Second Quarter 2020 Financial Results Conference Call Script

Company Participants

- Andy Myers, Director of Investor Relations
- Frank A. Bozich, President and Chief Executive Officer
- David Stasse, Executive Vice President and Chief Financial Officer

Other Participants

- Frank Mitsch
- Katherine Griffin
- Adam Bubes
- Hassan Ahmed
- Michael James Leithead
- Eric Petrie
- Angel Octavio Castillo Malpica

Presentation

Operator introduction:
Good morning, ladies and gentlemen, and welcome to the Trinseo Second Quarter 2020 Financial Results Conference Call. We welcome the Trinseo management team, Frank Bozich, President and CEO; David Stasse, Executive Vice President and CFO; and Andy Meyers, Director of Investor Relations. Today's conference 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 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 Mr. Andy Myers. Please go ahead.

Andy Myers
Thank you, Amy, 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 July 30, 2021.

Now I would like to turn the call over to Frank Bozich.

Frank A. Bozich

Thanks Andy, and welcome to Trinseo's second quarter earnings call. I'd like to start by discussing our 2020 sustainability and corporate responsibility report which we published earlier this month. Since our founding a decade ago, Trinseo has maintained sustainability as a core value. After joining Trinseo last year, I've come to understand how deeply this is embedded within the company, and how truly passionate our employees are about improving our world, addressing complex material challenges, and delivering sustainable products that are intrinsic to daily life.

Our report lists many accomplishments which we are proud of, covering a broad range of areas across the company. These include safety, for which we achieved an injury rate of only 0.11 per 200,000 hours worked in 2019. This puts us in the upper echelon of the chemical industry. It includes environmental protection where we've reduced our Scope 1 greenhouse gas emissions by 37% since 2011. It covers product development where we continue to focus on many innovations including a greater proportion of post-consumer recycled content and the products we sell as well as investments in polystyrene circularity. It's because of results such as these that Newsweek recognized us in its 2020 list of America's Most Responsible Companies, and we have achieved favorable ratings from EcoVadis and CDP, which was formerly the Carbon Disclosure Project.

In June, we celebrated our 10th anniversary as a company, and would like to thank, once again, our dedicated employees who helped us achieve this momentous milestone. We also believed our anniversary was an appropriate time to look 10 years ahead, and embark on an ambitious, measurable and achievable long-term sustainability journey. The roadmap for this journey is outlined in our 2030 Sustainability Goals, which we announced earlier this month. This ambitious plan includes 15 long-term goals under five main categories: the target climate change, sustainable products, supplier responsibility, responsible operations, and sustainable workforce. These goals were created in part from a critical assessment of the company's capabilities as well as valuable feedback from customers and suppliers.

We remain focused not only on controlling how we are impacting our environment and society, but also how we can best position our business for success in a sustainable economy. That is what makes initiatives such as partnerships to advance the quality and use of polystyrene recycling so important. So I want to acknowledge our employees for all their hard work, and I look forward to next year, when we can discuss our progress against achieving these goals.

Next, I want to provide a brief update on our business operations and the well-being of our employees as it relates to COVID-19. I'm pleased to say that our business operations including production and logistics experienced only minimal interruption by COVID-19 during the second quarter, and we were able to meet all demand of our customers. We continue to prioritize safety of our employees by supporting working from home where possible, increased cleaning at our facilities, and limiting travel. I am very proud of the leadership and agility that our employees have demonstrated throughout this

pandemic, which resulted in the safety and health of our team as well as the uninterrupted service to our customers.

Before I discuss the second quarter results, I'd like to provide you with an update on some steps we are taking to improve our asset footprint. Please recall that we have initiated consultation process with the Economic Council and Works Council of Trinseo Deutschland regarding the disposition of our styrene monomer assets in Böhlen, Germany, and the polybutadiene rubber assets in Schkopau, Germany. After a thorough analysis, we have decided to move forward with the closure of the polybutadiene assets in Schkopau, which should be completed by the end of the year. We are still evaluating the disposition of the styrene monomer assets, and hope to provide an update over the next few months.

Turning to the business results for the second quarter, I'm very pleased with the second quarter result. In an environment of historically low demand across several of our end markets we took aggressive action on cost and on working capital to significantly improve our position coming out of the pandemic. We estimate that the financial impact of the pandemic on the second quarter to be just over $100 million which includes both lost demand as well as unfavorable timing from the steep drop in raw material prices. Therefore, the very strong free cash flow generation we had in Q2, is something I'm very pleased with.

