Trinseo Fourth Quarter Earnings Call

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
- Hassan Ahmed
- Matthew Blair
- Laurence Alexander
- Eric Petrie
- Angel Octavio Castillo Malpica
- Thomas Glinski

Presentation

Operator introduction:
Good morning, ladies and gentlemen, and welcome to the Trinseo Fourth 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 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 the 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 Andy Myers.

Andy Myers
Thank you, Christel, and good morning, everyone. (Operator Instructions) 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, risk factors set forth in Item 1A of our annual report on Form 10-K or in our other filings made with the Securities and Exchange Commission. 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 February 4, 2022. Now I'd like to turn the call over to Frank Bozich.

Frank A. Bozich

Thanks, Andy, and welcome to Trinseo's fourth quarter earnings call. First and foremost, I'd like to start by thanking our employees for all of their continued hard work, especially given the unprecedented economic and social issues during 2020, which made for the most challenging environment I've experienced in my 35 years in the industry. I was very impressed with how agile our team was and how they adapted to rapidly changing working conditions. We were never overwhelmed by the crisis as everyone remained very collaborative, focused and engaged throughout the year. I have no doubt that their passion enabled us to successfully weather the storm and emerge in an even stronger financial position compared to the beginning of 2020. I'm very proud of what we accomplished, and I'm looking forward to a very bright future for Trinseo.

Moving to our financial performance. I'm overall very pleased with our 2020 results. As we noted in our December issued guidance, we continued to see improved demand and profitability across the company in the fourth quarter, with strong pretax income and adjusted EBITDA at its highest level in more than 3 years. Excluding feedstocks, our total sales volume in the fourth quarter was 6% higher than prior year as we observed strength in demand in many of our end markets, including appliances, tires and especially automotive, where fourth quarter volume was 7% higher than the prior year after declines of 65% in the second quarter and 13% in the third quarter.

Stronger automotive demand led to a tighter ABS market, which, along with our commercial excellence actions, resulted in the highest quarterly adjusted EBITDA for our Base Plastics segments since the beginning of 2018. In addition, our Polystyrene segment enjoyed its highest full year adjusted EBITDA ever. The Polystyrene team has done an excellent job of implementing value-based pricing in its more differentiated products like high-impact polystyrene for appliances.

For the full year, our Engineered Materials segment achieved its highest adjusted EBITDA ever despite a challenging macroeconomic environment. The fourth quarter, which was our highest earnings quarter ever for the segment, experienced volume improvement from prior quarters due to demand strength, mainly in consumer electronics and footwear applications.

In Latex Binders, sales volume for the full year was essentially flat versus prior year as increases to the higher-margin CASE and board applications were offset by a decrease in graphical paper. CASE volumes grew by 5% over the course of the year, including a 13% growth in the fourth quarter. This mix improvement in Latex Binders is in line with our strategy for the segment. And we expect continued growth in CASE applications as the Rheinmunster acquisition from the fourth quarter of 2019 has enabled us to expand into alternative chemistries in more attractive applications.

Looking back at 2020, when we celebrated our 10-year anniversary as a company, I'm very proud of what we were able to accomplish. The safety of our employees remains the utmost important to Trinseo, and I'm happy to announce that in 2020, 16 of our 25 plants earned the Triple Zero award, meaning that there were no injuries, spills or process safety incidents at those facilities during the year. That impressive statistic reflects the commitment to safety that our employees and site leaders adhere to daily. And our goal is to achieve 1 or more years of 0 recordable injuries for all of our global employees and contractors by 2030. This is an example of one of the 2030 sustainability goals that we set for ourselves this year.

These goals which include initiatives like increasing our offering of sustainably advantaged products, further reducing our carbon emissions and increasing the percentage of women in senior management and executive positions were released in July along with our annual sustainability report. Setting these goals is part of our vision to become a leader in providing sustainable solutions and to position ourselves as a workplace which attracts top talent, while we successfully compete in a sustainable economy.

I was pleased with the sustainability progress that we made in 2020, especially the ways in which we increased the sustainability of our product portfolio. There were several milestones that were truly market-leading, including the launch of our PULSE ECO Series of recycled-containing resins for the automotive market. In Polystyrene, we partnered with the German food packaging customer Fernholz to use Form Fill Seal formulations with 40% recycled polystyrene.

