Trinseo Fourth Quarter 2021 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
- Laurence Alexander
- Angel Castillo
- Hassan Ahmed
- Eric Petrie
- David Begleiter
- Duffy Fischer
- Mike Harris
- Matthew Blair

Presentation

Operator introduction:
Good morning, ladies and gentlemen, and welcome to the Trinseo Fourth Quarter 2021 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 Tuesday, February 8th. These documents are posted on the Company's Investor Relations website and furnished on the Form 8-K filed with the Securities and Exchange Commission.

If anyone should require operator assistance during the call, please press *, then zero, on your telephone. I will now hand the call over to Andy Myers.

Andy Myers
Thank you, Tammy, 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 November 9th, 2023. Now I'd like to turn the call over to Frank Bozich.

Frank A. Bozich

Thanks Andy, and I'd like to welcome everyone who's listening in. 2021 was a great year for Trinseo as we achieved record profitability, including $440 million of net income and $729 million of Adjusted EBITDA, and I'm very proud of all we accomplished on our transformation journey toward becoming a specialty materials and sustainable solutions provider. At the end of 2020 we announced the first major step of our transformation, the acquisition of our PMMA business, which was completed in May. To complement PMMA and further our transformation, we acquired the continuous sheet PMMA producer Aristech Surfaces in September. We also completed the divestiture of our Synthetic Rubber business in December and in early January we began a formal sales process to divest our Styrenics businesses. As a result of these actions, our portfolio is shifting more toward that of a specialty materials provider, providing solutions to higher value and higher growth applications. The acquisitions have enabled us not only to increase our product offerings to our current customers in markets such as automotive, consumer products and construction, but also to expand into additional applications like wellness and sanitary. The financial benefits of the acquisitions, aside from being tied to products with higher margins and more stable earnings, are expected to earn more than $60 million of cost synergies and numerous additional revenue synergies that we have identified.

On the sustainability side, in January of this year we completed our acquisition of Heathland B.V., a leading collector and recycler of post-consumer and post-industrial waste in Europe. This aligns with both our 2030 Sustainability Goals to increase our offerings of sustainable products and with our overall strategy of becoming a sustainable solutions provider. One of the largest constraints of growing sales of sustainable products is access to recycled feedstocks. The Heathland acquisition will provide us with an increased and more secure supply of PMMA, polycarbonate, ABS, polystyrene and other thermoplastic waste to be recycled and processed into a wide range of products, including those that serve high-end applications like consumer electronics. Heathland is a great fit and the transaction has a lot of industrial logic given that we were already their largest customer prior to the acquisition making up more than 10% of their revenue in 2021.

We are also focusing on growing sales of our sustainable products organically. In 2021, our sales volume of post-consumer recycled polycarbonate products to the consumer electronics market increased by more than 50% over the prior year. Our recycled polystyrene products were used commercially for the first time in food contact applications which provide the packaging industry with a viable, environmentally friendly product which delivers margins that are two to three times that of standard grades. In addition, to further the use of recycled polystyrene, we are progressing on our polystyrene recycling plant in Tessenderlo, Belgium which should be operational by 2023.

From a business operations standpoint, 2021 was a challenging year not just for Trinseo but I'd say for the chemical industry in general. Numerous external factors ranging from weather events to Covid-19 created logistical challenges and tightness in materials, freight and labor markets. I am extremely proud of the efforts our people made to address these obstacles in order to deliver our high-quality products to our customers, especially while achieving yet another year of stellar EH&S performance. 73% of eligible sites in the company received our Triple Zero Award – meaning those sites experienced no injuries, spills or process safety incidents. As impressive as that number is, we continue to raise the bar we set for ourselves, and we'll attempt to improve our EH&S performance in 2022.

Now I'm going to turn the call over to Dave who'll provide more color on our record financial performance.