The automotive industry was particularly affected, as we observed about 80% lower year- over-year demand from North American and European customers in April and May. However, we saw significant improvement in June and that has accelerated in July. Recall that our automotive sales are approximately 45% to each North America and Europe, and 10% to Asia. Tire demand followed a similar trajectory through the quarter with the low point in April followed by improvement across the rest of the quarter and a strong follow-through into July.

In addition, slowdowns in demand for graphical paper and textile applications led to lower volumes in our latex binder segment, but this was partially offset in the segment by the resiliency and demand in our paperboard packaging and CASE applications. On a year-to-date basis, CASE volumes were 3% higher than the same period in the prior year.

I also want to mention that sales to engineered materials applications within our performance plastic segment decreased only 12% on a year-to-date basis in comparison to 22% for the overall segment. Within engineered materials, we provide an offering of sustainable solutions, including various products with significant post-consumer recycled content, and this relatively better performance reinforces our commitment to continue investing in these solutions.

Polystyrene saw strong volumes during the quarter from both increased packaging demand in Europe as well as strong demand for appliances in Asia. And our Feedstock segment continues to benefit from expanded styrene margins caused by lower raw material prices in Europe. European styrene costs remain more competitive than in prior periods as a result of low-cost naphtha due to low fuel demand and reduced POSM operating rates.

Despite the historically low levels of demand during the quarter, we generated $82 million of cash from operations, which yielded free cash flow of $58 million, including a decrease of a $131 million across accounts receivable, inventory and accounts payable from declining raw material prices and inventory management initiatives. Our balance sheet continues to be a source of strength as we ended the second

quarter with $582 million of cash and $371 million of availability under committed lines, resulting in total available liquidity of $953 million.

In addition to working Capital Management, [we have also --] we are also taking steps to reduce our cost base. Overall, for the year, we expect savings of approximately $30 million from these actions. A portion of this is temporary related to reductions in travel and other discretionary spending. However, we expect the structural cost savings will have a $25 million full-year impact going forward.

Our ample liquidity position coupled with our view that the market bottom for demand for many of our end-markets was in April, led to a decision to repay the full $100 million in July from the revolver draw that we made at the beginning of the second quarter. We will continue to manage cash, to cost control, working capital initiatives and strategic capital spending.

Before I discuss the outlook for the second half of the year, I'd like to give you some perspective on the first-half performance. The adjusted EBITDA in the first half of the year was $48 million, including an estimated $65 million to $70 million of lost earnings from COVID-19, mainly from the lower volume in the second quarter. This, combined with the $58 million of negative net timing from a steep decline in raw material prices, created a uniquely adverse environment for earnings in the first half of the year. Excluding these impacts, you can see that the first-half 2020 performance was similar to last year's EBITDA run rate.

It's impossible to say how long the business will be impacted by COVID-19, but we view April as the trough, and we see positive volume recovery through the quarter, which continued into July, and we look forward to improve results in the third quarter. We are seeing sequential demand improvement in automotive and tire applications. This is especially true in North America automotive market where sales far outpaced production in the second quarter, which resulted in lower than normal inventory levels for the region, especially for trucks and SUVs.

Overall, while we expect the third-quarter sales volumes to be sequentially higher, we expect them to be lower than prior year, particularly to automotive, tire, textile, and graphical paper applications. The same applications that experienced the largest demand impacts in the second quarter. We will continue to be highly focused on cash generation and liquidity. Many of our larger turnarounds and special capital projects such as the Dow Services transition were completed in the first half of the year, which will result in lower project-related spending in the second half of the year.

July styrene margins in Europe continue to leverage low benzene from abundant naphtha, and we expect that dynamic to continue as long as fuel demand is low and POSM rates are reduced. In addition, we expect a favorable net timing impact in the third quarter of about $10 million, given increasing raw material prices as overall demand recovers.

While it's difficult to predict the rate of economic recovery, it's important to note that we've taken actions to reduce operating expenses, and we will continue to be highly focused on maximizing cash as the rate of recovery remains unknown. We will also continue to prioritize investments in our growth areas: CASE, Engineered Materials, S-SBR, and sustainable solutions across the portfolio. This will ensure that we are well positioned to accelerate profitability and cash generation when the recovery occurs.

Thank you and you may now open the lines for questions.