In Engineered Materials, sales with recycled-based polycarbonate compounds, which are used mainly in consumer electronics applications, grew 50% in 2020 and sales volume doubled in bio-based footwear applications. Three of our sites achieved mass balance certification in 2020, which will allow for a more transparent tracking of sustainably advantaged materials at a large scale. Most importantly, we can expand our offering of circular materials to our key customers.

Lastly, we've made further progress on our joint plan with INEOS for our polystyrene recycling plant in Europe. This plant will represent a significant step forward for polystyrene circularity as its goal is to break down polystyrene back to styrene monomer for use in numerous applications. While we still have more to accomplish in sustainability, I'm proud of this year's achievements, and we continue to be recognized as a leader in this area, as evidenced by Newsweek naming us as one of the top 100 most responsible companies for 2021, which made us #3 in the materials industry. I look forward to sharing more sustainability updates and accomplishments over the course of 2021.

2020 was an excellent year for cash generation. Our full year cash from operations was $255 million, which led to free cash flow of $173 million. Throughout the year, we were able to effectively manage costs from structural programs put in place prior to the pandemic as well as short-term cost actions in response to the pandemic, which were successful, thanks to the quick and thorough implementation by our employees.

For the full year, we captured cost savings of $30 million, which were split roughly equal between structural and short-term savings. Going forward, we expect structural savings of $25 million per year

and we will keep short-term cost actions in place as long as we feel this is prudent. We ended the year with $589 million in cash and entered 2021 with a strong balance sheet and liquidity position.

Perhaps the biggest development of the past year was our agreement to acquire Arkema's PMMA business, which represents the first steps in the transformation of Trinseo into an advanced materials specialty solutions provider. We're very excited to add this business to our portfolio, as we believe it will significantly increase our scale in Engineered Materials and provide higher margins, high free cash flow conversion and lower volatility throughout the cycle.

In addition to being a strong strategic fit, we anticipate that the transaction will allow us to harmonize IT systems within Trinseo, which will create significant efficiency in the legacy Trinseo organization.

In the time since we announced the acquisition, we have established and fully staffed an integration management office comprised of members of both Arkema and Trinseo. Integrating this business is one of our highest priorities, and we're still targeting closing the acquisition by the middle of the year.

2020 ended the year with a favorable market conditions for many of our segments. That positive momentum has continued into the first quarter as we are now observing similar and, in some instances, improved market conditions. Demand strength in applications such as automotive and appliances are not only providing volume benefits to many of our segments, but the increased demand is contributing to higher margins in ABS, polycarbonate, and polystyrene. However, despite this improvement in underlying market performance, we expect first quarter adjusted EBITDA to be sequentially lower as we don't expect to enjoy the favorable net timing benefit of $29 million that we did in Q4 to repeat itself in Q1.

Given the strong start to the year, we estimate full year earnings in 2021 to be significantly higher than each of the prior 2 years, with an estimated net income of $167 million to $200 million and adjusted EBITDA of $400 million to $450 million. This range assumes a full year contribution from Synthetic Rubber and no contribution from the announced PMMA acquisition. With this expected performance and resulting cash generation, we are now targeting a net leverage ratio of approximately 3x at the end of 2021, pro forma for the PMMA acquisition with further deleveraging thereafter.

Let me conclude by saying how excited I am about the company's future and our transformation into a specialty materials and sustainable solution provider, where our success will be determined more by how we differentiate our products and the value we create by working with our customers to solve problems. I'm looking forward to closing the acquisition and integrating the PMMA business, implementing best practices, welcoming our new employees and upgrading and harmonizing our business systems.

In addition, we will continue to pursue additional growth and business optimization activities. I'm equally enthusiastic about the pursuit to achieve our long-term sustainability goals, including working with our customers to provide value-based and sustainable products. As always, we remain extremely focused on maximizing shareholder value.

And now Christel, you can open the phone line for questions.

Questions and Answers

Operator
Your first question comes from the line of Frank Mitsch with Fermium Research

Q – Frank Mitsch
Frank, wanted to -- nice end to the year, but listen, I wanted to talk about '21, your guidance of $400 million to $450 million of EBITDA on the basis of as the company exists today actually looks like a nice increase relative to where the Street is, given there's some confusion as to who has PMMA and who doesn't, et cetera. But it does look like a material increase year-over-year. Where do you see -- segment-wise, where do you see the most upside among your various segments as we think about '21 versus '20?

