrene margin but AmSty's, the amount they're selling into the merchant market is substantially smaller than that. It's probably two or three hundred kts.

Dylan Campbell, Goldman Sachs

Got it. And I guess on that point, can you talk a little about what prevents imports into the US in terms of polystyrene? I know that the US market has been insulated.

Frank Bozich

Polystyrene?

Dylan Campbell, Goldman Sachs

For polystyrene, yes.

Frank Bozich

Really polystyrene is a regional market and we haven't seen ever significant transportation of polystyrene around the world. Traders that do that are reluctant because the historical price volatility so it's really a regional market.

Dylan Campbell, Goldman Sachs

Got it. Thank you.

Operator

Vincent Andrews with Morgan Stanley. Your line is open.

Angel Castillo, Morgan Stanley

Hi, good morning everyone. Just following up on the question on the cost curve. Just thoughts about your European capacity and how much of that is contract versus spot? Or perhaps also on an industry perspective? And then following up on that, just thoughts given the improved economics for European capacity. Any rethinking of the Boehlen plant and whether that should be shut down or whether you can take advantage of the improved economics?

Frank Bozich

So, there's a couple questions there. The first point I would make is that we're a net buyer of styrene monomer in Europe, so we consume almost, generally, when we do sell in the merchant market it's a short-term basis or very opportunistic. That's the first point. As it relates to Boehlen, our decision to engage the Works Council in the consultation process was really more driven by the reliability of that asset due to the inconsistency of some of the upstream supply that we've gotten over the years and, as an example, over the past two years by memory that plant has operated at only about 66% asset utilization so Boehlen is less about the feedstock cost, relative feedstock cost, than it is a reliability and commercial cost issue. So, our intention is to continue through that consultation process and once that decision, we get advice from the Works Council, we can make a decision.

Angel Castillo, Morgan Stanley

Very helpful. And then just to follow up on that, in terms of potential costs if you were to close the plant down, any way to kind of provide some color there or guide that in terms of cost. I believe you already took an impairment charge. Just actual cash flows as a result from that.

Frank Bozich

Yeah, as I stated in the script, between that asset and our polybutadiene rubber plant those had a negative impact on EBITDA in 2019 of $18 million. That'll give you a magnitude.

David Stasse

Angel, it's a little bit early for us to comment on that. We're still going through the consultation process with the Works Council. Obviously and that will heavily influence. I don't want to jump the gun there. But the other thing I would say that I think is important for people on the call as it relates to our liquidity, regardless of outcomes, we don't see any cash flows of materiality going out the door related to that project in 2020.

Angel Castillo, Morgan Stanley

Very helpful. Thank you.

Operator

Hassan Ahmed with Alembic Global, your line is open.

Hassan Ahmed, Alembic Global

Good morning Frank and Dave, question on the near- and medium-term supply demand side of things in styrene. You know they see demand as highly unpredictable right now so completely cognizant of that but on the supply side with some of the changes in the raws we've seen, cost curve moves and the like, but on the other side a lot of companies sort of cutting their capex, particularly the growth capex, curtailing projects, delaying projects. What's your latest and greatest view of where we are near-term wise in styrene utilization rates, supply/demand fundamentals and what this picture may look like over the next year, two years assuming obviously there's some sort of normalization in the global GDP picture?

Frank Bozich

Yeah, so we think global utilization has decreased in this environment to the low 80% range. But there are some dynamics that are playing themselves out that are leading to improved margins particularly in Europe. And I mentioned, the first one is PO demand into the auto applications. So POSM plants in Europe are 40% of that supply. And then the second factor is this lower feedstock cost and that has created a barrier to import into Europe. So, we see at least for the near term that Europe is going to be somewhat advantaged and margins expand. But I think the thing that we're watching intensely is fuel demand and what that means relative to Europe cost structure for the critical feedstocks that go into styrene relative to the rest of the world. And as long as we have low fuel demand globally, with Europe already being long before the crisis where they were exporting 33% of their gas production and naphtha going into gasoline. And then the other factor, big factor, being aviation fuel. As those demands are low, the only outlet for that naphtha that's coming out of European refineries is into petrochemicals and that will create a very, very low-cost environment particularly in Europe relative to the other regions. So, we see dynamics in Europe being helped by that low fuel demand more so than even low oil price. The other thing, the last piece to answer your question about, there are delays now in, delays being announced in projects that were planned for Asia so we see the industry fundamentals will not be as negative as we had previously thought before the crisis.

Hassan Ahmed, Alembic Global

Understood. Very helpful, Frank. And as a follow-up, I know it's a much smaller part of the your overall business but on the polycarbonate side of things, one of the European companies, larger ones, that's a significant player within the polycarbonate business reported EBITDA margins rising by over 300 basis points sequentially in Q1. So, again, you know I understand Q2 is a bit of an odd quarter with the lockdown and the like but my question is what we saw in terms of results in this company in Q1, is that a start of a trend, are you seeing some sort of a recovery barring this Q2 demand, tepid demand environment, once we get through it, is this the start of a new trend and, if it is, I mean I know you've shelved your plans about potentially selling your polycarbonate plant but does that change anything?