David Stasse

Thanks Frank. I'd like to start by talking about the fourth quarter which, despite some unexpected headwinds, still delivered healthy earnings and very strong cash generation. We were encouraged by the continuation of robust demand for many of our products, and that strong demand environment allowed us to maintain healthy margins in ABS, polycarbonate, and polystyrene.

Fourth quarter earnings were impacted by two significant and unexpected headwinds. The first was a sharp and unprecedented increase in European natural gas prices late in the quarter, which impacted the quarter by $30 million. About half of this was in Engineered Materials, and the remaining half was primarily in Feedstocks.

The second headwind was from an unplanned outage at our Terneuzen Styrene plant, which was caused by an upstream force majeure. This impacted results by about $20 million, mostly in Feedstocks.

Adjusted EBITDA in our Engineered Materials segment was about $25 million lower than expected, with $15 million as I just mentioned from natural gas costs and with the remainder from higher raw materials and freight costs. While we did take pricing actions in the fourth quarter, they did not cover the extreme pace and steepness of the cost increases. Looking ahead to the first quarter, we believe that the pricing actions that we've taken will cover what is still very high natural gas costs in Europe, and that this will be the main driver for sequential earnings improvement in the segment.

For the full year we delivered record net income and Adjusted EBITDA. Net income from continuing operations was $280 million and Adjusted EBITDA was $729 million. We also generated $453 million of Cash from Operations and Free Cash Flow of $329 million. The combination of high earnings and strong cash generation led to substantial de-leveraging as we ended the year with net leverage in the low 2 times range pro forma for the full year impact of the acquired and divested businesses. Given this improvement in the balance sheet and our confidence in continued strong cash generation, we made the decisions in the fourth quarter to increase our quarterly dividend from $0.08 to $0.32 per share and to reinstate our share re-purchase program.

Now I'll turn the call over to Frank to walk through our outlook for 2022.

Frank A. Bozich
Thanks Dave. Looking ahead to the first quarter we expect earnings to be similar to the prior year based on continued demand strength for most of our products and less impact from the rising higher costs that hindered the fourth quarter earnings. For example, natural gas prices in Europe have declined from the fourth quarter and even though the styrene production outage in Terneuzen has persisted into February, we've had more time to manage plant costs and to procure materials to more effectively handle the down time. So while we expect our first quarter results to be similar to the prior year, there should be an improvement in the quality of our earnings as the more specialty side of our portfolio in Engineered Materials replaces the spike in earnings that occurred in Q1 2021 on the commodity side of our business in Feedstocks.

Over the full year we're expecting Net Income of $294 million to $332 million with Adjusted EBITDA of $700 million to $750 million. This outlook is based on similar underlying demand conditions as 2021, including continued constraints in automotive from chip shortages and strength in construction, consumer electronics and appliance markets. The last two years have reinforced the fact that world and geopolitical events can quickly change business conditions, but we're confident in this earnings range based on the robust demand we are seeing for our products, the additional earnings and synergies from our acquisitions and the proven ability of our teams to overcome logistical hurdles and to innovate to provide customers with unique product solutions.

We expect 2022 to be another year of solid cash generation as well, with expected Cash from Operations of $530 million to $580 million and Free Cash Flow of $350 million to $400 million after capital spending of $180 million. That CapEx number is higher than our historical run rate due to approximately $50 million for our ERP implementation, which we expect to result in at least $25 million of run-rate savings, and $20 million of capex for our manufacturing DCS upgrades. Even with this higher capital spending level, we're anticipating robust cash generation which we plan to deploy in a mix of M&A and growth projects in line with our transformation strategy while continuing to return cash to our shareholders.

It's an exciting time for Trinseo as we continue on our transformation strategy and move Trinseo down the path of becoming a specialty materials and sustainable solutions provider.

Thank you and we're happy to take any questions.

Questions and Answers

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

Q – Frank Mitsch
Hey, good morning. I appreciate all the color on a lot of the moving parts. I am curious in terms of, I know you just recently started the strategic process on Styrenics. Is there anything that you can offer in terms of potential timing? Any thoughts you could provide us there that would be helpful?