A – Frank A. Bozich
So year-over-year, we would see that in our Base Plastics. And we're seeing really excellent traction with that group in how they're value-based pricing. And then there's a second component that currently, there's some supply chain tightness that we're benefiting from that when we look at that range, we don't anticipate will continue for the full year, it will normalize after the outage season in Q1. But we're benefiting from those comm-ex initiatives. Obviously, rubber returning to normal will be a big improvement year-over-year as we get back to pre-COVID level demands. So those two segments are really where we see the biggest year-over-year improvement.

Q – Frank Mitsch
Got you. And that's -- obviously, the second quarter was very negatively impacted in Synthetic Rubber. And speaking of that business, it seems like the environment for M&A is picking up here. Can you discuss what your thoughts are in terms of the ability to monetize that business? How are you feeling today relative to where you felt a few months ago when you first announced that initiative?

A – Frank A. Bozich
Yes. So we've seen significant interest in the business and we're really confident that we'll conclude our process to evaluate our options by the middle of the year.

Operator
Your next question comes from David Begleiter with Deutsche Bank.

Q – Katherine Griffin
This is Katherine Griffin on for David. So just first question on guidance. So it seems like excluding the timing impact, EBITDA should be up in Q1 versus Q4. So then if we kind of assume that Q1 is up from, let's say, $120 million ex timing, then relative to the full year 2021 guidance, is the right EBITDA cadence for Q2 through Q4 somewhere like in the $100 million range? Am I thinking about that right?

A – Frank A. Bozich
Yes, I think you've got Q1 -- your assessment of Q1 is accurate. So ex timing, we would expect Q1 to be better than Q4, but not enough to offset the $29 million in timing benefit that we got in Q4. But -- and then we would -- but again, we need to remember, there's two factors -- well, we're currently experiencing some supply chain or enjoying some supply chain tightness in Q1 due to being a normal outage season and then some market disruptions that are occurring, and we expect those to normalize after Q1. And then we would expect also the normal Q4 seasonality that we typically have in the business. So that's how we get to the range.

Q – Katherine Griffin
Great. And then just thinking about kind of the cadence of temporary cost savings coming back next year, could you just talk about kind of how you expect those to flow through just as inventories and demand kind of gets better?

A – Frank Bozich
I think if I understand the question, I think I'm going to answer the question of when we think we'll relax the short-term cost savings measures that we've continued to keep in place. If that's what you're asking?

Q – Katherine Griffin
Yes. No, that's perfect.

A – Frank Bozich
Okay. So we had -- in total, last year, we had $30 million contribution from a combination of both structural and short-term cost savings initiatives. We will keep those short-term cost savings initiatives in place until we get more certainty that the recovery is here to stay and the market outlook progresses. So again, I don't have an exact timetable for when we would relax that.

A. David Stasse
Yes, Katherine, this is Dave. Maybe I'll add a couple of things. I mean, look, the elements of -- really, as Frank said, we took $30 million of cost actions in '20, about half of that was structural and half of that was, what I would call, temporary. The full year impact of the half that was structural will be $25 million, so a $25 million structural cost savings out of the company in '21. The part that it's temporary, I mean, a big part of that is T&E, for example, travel and entertainment. I mean nobody is traveling in the company right now.

So what we've budgeted -- and this is all baked into our guidance -- what we've kind of assumed is those elements, trade shows, T&E, I mean, things like that will return to kind of pre-COVID levels in the second half of the year. We'll have to see if that plays out or not. But that kind of gives you the perspective, I think, of how we think about that.

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

Q – Hassan Ahmed
I was taking a look at your volumes. Obviously, sequentially, really good performance in Engineered Materials and Synthetic Rubber. And obviously, I understand certain end markets, autos in particular, picking up quite nicely. As you guys sort of came up with your guidance, could you talk a bit about the sustainability of some of these volume levels that you're seeing, particularly in these 2 segments?

A -- Frank Bozich
So I would say that we feel very confident in both Engineered Materials and Synthetic Rubber volumes continuing at the current levels, assuming the recovery sustains itself. So there's a couple of things that are driving that beyond just market recovery. And a lot of it is based on the new products that we're introducing. And as we mentioned in the commentary, in Engineered Materials, we're really getting good traction with our post-consumer waste-containing or recycled-containing materials that go into consumer electronics. We're also getting good traction on bio-based materials that go into footwear. So irrespective of market dynamics, we're winning new business with those innovations, and we're winning those at better margins than non-recycled or sustainable materials.