Questions and Answers

Operator
Ladies and gentlemen at this time if you would like to ask a question please go ahead and press *, then the number one on your telephone keypad. Please limit your question to one question and one follow up to allow other participants time for questions.

Your first question comes from the line of Frank Mitsch with Fermium Research. Please proceed with your question.

Q – Frank Mitsch
Thank you so much. Good morning, and happy 10th anniversary. Sorry that I didn't send either tin or aluminum. I think those are the appropriate gifts.

A – Frank A. Bozich
[Laughter] Thanks Frank.

Q – Frank Mitsch
I appreciate that April was the low point in the quarter and things have been getting sequentially better. I was wondering if it was possible to quantify kind of the volume declines that you saw during the second quarter? And I understand, 3Q is going to be up sequentially but down year-over-year what you saw in July as well. Is there a way that you can maybe quantify the pace of recovery off of that April bottom?

A – Frank A. Bozich
Yeah. So overall for the business, we saw a 20% reduction overall in April. It improved to 17% reduction. And then in June, we were only 6% overall volume reduction versus prior year. So, for the quarter, it was an average of 14%.

Now, what's important to understand is, on a volume basis, we have very, very large volumes that go into polystyrene that were pretty resilient - were very resilient during the quarter. So, if you dig a little deeper, what you'll see is that in automotive in Q2, we were 65% down versus prior year volume. And in April and May, it was actually 75% down, but improved in June to 45% and we see that momentum continuing into July and the pre-orders we have for August.

And again, it's important to recognize that our regional mix for the automotive related sales is about 45% for both North America and EMEA, and only 10% in Asia. In synthetic rubber, which 90% goes into tire applications, Q2 overall, we were down 55% and the progression was similar to what we saw in automotive but we anticipate that Q3 will be about 20% down versus prior year. And again, that's proving itself out in the order pattern and again continuing into August.

The rest of the markets are relatively steady, and we're seeing gradual -- the ones that were steady remain steady. So polystyrene, paperboard, CASE applications remain steady, and we're seeing gradual, progressive improvements in the other submarkets like textile and graphical paper.

Q – Frank Mitsch
Gotcha. That's very helpful, Frank. And you announced that you took the decision to shut down the Schkopau assets by the end of the year. What is your projected savings in 2021 with that action?

A – Frank A. Bozich
So the overall savings from the entire program that was under evaluation for both Böhlenand Schkopau was $18 million. Now, the majority of that is related to Böhlen. So, the impact for the closure -- the EBITDA impact from the closure in Schkopau will be smaller percentage of that $18 million. But again, it's going to release working capital, as well as will have capital avoidance going forward in the future. So, it's absolutely the right decision. It will be positive in all fronts.

A – David Stasse
Frank, maybe just to add one thing on that also. There's no -- what we're really doing is, we're mothballing the asset. So, there's no closure cost and there's also no severance of any significance associated with that PVR closure.

Q – Frank Mitsch
Gotcha. Thanks so much.

Operator
Your next question comes from the line of David Begleiter with Deutsche Bank. Your line is open.

Q – Katherine Griffin
Good morning. This is Katherine Griffin on for David. Thank you for taking the question. I was wondering if you could talk about how you see the net timing and COVID-19 related unfavorable impact that you mentioned on Slide 12. If you could talk about sort of what you expect for second half from those impacts, say from the perspective of decremental margins or fixed cost absorption, just given what you've said about maybe volumes looking a little bit better?

A – David Stasse
Sure. Hi Katherine, I'll take a shot at that. For net timing, that's obviously entirely contingent on what happens to the feedstock prices. So, we had a big negative because of the large drop really across -- the whole -- all of our relevant feedstocks in the first half. But we said -- what Frank said in his prepared remarks is we expect a modest recovery in feedstock prices in Q3, which would result in a plus 10 for the third quarter.

Fourth quarter, honestly is hard to predict at this early stage. Our working assumption or what we've built into our modeling for the second half of the year is really only that just a modest recovery in feedstock prices. So, I would say plus 10 in Q3. Q4 really too early to say.

In terms of decremental -- or incremental margins in this case, Katherine, I think the best way to answer that is, and this is a disclosure we have in our 10-K, our raw materials are about 70% of our revenue. So, I think if you looked at that, assuming fixed cost is fully absorbed, you'd have 30% variable margin, if you will. That's across the portfolio.