A – Frank A. Bozich
Yeah. Thanks, Frank. Yeah, I would just say that consistent with what I've said on the last call, when we announced our intention to start the process, we anticipated that we would see good interest from sort of three classes of buyers. Those are strategics that are looking to generate synergies, regional players that would look to get greater exposure in North America and Europe, as well as financial sponsors who would be interested in executing a roll-up strategy and looking for high cash-on-cash return.

And I would say, what we're seeing is very consistent with that, and we feel good about the process and we think we should be able to give you updates in the coming quarters on the exact timing, but we feel very good about where we are right now.

Q – Frank Mitsch
That's very helpful. And you just indicated your very strong free cash flow expectation which, you said M&A, but you also indicated returning cash to shareholders. You obviously started out with a very strong $48 million buyback in the fourth quarter. Any sense as to what we should be anticipating in terms of pace of buybacks in 2022?

A – David Stasse
Yeah, Frank. Good morning. This is Dave. I think, look, when we put this buyback program in place our intention was to make it opportunistic in nature and buy when we think we're under-valued and I think it will continue to run that way for the first quarter. I would probably expect a similar number to what we did in fourth quarter, and then for future quarters, I think as I said, it's going to be opportunistic in nature and buying back heavier obviously when we're trading at lower levels.

Q – Frank Mitsch
That's very helpful. Thanks so much, Dave.

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

Q – Hassan Ahmed
Good morning, Frank and Dave. Question around the margins within Engineered Materials. Obviously you guys are doing a good job in boosting the overall margin profile of the company. I just noticed obviously that it's a bit of a tricky quarter with all of the sort of raw material inflation that we saw, but the margins were sort of below 10%. I'm just trying to sort of figure out again what the sustainable sort of margin level within that segment should be? And being a specialty sort of business, how quickly should we expect a boost in these margins?

A – Frank A. Bozich
Yeah, so let me take that. Great question. And as Dave said, in Q4 if you were looking at normalizing the Q4 margin you'd add back $25 million of EBITDA and that is split between $15 million in gas due to the gas spike and about $10 million due to rapidly rising raw materials and freight.

Let me spend a minute to explain sort of our pricing mechanism, and also what we saw with raw materials in the quarter. And I think that will give you some context for what we experienced and why it was depressed in the quarter. Everybody is aware of what happened in natural gas and I don't think I need to spend any more time on that, but what we also saw in the quarter was that as gas prices spiked up many of our raw material suppliers cut back production because they couldn't profitably produce.

And so to fulfill demand and continue running, we were required to go into the spot market and buy materials that really elevated prices and with higher logistics costs to keep the plants running at optimal levels. And so that impacted the business on the raw material side.

Now, I'd say it's been normalized since that spike up in the second half of the quarter. As we mentioned on previous calls, the pricing mechanism we have in Engineered Materials is not formula-based pricing. We have a value-based pricing system where we provide monthly and quarterly pricing to our clients. So if during that period costs dramatically spike like they did in an unprecedented way, we'll have a pricing lag. And so I would expect that in Q1, we won't see the impact of that headwind based on the pricing actions that we put in place, and I would tell you that January is consistent with that view.

Q – Hassan Ahmed
Very helpful. And just sticking to the raws, more on the guidance side of things, the $700 million to $750 million EBITDA guidance for 2022 that you guys have given, what sort of European gas pricing regime is that factoring in? And I guess where I'm going with that question is, you alluded to the pricing lag, could we be in a situation where if the whole European gas situation does get rectified that, because of that lag, you could actually see sort of outsized margins on the way down if gas comes down?

A – Frank A. Bozich
So there's two parts of the question. So the first question is that what our current outlook reflects the current natural gas price. So that range is reflective of the current environment. I would say that if costs go down, in most of the formula-based pricing part of our businesses it will continue to flow through the P&L irrespective of the volatility because of the pricing for inflows. However in EM as we just said, we have a structural price in EM. It's based on market and value pricing. So we would see improvements in a declining cost environment.