In Synthetic Rubber, you have a similar dynamic playing itself out where it's an innovation-driven business in performance tires, and we've been in -- we've introduced new grades that are being specified. And those platform wins are going to result in growth going forward. So again, we think that the volumes that we're enjoying today are sort of pre-COVID level volumes, but the mix has improved because of those commercial activities we've taken.

Q – Hassan Ahmed
Understood. Understood. Very helpful. And again, on the 2021 guidance, a lot of your sort of raw material supply contracts were expiring last year. So obviously, this would be the first year, 2021, when be it benzene and ethylene, BD, styrene, BPA, a variety of these sort of raw materials will sort of be under the umbrella of new contracts. So could you talk a bit about how we should think about the puts and takes of the 2021 guidance in light of some of these new raw material contracts you guys may have structured?

A – Frank A. Bozich
Yes. The -- what I would say is that we have more market-based contracts in -- across the board. And in particular, in polystyrene in styrene monomer for benzene and ethylene, we had new contracts that we're operating under. But again, we believe that those reflect the current market conditions. And there are some benefits that we're seeing from that, that are passing through into our 2021 outlook, but it's not significant. Really, the big driver for 2021 improvement are the market conditions and the commercial actions that we're taking.

Q – Hassan Ahmed
Got it. So overall, kind of neutral in terms of year-over-year?

A – Frank A. Bozich
I would say overall slightly positive.

Q – Hassan Ahmed
Slightly positive. Perfect.

Operator:
Your next question comes from the line of Matthew Blair with TPH Co.

Q – Matthew Blair
I was hoping you could just elaborate a little bit more on your expectations for polystyrene in 2021? And just in particular how sustainable are the strong 2020 results.

A – Frank A. Bozich
So at this point, we believe they're pretty -- the benefits we're seeing in 2020 are pretty sticky. A lot of that is driven by commercial actions and demand for packaged foods and increased demand for appliances and from changing conditions that were driven by COVID. So again, we're pretty confident that what we've been doing in polystyrene are -- we'll see that benefit throughout 2021.

And the other thing I want to point out is, we're also seeing a significant benefit from the introduction of the circular polystyrene products that we've introduced. And so as we accelerate and shift our mix to more sustainable products, we're going to -- actually, I would expect that we would see a further improvement in our margins and our growth simply because those products are in very high demand. And most of our end consumers and the end consumer products companies really want to introduce products that are more sustainable, and we're a leader now in that.

So as we continue to make progress, I would expect not only sustainability for our performance but improvement.

A – David Stasse
Matthew, this is Dave. I'd like to add one thing -- about 1/4 of our polystyrene revenue is high-impact polystyrene -- excuse me, of our polystyrene volume is high-impact polystyrene that's sold to appliance manufacturers in Asia. And that's clearly -- it's a good market, and we've got a differentiated product there. And that's one of the areas where we've really capitalized on what Frank mentioned earlier on the value-based pricing. So I just wanted you to keep in mind, 1/4 of our polystyrene business is -- it is differentiated product. And just to kind of buttress what Frank said about the stickiness or sustainability of that, I mean, I just wanted to keep that part in mind that we do have a differentiated element of the portfolio there.

Q – Matthew Blair
Sounds good. And then how would you characterize the spring 2021 turnaround season for styrene? Is it likely to be above average?

A – Frank A. Bozich
No, we think it will be normal.

Operator
Your next question comes from the line of Laurence Alexander with Jefferies & Company.

Q – Laurence Alexander
Two questions. First of all, on the value-based pricing initiatives, where do you think Trinseo is in terms of capturing the potential of that and how far do you have room to go in terms of structural improvement in your margins? And then secondly, as you think about the characterization of where Trinseo wants to be as a more solutions-focused specialty chemical company, can you characterize what skill sets you have internally that really drive that? And how much needs to be brought in through hiring -- shift in hiring practices or M&A, just in terms of acquiring skill sets and technology platforms?

A – Frank A. Bozich
So yes, I'm going to start with the second part of that question. It's a great question. And we believe that really a lot of the skills and the expertise that will enable us to be successful as a solution provider comes from the acquired company. And so preserving and bringing those -- successfully integrating those new employees who understand the markets that they serve and their customer needs are really critical. And that's the key to success in specialty businesses is the market understanding, customer -- and understanding how to fulfill customer needs.