Frank Bozich

So, the simple answer is no, we don't see a change in our plans, and I would say just as a reminder, only 50% of our production of polycarbonate is sold in the merchant market. The rest goes downstream into our more value-added products. But what we've seen in terms of margin expansion is consistent with what you described and it's really due to the mix of our merchant sales and we, in fact, again we're a much smaller producer but the mix of our sales, we do get a lot of that merchant sales go into the sheet business and that's benefited greatly from the demand in isolation sheeting. So, again, no plans to revisit anything regarding Stade and we have also seen that margin expansion.

Hassan Ahmed, Alembic Global

Very helpful, Frank. Thank you so much.

Operator

Eric Petrie with Citi, your line is open.

Eric Petrie, Citi

Hi, Frank. Good morning. So, I wanted to ask about what your trends of recovery were in Asia Pacific? How did your sales go in March and April, the region represents a large portion of your latex, polystyrene and performance plastics revenues?

Frank Bozich

Yeah, so we saw a general recovery beginning in March in Asia Pacific and frankly, I would say qualitatively most of our Asia Pacific plants are now running at higher rates. The two areas where we've seen probably delayed recovery from what we would consider normalized demand levels are in textiles, graphical paper and also to the extent that we were supplying applications in China that go into export markets. Those applications that rely on export demand from Chinese manufacturers have been delayed somewhat.

Eric Petrie, Citi

Helpful. And secondly, your AmSty dividends were guided down to zero to 25 million from 110 million last year. Should we think about EBITDA contribution declining the same or by less than that?

David Stasse

No, you should not. Well. you should not think of the EBITDA contribution as zero if that's the question. I mean you can see what the EBITDA contribution was for the quarter and remember we account for them on the equity method of accounting so we take half of their net income and that's what we attribute to what we call EBITDA from the AmSty segment, if you will. So as Frank mentioned in the call, we did have the impact in the first quarter from the turnaround which was about $5 million of our portion of America Styrenics net income but we do think that Q1 will likely be the low point of the year clearly for AmSty because of that big turnaround. And because of what Frank said earlier we are seeing higher styrene margins in Q2 versus the first quarter.

Eric Petrie, Citi

Okay, thanks.

Operator

Laurence Alexander with Jefferies, your line is open.

Kevin Estok, Jefferies

Hi good morning, this is Kevin Estok on for Laurence. My first question has to do with, you just mentioned investing in CASE applications and SSBR and I guess I was just wondering how much of that invested would go toward organic growth versus M&A?

Frank Bozich

So, as it relates to investments that we're making in CASE, to support CASE and SSBR, the investments that we have are relatively small. I would point out that this year, last year with the acquisition of the Rheinmuenster site in Germany gave us an opportunity to expand our capability to serve the CASE market so that was an investment we made. But the remainder of the investments that are planned or that we're supporting for this year are related to us taking advantage of having that Rheinmuenster asset, but it's all organic.

Kevin Estok, Jefferies

Got it. Okay, thank you. That's very helpful. And my next question is just to make one clarification, I think you guys maybe mentioned it. How much of your capex is just for basic maintenance?

Frank Bozich

Well, for this year what we would point out is that of that revised capital budget, about $45 million of that capital is for EHS, maintenance capital, end of life capital. There's a very small component of productivity and growth that I've pointed out. The balance of that is related to these significant projects that we have and that's why it was largely first half weighted. So, once those go away it will significantly step down in expenditures related to those projects in the second half given the current low level of capital spend that we have besides that.

Kevin Estok, Jefferies

Great. Thank you.

Operator

And our final question comes from the line of Matthew Blair with Tudor, Pickering, Holt. Your line is open.

Matthew Blair, TPH

Hey, good morning everyone. Hope you're all doing well. There was a report that China ABS utilization is already back up to 88% which seems pretty good so does that match with what you're seeing, is that indicative of an improving auto market in China, and how are ABS margins faring just given low styrene prices?

Frank Bozich

So, we have seen ABS demand go up and what's really a big driver for that globally, not just in China, is appliances and white goods. So, I think that even the social distancing and the stay at home orders has triggered a lot of what we're seeing as a significant increase in appliance demand and so that's driving ABS. And then also as we pointed out, automotive is recovering and the inventories, finished vehicle inventories, were relatively well managed so we're seeing that flow through the value chain to us in terms of higher demand in ABS beginning in March and now in April particularly in China.

Matthew Blair, TPH

Okay and how are ABS margins holding up here?

Frank Bozich

Well, as we pointed out before, most of the margins, we have passthrough pricing so it's a volume story therein margins are relatively stable to what they've been historically.

Matthew Blair, TPH

Got it. Thank you!

Operator

This concludes today's conference call. We thank you for your participation. You may now disconnect.