Q – Hassan Ahmed
Very helpful, Frank. Thank you so much.

Operator
Your next question comes from the line of David Begleiter of Deutsche Bank

Q – David Begleiter
Thank you. Good morning, Frank and Dave. Just looking at the Heathland acquisition, how does it fit into your overall recycling strategy? And how big can recycling be as a portion of the business down the road three to five years, maybe even longer?

A – Frank A. Bozich
Yeah. Hi, David. Yes, so the Heathland is really important to us and we're excited about it, because for us to go to our markets and many of our end customers with a sustainable solution, or recycled solution, we have to be able to guarantee that we can have a steady and consistent stream of recycled feedstock.

And so we believe that securing that within Trinseo, and being able to own the manufacturing or recycling processes is the best way for us to ensure that we have, and guarantee we have, that ability. So in the future we would see significant growth from this granted on a smaller base, but we would expect to see by 2030 our Sustainability Goal is 30% of our portfolio to be sustainably advantaged. That would be a target by 2030, and we expect that the financial benefits would accrue with that, because we are seeing that the margins on sustainable solutions to be significantly higher in some cases, orders in magnitude multiples higher. In other cases, 20% to 30% higher than petrochemical based products.

Q – David Begleiter
Very good. And Dave, just on CapEx, looking at the new Trinseo ex-Styrenics, how should we think about maintenance CapEx as well as growth CapEx in the new portfolio?

A – David Stasse
Yeah, if we look at it in terms of 2022 the portfolio including Styrenics, maintenance CapEx is about $70 million. If you take Styrenics out of that, it's probably between $50 million and $60 million as maintenance CapEx for the go-forward portfolio.

So the other thing I'd point out as it relates to CapEx, Dave, is as Frank mentioned, and you've been covering us for a while so you know about this multi-year project we have with the Distributed Control Software upgrades that we've been spending for several years now. 2023 will be the last year. So this year we're spending $25 million on that project, next year will be $10 million and then it will be over. The other big spend we have this year is for our SAP install, which is $50 million this year, $25 million next year than that goes to zero after that. So those are kind of discrete items, I would say that we've been spending on this year and a lesser amount next year that will go away after that.

Now having said all that, we have a very robust pipeline, I would say growth projects, we've identified around the new portfolio and the acquisitions that we've made. So I think it's fair to say

we're not ready to give guidance on '23 CapEx, obviously, but it is fair to say that while we have some of these kind of more structural CapEx items leaving, there will be, I think we'll have a healthy spend on growth projects.

Q – David Begleiter
Excellent. Thank you very much.

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

Q – Eric Petrie
Hey, good morning, Frank and Dave. Just going back to Engineered Materials, I think when you did the acquisitions both businesses had low 20% EBITDA margins excluding the natural gas and raw material second half '21, you're in the mid-teens. So can you talk about the track back to that 20% plus level?

A – Frank A. Bozich
Hi Eric, as I explained earlier, in the second half of the year we had, I don't want to repeat the dialog on the Q4 headwinds, but what I would also point to is two other market factors that impacted Engineered Materials relative to the historical run rate and that is the chip shortage affecting automotive. Our current forecast is that the automotive volumes will be lower than the historical build rate.

And so that's a headwind for EM. So a return to normal in automotive builds when the chip shortage fully resolves itself will be a help, and then the other impact that we are seeing is that the logistics cost out of China has reduced some of the demand for some of the products that we offer solutions we are providing into China because the freight rates out of China made them less competitive in their export business.

So we've seen depressed sales into some of our bath and wellness customers in China and that's been a bit of a headwind. So, those two factors, plus the energy and raw material spike that we saw in Q4 get us back to that run rate.

Q – Eric Petrie
Okay. And secondly, in terms of ABS and Polycarbonate prices, would you say 2022 earnings in Base Plastics, how would you directionally point that compared to '21?