So, I mean, you know from following us for a while that obviously certain businesses have higher margins than others. So, you can kind of deviate from that 30% average by business. And I think we gave you the assumptions, or Frank just outlined the volume assumptions for the back half of the year. I think the critical ones are automotive and tire, which we expect to improve to a 20% year-over-year volume decrease in the third quarter. So, I think that kind of gives you all the math that you can work through to figure out the margin impacts.

Q – Katherine Griffin
Thank you very much.

Operator
Your next question today comes from the line of Laurence Alexander with Jefferies. Please proceed with your question.

Q – Adam Bubes
Hi, this is Adam Bubes on for Laurence Alexander today. So, it sounds like end-market demand bottomed out in April. I was wondering are there any end-markets that stand out as having lost that positive momentum thereafter?

A – Frank A. Bozich
The simple answer is, no. But I would say that, what we did see is that, we saw very significant or stronger demand in polystyrene, really due to the efficacy of plastic packaging that I think there was an increased focus on that during the second quarter and because of the COVID crisis. So, we saw an improvement in demand in the packaging-related applications for polystyrene.

We think that'll continue, and most importantly, we think that that will continue especially for materials that have higher-recycled content. So, again the simple answer is, there wasn't a significant part of our portfolio that bucked the trend of improvement during the quarter.

Q – Adam Bubes
Okay, thanks. That's very helpful. And then my last question, just you said that auto volumes I think are expected to be down 20% in Q3 in performance plastics. I'm trying to create a bridge to Q3 sales in this segment, and was just wondering if you could help me think about what percent auto is of total sales or provide some color there?

A – Frank A. Bozich
So, year-over-year that was 20%. We anticipated 20% reduction over a prior-year third quarter into this year. And in performance plastics, automotive related applications is 40% of the segment volume.

Q – Adam Bubes
Okay. Thank you very much.

Operator
Your next question comes from the line of Hassan Ahmed with Alembic Global. Please proceed with your question.

Q - Hassan Ahmed
Good morning Frank and Dave.

A - Frank A. Bozich
Good morning Hassan.

Q - Hassan Ahmed

Hope you guys are well. Quick question on the styrene side of it, actually a two-parter. One is in terms of sort of the near-term supply side of things. What are you guys seeing? Are you seeing the pace of supply addition that we were expecting, co-late last year/early this year sort of continuing as forecasted or are you seeing certain, sort of push-outs? And then sort of the second part is, what are you guys seeing in terms of styrene inventories particularly in China?

A – Frank A. Bozich
So, yeah, maybe I'll take the first question, and I'll give more of a qualitative answer, and Dave can take the second and give you some data on the specific projects that we see being delayed. But the projects that were anticipated to be brought on-stream in 2020, we see did come on-stream. And it was projects coming in the 2022/2023 timeframe that have been delayed.

So, we see the global capacity additions for 2020 to be as we anticipated them. As it relates to the inventory, now I'd like to make one other point though. Those have come onstream at dramatically reduced operating rates. And this is what we've talked about in previous calls that the producers now are managing the supply-demand balance to keep at a net cash neutral position. So that's why we anticipate in this lower demand environment, they'll continue to operate with that mindset. As it relates to the inventories, Dave?

A – David Stasse
Yeah, I will answer that. So inventories in China right now are about 200 KTs. And they've been at that level, really since the first quarter when COVID really started to impact Asia. That compares to a long-term average of about 100 KTs of what we see in China.

Q - Hassan Ahmed
Very helpful, very helpful. And as a follow-up, on the polycarbonate side of things. Obviously, we saw some resilience in the margin over there. I think, in the press release you guys talked about -- maybe a tapering off of that margin. So, what are you guys seeing over there, what did you see in Q2, what should we expect in Q3, and then, where do you guys stand with regards to the thought process around the sale of that business?

A – David Stasse
So yes, we did see a progression of an improvement in Q2 of margins that go into polycarbonate and the biggest driver was reduced cost of benzene -- of feedstock prices. And we saw resilient demand because of polycarbonate's application into sheeting applications that would go into self-isolation, sheeting or barrier sheeting.

Now, we are as benzene prices are moving up, we see that that will put some squeeze on the margins, but it will still be better in Q3 than it was in prior year. But it won't be at Q2 levels as benzene prices rise.

As it relates to the sale of that business, we're not actively looking at -- we announced last year a project to evaluate the strategic positioning of the site, and after evaluating our options, we restructured and renegotiated certain contracts that put us in a sustainable position. We believed with the site and that asset, and so we're not pursuing actively any process to sell that business just to be clear.