So you make the key point as being mindful of acquiring assets or bringing assets in and successfully retaining that skill set to solve problems and being a solution provider is critical. That's something that we have to acquire. We won't be able to grow that successfully in these new applications or new chemistries.

If you think about going to the first part of the question, how much runway do we have to continue to improve in our comm-ex initiatives, I think there's quite a bit. But again, I would put it more in terms of our shifting our portfolio to the more sustainable solutions type mix. So as you can see, we're really focused on introducing to the customer base, recycled-containing materials containing circular polystyrene could contain bio-based material. And we're seeing high demand for that. As we secure -- I would say there's -- as they qualify those materials, I believe the rate-limiting factor will really be our ability to secure feed, the appropriate feedstocks for those materials. But I would think there's a long runway for improvement as we continue to introduce and broaden that offering to our customer base.

Q – Laurence Alexander
And just lastly, the bio-based materials and the recycled materials, are either of those or both of them delivering higher margins in terms of cents per pound, I mean, rather than percentage margins just in transactional cash margins?

A – Frank A. Bozich
So the simple answer is yes. Both in percentage margin terms and an absolute dollar terms per unit. They’re improving.

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

Q – Eric Petrie
If I were to annualize second half ’20 EBITDA, excluding the inventory reval, you get to $440 million and that compares to your range of $400 million to $450 million. So can you talk about the $10 million upside, where that comes from? And then the $40 million downside?

A – Frank A. Bozich
Yes. I think when we look at the second half, I'm not sure -- there's a pretty difficult exercise to go through when you look at the second half to strip out how much pent-up demand from Q2 slipped into the Q3 and Q4. So I'd rather look at our financial forecast from our customer base and the forward outlook we're getting from our customers, and really build that based on a bottoms-up basis with how the product lines. So -- and that's how we got to the range that we've got is really that detailed forward forecasts that we're getting from our customer base.

Because, again, as you point out, second half 2020 had a lot of moving parts that it's hard to estimate how much inventory rebuild and how much pent-up demand there was. And so again, we did more of a bottoms-up build.

Q – Eric Petrie
Okay. Secondly, rubber volumes in the quarter, I think, were stronger than expected. How do you see demand this year for ESBR and SSBR grades? And did you see any inventory restocking?

A – Frank A. Bozich
So what we're seeing right now is strong. We're seeing strong demand but little ability from the retailers or the tire producers to build inventory. In fact, inventory levels are staying relatively strong -- or staying relatively stable. And the other thing I would point out with our volumes in Synthetic Rubber is, we've been successful in 2020 to win new business with new customers, in particular, in Asia and with some new grades. And so that stronger demand -- we're seeing a demand recovery, but also we're seeing a mix change from a historical business where we're seeing more growth and more volume coming from new customers in Asia.

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

Q – Angel Octavio Castillo Malpica
I was hoping you could walk us through how you’re thinking about working capital in 2021 and the magnitude of potential uses of cash as sales recover?

A – David Stasse
Yes. Hi, Angel, it's Dave. We gave in our slide deck some kind of the pieces, I guess, you can work your way towards a free cash flow estimate for '20. And if you take the midpoint of our guidance range of $425 million EBITDA and walk through those pieces, you'll get to a free cash flow number of $240

million, and that's at working capital neutral. I think the biggest driver of our working capital is obviously feedstock prices. Now we don't currently foresee a lot of volatility in feedstock prices through the year. I mean, we -- as far as we can see. So we've not forecasted anything for the year in either direction related to feedstock prices.

What I would say operationally is we took our inventories down considerably. In 2020, we dropped our inventory volumes about 20% as a company. And we're going to keep it there. So we're not going to be building inventory as a company. I think we do have opportunity in other working capital areas. We have implemented some initiatives within the company to further reduce our working capital numbers. So what -- I guess, the net of the answer to your question is, on a flat feedstock price level, I would estimate that we'll reduce working capital in the year. I would put a number of $40 million to $50 million probably on it, just through our own operational initiatives

Q – Angel Octavio Castillo Malpica

Understood. That's very helpful. And then separately, Frank, I was hoping you could talk a little bit more about your sustainability initiatives. You're clearly having a lot of success with winning new business with your product launches, whether it's PULSE ECO or some of the recycled-based PC and bio-based TPUs that you mentioned. So maybe if you could just kind of expand on that and give us a little more color. What is the EBITDA contribution of kind of your total sustainability portfolio? Some margins are clearly better than kind of the fossil fuel-based products. But how has that progressed over the year as you've ramped up sales? And then at what point does your capacity footprint become kind of a good problem in the sense of needing to expand?