A – Frank A. Bozich
So I would say that it's slightly lower than 2021 and that's really on the relaxation of a lot of the supply chain constraints that occurred during 2021 where we saw earnings spike up and I'd just point to things like the Suez blockage that prevented materials from going back and forth between Europe and Asia and also the freeze in Texas affected those markets. So I think there

was a bit of an earnings spike that occurred early in the year and those two businesses that we don't see repeating itself in our current forecast, but we see very healthy end demand. So that's the comment color I would give you on those two materials.

Q – Eric Petrie
Okay. Thanks.

Operator
Your next question comes from the line of Matthew Blair of Tudor Pickering Holt

Q – Matthew Blair
Hey good morning, Frank. How are you?

A – Frank A. Bozich
Very good.

Q – Matthew Blair
Great. I was hoping you could discuss dynamics in the PMMA market a little bit more. Some of the commentary seems a little bearish. Just talking about demand headwinds from autos and elevated raw material pricing. Would you agree with that? And I guess where would you, if you're thinking about PMMA in the cycle, would you say earnings are kind of at peak levels, or maybe mid-cycle? Where does that stack up?

A – Frank A. Bozich
So what I would tell you is, I don't see that there is a cycle at all for PMMA and you know it's really where you're selling a solution, you're winning business not by supply and demand dynamics, and but really by bringing a solution forward to a customer that allows you to win a platform.

So, I do think that we have some unusual impacts that occurred in the past two quarters, but I would not at all characterize our outlook as bearish in fact and let me give you a little bit more color on this. One of the big opportunities we see for PMMA is our ability to substitute alternative materials with PMMA or PMMA blends or PMMA constructions.

And so I would give you three examples. We've demonstrated the ability to replace metal constructions with PMMA and certain applications like in automotive and appliance. And by doing that replace painting. There is a huge value proposition for that type of application.

We can also replace painted and coated parts in building and construction applications because of the coloring and UV stability of PMMA laminates. And in the third area and very exciting is that we can replace fiber glass, glass reinforced polyester constructions that also are gel coded in transportation as well as bath and wellness applications.

So we have the ability with PMMA and our portfolio to expand the total addressable market for Trinseo. So, I am not bearish at all. I'm very excited about the prospects of PMMA because of that and like I said, I don't see it is cyclical because it's truly a solution rather than a commodity.

Q – Matthew Blair
Sounds good. That's very helpful commentary. And then Dave, I think you talked about capital allocation going forward as including both M&A and buybacks. Based on your guidance, I think the midpoint free cash flow yield next year would be around 17%. And so is it fair to say that buybacks are perhaps a little more attractive than M&A at this standpoint or how would you characterize that?

A – David Stasse
No, I don't think I'd characterize it that way. I mean, look, one thing is we've done a lot obviously in a short period of time. We've done two acquisitions and a divestiture and we're working on another divestiture. So from a corporate development perspective we have a lot going on in the Company. So our appetite to do M&A in the immediate term is somewhat constrained by that, I would say, but that's only the immediate term. Having said that, we're still looking at the pipeline and building out a pipeline of acquisitions. We do have expect some divestiture proceeds to come in and want to have a healthy pipeline to look at and we'll balance that against return to shareholders.

So I wouldn't necessarily say that one is more attractive than the other right now. As I said to Frank's question earlier, our buyback certainly will be scaled where will be buying more at taking advantage of dips in the market.

Q – Matthew Blair
Great. Thank you.

Operator
Your next question comes from the line of Laurence Alexander of Jefferies

Q – Laurence Alexander
Good morning. I just wanted to follow up on the acquisition of the recycling platform. What's your thought process around the explosion of innovation in feedstock handling? And how Trinseo will be either investing or keeping up with changes in the technology there? And secondly, the business you acquired, does it process the full gamut of consumer mixed waste at a profitable margin, or how should we think about the economics there?