Q - Hassan Ahmed
Perfect. Very helpful, Frank and Dave. Thank you.

Operator
Your next question comes from the line of Michael Leithead with Barclays. Please proceed with your question.

Q – Michael James Leithead
Great. Thanks guys. Good morning. First question on Latex. It looks like the volume comp you're guiding to in third quarter is down more than it was in second quarter. So, can you talk about what's driving that?

A – David Stasse
Yeah, hi Mike, I can talk about that. I think there's some seasonality in there. And I guess in terms of -- there was a question earlier about end markets, certain end markets recovering faster than others. I would point out two that are slower, two who are slow to recover are clearly coated paper, a continuation of the secular dynamic we've seen there, and also, textile -- the carpet market, which for us is largely in the U.S. that's been slow, relatively ,slow to recover I would say.

Q – Michael James Leithead
Got it. That's fair. And then question on the cash bridge as we look into next year, I think the slide you provided with the breakdown by line item is helpful in terms of free cash flow assumptions. If we think about next year and who knows where the macro ends up but the Dow transition items related expense as well as some of the turnaround and restructuring costs. Can you just give us a sense of how much that'll come down as we head into next year?

A – David Stasse
Yeah, yeah I will Mike and it's a good question. We brought this up earlier this year, when we talked about the full year cash assumptions, and, as we said, we did have some significant project restructuring and turn around cash outlays in the first half of the year, that are largely going to go away in the second half of this year and we outlined that on Slide 14.

If we look, in fact, our cash outlays for those items in the second half of the year will be $25 to $30 million lower than they were in the first half of the year. And moving into 2021 they'll be lower still. The Dow transition project, as Frank mentioned in his prepared remarks, is over. We've added some residual small cash outflows in the back half of this year as that -- just to clean that up, so, we don't expect any expense or cash related to that in 2021. Turnaround spend was about $30 million this year, again heavy in the first half of the year. Next year, we expect that to be about $15 million for the full year. So that's going to go down.

The last item, one of the other projects that we have is upgrading the control room software across all of our plants. That's a multi-year project. The spend for that next year will probably be between $15 and $20 million.

So, I don't think we're at a point yet Mike, we're a little early to give CapEx guidance for the year, but I think two of the big projects, that the Dow transition projects and that control room upgrade which for the full year 2020 where -- let's call it $35 million. Next year it will be a total of about $15 million.

I think the last point on that topic I'd just like to make -- just to reiterate something we said, I think last quarter, is the EBITDA cash break-even of the company. What we think is a kind of a sustainable level of interest, taxes and CapEx for the company, our EBITDA cash break-even level for the company is about

$160 million, or if you want to include the dividend it's $220 million. So, I think that's an important fact just to keep in for context for some of these cash items.

Q – Michael James Leithead
Great. Thank you so much.

Operator
Your next question comes from the line of Eric Petrie with Citi. Please proceed with your question.

Q – Eric Petrie
Hey, good morning Frank.

A – Frank A. Bozich
Good morning.

Q – Eric Petrie
I wanted to ask a bigger picture question. Your recycled content for your engineered materials applications in polystyrene, and approximately 30% of your spend by 2025 will be aimed at circular economy solutions, so, how have you seen the trajectory of what percentage of sales and profit that can contribute in your performance, as well as polystyrene segments going forward?

A – Frank A. Bozich
Yeah. So, thanks for asking the question. Let me start by talking about the increased value that sustainable solutions were -- what we're seeing from that area. At a minimum, we're seeing a 2x margin multiple on sustainable solutions, versus difficult petrochemical products, and it goes up depending on the application.

Now, again, I can't really get specific into each of the markets but I would say from a profitability standpoint, at this point in time, we see tremendous demand that probably even improved through the crisis and basically a -- sort of an unlimited demand against a limited supply capability. And I would put out there, I think as it relates to our chemistries, we believe we're in the leadership position.

So, as it relates to the demand that we're seeing in each of the markets, I would say the key markets that are more robust or where we see sort of an insatiable demand for these types of solutions, are the consumer electronic side. We also see that in our polystyrene applications and one of the -- I want to spend a second on this. In polystyrene, well you'll note probably that the European Union has put forward a plan to tax virgin plastics at a rate of $800 per ton, beginning next year. So, we've actually booked our first orders now for a post-consumer waste recycle containing polystyrene that will go into specific applications in that market. And there's a very, very strong response from our customers.