A – Frank A. Bozich

Yes. There's a lot there. And honestly, I couldn't give you an answer for the uplift in margin across the portfolio of the sustainable products versus non. What I would tell you is because there's so many different products and so much going on, but I would just say, in general, some of the prices are multiples of virgin material in certain categories. And the others, it's double -- you should be thinking double-digit unit margin improvements. But again, this is a broad-based effort that we're making across every one of our business units.

And actually, I didn't even mention this on the call. What I would also say is we've got our first order for bio-based synthetic rubber in the end of last year. So we've received mass balance certification for our Schkopau, Germany site. And we're seeing the tire companies really looking to change their environmental and sustainability footprint. And so there's a lot of interest in this. Now again, there's a bit of a long runway in certain industries like the tire industry to qualify those materials. But the good news where we're using chemically recycled or bio-based feed that is that those end products basically have the same performance characteristics when we use that feed as virgin material.

So I know I didn't give you specifically the answer you're looking for, but I would just say there's a long runway, and you should be thinking as we're successful in that relatively significant improvement in unit margins.

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

Q – Thomas Glinski
This is Tom Glinski on for Bob. So first question, it sounds like you're expecting to be maybe a year ahead of schedule on the de-levering target post the Arkema acquisition. Could you just speak to what we should expect to see on your capital allocation priorities maybe in the back half of this year and into 2022 between M&A, repurchase and re-upping the dividend?

A – David Stasse
Yes. This is Dave Stasse. I'll answer that question. You're right. We are ahead of schedule. And the reason we're ahead of schedule, well, for 2 things. One is because of the cash generation and also because our EBITDA forecast has risen since we last forecasted numbers. So we do think we'll be in the neighborhood of 3x net levered by the end of 2021. With -- as we announced when we announced the PMMA acquisition, we did reduce our dividend and suspend the share repurchase program. I mean, those 2 things will be something we'll have to assess as we move forward in the context of other cash needs for the company and for the new company and those cash need could be organic growth projects for the acquired business or other acquisitions. So it's just something we'll have to look at as we go forward post-closing.

A – Frank A. Bozich
Yes. I guess maybe just -- I want to build on the one point that Dave is making. We will continue -- as we said when -- in December when we made this announcement, we will continue to explore opportunities to broaden the offering that we have to CASE and Engineered Materials customers through M&A and other bringing in new product lines. Now obviously, our first priority is to integrate the PMMA business and to get our systems harmonized. But the other thing is, too, at the appropriate time, we would also -- we will be looking to separate more of the commodity products to help fund that growth. So we're balancing all of those factors when we think about the future and our capital allocation.

Q – Thomas Glinski
Got it. That's helpful. And then on CASE applications, performance was quite strong in 2020. Could you just go through the moving parts, and maybe what outperformed, what underperformed within that sub business?

A – Frank A. Bozich
So well, the CASE applications, with the acquisition of the Rheinmunster plant in Germany, we have more flexibility in terms of customizing smaller lot production and more tailored solutions for our customers. But what I think you could read into that is that we saw really strong traction in introducing new products in applications, in particular, I would point out DIY. So the DIY market and adhesives and sealants did quite well that last year. We also introduced other new grades and materials based on the technology that we have now in Rheinmunster and those got good traction. But I think if I were to point to some end market that really was robust, it was DIY, and I think -- and construction applications. Those were quite strong.

Operator
Your last question is a follow-up from Laurence Alexander with Jefferies.

Q – Laurence Alexander
I just wanted to revisit the discussion around the bio-based and recycled products. Are those, by implication, being included or will they be excluded from any divestiture decisions to exit their commodity positions in Trinseo's portfolio?

A – Frank A. Bozich
So the simple answer is no. So in every one of our product areas and our business segments, we are trying -- we believe in that increasing the ratio of sustainable products is to our advantage, and we're seeing big demand from our customers. So across every one of our product segments, we're introducing those products. And as we make -- evaluate what businesses to sell, if that were to happen in the future, those products that are intrinsic to that product line would go with it.

Operator
Ladies and gentlemen, that does conclude today's conference call. You may now disconnect.