A – Frank A. Bozich
Yeah. Hi, Laurence. What Heathland does is actually target certain streams of waste and they built a collection network across Europe that allow them to specialize in materials that, frankly, are important to Trinseo. So Polycarbonate, PMMA, ABS and some Polystyrene. So they are not getting a massive mixed waste stream that they then have to do tremendous separation

toward. It's more of a targeted collection that they do, and this is why they are such an important part and why we see them as so attractive. Now from an intellectual property standpoint they're developing their own IP on both separation technology as well as chemical recycling capabilities for those Feedstocks.

So we like them for that reason that they are innovating. They are developing new processes and at the same time they are controlling some significant streams of post-consumer and post-industrial waste that are targeted toward our important polymers.

Q – Laurence Alexander

Okay. Great. Thank you.

Operator

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

Q – Angel Castillo

Hi, good morning, gentlemen, and thanks for taking my question. Just wanted to circle back on I guess the discussion around Base Plastics and a lot of the commentary that you've had around end markets whether it's appliances or autos. Curious but it seems like ABS, Polycarbonate and perhaps Polystyrene as well have been pretty resilient or strong here and you talked about Polystyrene returning to mid-2021 range.

So if you think about the cycle it seems like end market demand remains robust right now. But these products are perhaps earning spreads today that seem to be at the higher end of what it had been throughout the cycle. So, how do you think about this longer term? Where do you think these businesses can be from a profitability perspective? And if you do see any normalization, what the cadence of that would be?

A – Frank A. Bozich

Yeah, let me take each of them separately. I believe we have a unique product in ABS and it has unique attributes that in the tight market like we saw late in 2020 and in early 2021, we began to understand the true value proposition for our products in certain applications and I would say that the margin profile we have an ABS reflects the value it offers to our customers. And so I would say that the margin we're getting in ABS is reflective and is structural. What we're seeing now, excluding some of these anomalies like I described in early 2021 with supply chain disruptions when there is some desperation buying in the markets.

I would say the same about Polycarbonate. We have a unique product in Polycarbonate that lends itself uniquely to some of the applications that we focus on and I'll remind you 40% of our Polycarbonate goes into compounds internally - is compounded to a solution internally. So

again, I think that a pretty structural margin we should expect in that business going forward. Polystyrene, I believe, we've done a great job again. Our portfolio is more than half, or approximately half, going into the appliance markets and high-impact polystyrene and value-added materials.

So we have very little exposure into the plastic packaging side. So, again, I think we've understood how to value price those and we see those margins as relatively stable in those more specialized applications. And as I mentioned on PMMA, I think the value proposition and the margin profile should improve as we continue funding growth in these more specialized material substitution opportunities like metal replacement or fiber glass replacement.

Q – Angel Castillo

That's very helpful. Thank you. And maybe going back to the conversation around sustainability, as we think about the portfolio beyond kind of the potential divestiture of the Styrenics business, a number of the initiatives that you've kind of undertaken or perhaps around the polystyrene recycling arena.

So as we think about maybe your 2030 target of sustainability for 30% of your portfolio, how does that look once you divest the Styrenics business and the Polystyrene business? It seems like Heathland does offer a lot within PMMA, PC and others. So yeah, just, if you could help us understand how your sustainability or higher metrics compare once you do divest the Styrenics business?

A – Frank A. Bozich

We would expect that target would remain. That's an aggressive target for us. We would expect also that the divestiture of our Styrenics business would include the projects for recycled, chemically recycled, Polystyrene, but we would expect that we would be a customer of that business for that recycled Feedstock into our downstream businesses as we exit.

So the 30% would remain our target. And like I said, we would expect to be a customer through offtake agreements from those plants to a certain extent after we separate.

Q – Angel Castillo

Appreciate it. Thank you.

Operator

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

Q – Mike Harris

Good morning. This is actually Mike here sliding in for Bob. Had just a couple questions if I could. On the increase in the total synergy pipeline, I mean, what steps did you guys take after that initial assessment to identify the additional synergies? And what's the likelihood that there could be additional increases still to be found?