Now, we see that by, the value we can create by helping our customers in the market avoid that $800 a ton tax penalty is tremendous. So that's where this -- the investments we've made in step polystyrene circularity, and the joint venture that we have in North America or what Americas Styrenics is doing with Agilyx is so important. So sorry for the longish answer but I hope you can tell we're excited about it. We think we're in a leadership position and many of our markets are showing that this is the place to invest your dollars.

Q – Eric Petrie
Helpful color. Secondly, how much did your E-SBR and S-SBR sales volumes decline in 2Q? And then how do you see underlying auto OEM versus replacement tire demands for second half? And what's your rough split for exposure to both?

A – Frank A. Bozich
Yeah. So, I'm going to give you the overall number, and I'll repeat this from the earlier question. Overall, in Q2, we had a decline of 55% in volume over prior year for synthetic rubber. Now, remember that S-SBR is about 70% of our mix versus E-SBR. We anticipate that that will improve to 20% reduction in going into Q3. I can't -- I don't - maybe –

A – David Stasse
It wasn't materially different Eric between E-SBR and S-SBR -- in the second quarter.

Q – Eric Petrie
And your exposure to auto OEM versus replacement tire?

A – David Stasse
It's really hard for us to know Eric. I mean, we sell rubber to the tire manufacturers and we know what tires were qualified on, but to -- to know how that flows downstream is hard for us to assess. So, what we've generally given people is the -- what the industry standard is, it's 75% replacement 25% OEM. But again, it's very difficult to really know where, specifically our rubber ends up.

What we do know, and I think this is important maybe for the your the origin of your question, is geographically what is our exposure in synthetic rubber in the tire market? And for us it's about 45% each North America, it's -- excuse me, 60%, Europe, 20% North America, 20% Asia. I think that's important to understand when you're looking at kind of regional trends in tire sales.

Q – Eric Petrie
Great. Thank you for the color.

Operator
Your next question comes from the line of Angel Castillo with Morgan Stanley. Please proceed with your question.

Q – Angel Octavio Castillo Malpica
Hi good morning, and thank you for taking the question. I just had a clarifier question on your commentary on the 4Q. I recognize that it's a little bit early to tell and there's limited visibility but as we think about the comment that, just typical seasonality in the fourth quarter and translating that into EBITDA should we be viewing it sequentially as flattish to slightly down EBITDA for fourth quarter or is that not what you were trying to get across?

A – Frank A. Bozich
Yeah, we -- well, again, at this juncture, we see that Q4 is going to be approximately similar to Q3 in terms of volume -- in terms of year-over-year progression.

Q – Angel Octavio Castillo Malpica
That's helpful. And then in terms of AmSty, how should we think about that in the second half, 3Q versus 4Q?

A – David Stasse
I don't think -- I wouldn't draw a big distinction between AmSty 3Q versus for 4Q. I don't see anything -- I would say from 2Q to 3Q, clearly, we're going to see an improvement. We talked to them in the last call about the AmSty's exposure to Latin America polystyrene market, which is about 30% of their polystyrene volume, and given the relatively severe impact they were having in Latin America, how that was affecting their Q2 numbers. I'm happy to report that the Latin American markets have improved. The appliance manufacturer is in Mexico, they're primarily North American companies with operations to Mexico, have reopened so their polystyrene volumes are improving. But Q3 to Q4, I don't see standing here right now a big difference.

Q – Angel Octavio Castillo Malpica
Got it. If I may just -- another quick one just in terms of M&A. As you noted, whether there's a lower CapEx or Dow spend in the coming year, as you think about both on opportunities within CASE or S-SBR, or OEM, what are you seeing in terms of valuation opportunities in this market versus, perhaps next year? And how are you thinking about that?

A – Frank A. Bozich
Really, our focus right now is on preserving the balance sheet getting through the crisis. We're certain that there are going to be participants in the market that are forced to sell assets to support their balance sheet unlike us, and so if those opportunities arise, we'll evaluate them as the case comes but we -- at this point, our entire focus is to get through the crisis, preserve the balance sheet, and see what opportunities come out of it.

Q – Angel Octavio Castillo Malpica
Thank you. I appreciate your time.

Operator
And ladies and gentlemen, this does conclude today's conference call. Thank you for your participation. You may now disconnect.