A – Frank A. Bozich
Yeah. So maybe I'll start and Dave, you can add on. Once we owned an asset, we brought our different functional workstreams together to identify opportunities for both cost savings as well as growth and what I would say is, there is always opportunities that are bigger than you expected, whether it's in procurements and things that where you buy the same class as materials.

And you can buy more from similar vendors or we had logistics opportunities that we hadn't identified theoretically when we were doing the due diligence. And that's basically what happened. I would say where we are extremely pleased, and saw a much greater opportunity, is on the growth side because, as an example, and Dave can probably give you more color, for example, one of the key products that applications that our Aristech business sells into is in uses of PMMA ABS laminate construction and this is very quickly growing. It's going into a lot of applications where you are replacing alternative materials like metal or fiberglass and so at tremendous value propositions, but it was a rate limited in its growth by the availability of ABS.

And so with our ABS portfolio and PMMA, I'd remind you, we're the only producer in the world that has both PMMA and ABS in their portfolio. We see that we can accelerate the growth rate of those constructions. So that's the process we used and bringing the teams together and identify those opportunities that weren't necessarily visible to us during the due diligence.

Q – Mike Harris
Okay, great color. Thanks. And then speaking of cost savings as you get the ERP implementation and perhaps upgrade some of the plant control rooms, are you expecting any material cost savings? And, if so, would that be something which has an impact in Cost of Goods Sold or SG&A?

A – David Stasse
Hi, Mike, this is Dave. I'll take that. Yeah, I mean the Plant Controller and software, is more of a project, where we're replacing unsupported equipment. So, we won't see cost savings of significance there but regarding the ERP clearly we will. When we announced the project originally we said there would be at least $25 million of cost savings from that project.

I think most of that you'll probably see in cost of goods sold versus SG&A and the timing of that would be late '23 after we finish the project obviously, and then full realization in '24.

Q – Mike Harris
Okay. Perfect. Thank you for taking my question.

Operator
Your last question comes from the line of Duffy Fischer of Barclays.

Q – Duffy Fischer
Yeah, good morning. If we're doing some pro forma work for the divestiture of Styrenics, can you help us on what percent of the midpoint of your guide this year would be from what would be divested? And then does it do anything to your tax rate? And are there any stranded costs with that, that we need to bring back to RemainCo after the fact?

A – David Stasse
Duffy, hi, good morning. This is Dave. I would say to give you some kind of rough numbers, I would say about a third of the perimeter of the transaction, which again just to reiterate, is our Feedstocks segment, our Polystyrene segment and our 50% ownership in Americas Styrenics, and of our guidance range this year that represents about a third of that.

As it relates to stranded costs, we're going through that exercise now. I mean clearly there will be some stranded cost. As I said earlier, we'll either have to address that stranded cost or we'll have other portfolio actions that would absorb that cost, other acquisition. So I think that -- tax rate?

Q – Duffy Fischer
Then just on the tax rate. Does it do anything to the tax rate for the company?

A – David Stasse
No, I don't think it does. We're kind of in the process now of migrating the acquisitions that we've done where possible into our tax structure. So I think in the end our tax rate as a company post the divestiture will be similar to what would have been pre, which is for this year in the low 20's.

Q – Duffy Fischer
Okay and then one last one around cash. Obviously you'll get some cash back in, if the sale goes through. You're generating a lot of cash. What's kind of the highest level that we should think about cash on the balance sheet that you would be comfortable holding, not for one quarter or some period of time over the next couple of years?

A – David Stasse
Yeah, I don't think we have put a number out there. To be honest with you, Duffy, we've got some requirements or covenants, there are debt covenants that require us to do things with divestiture proceeds if they're not utilized or not reinvested in other assets. So our constraint, I think utilizing those proceeds is more governed by that. And frankly, as I said earlier, the internal resources in the company to work on those integration projects and redeploy the money. So I think those are really more of the limiters than getting guard rails that we would set arbitrarily.

Operator
Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect.