Trinseo Second Quarter 2022 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
- David Begleiter
- Mike Leithead
- Hassan Ahmed
- Angel Castillo
- Matthew Blair
- Eric Petrie

Presentation

Operator introduction:
Good morning, ladies and gentlemen, and welcome to the Trinseo Second Quarter 2022 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 Monday, August 8. 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, Brent, 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 August 9, 2023. Now I'd like to turn the call over to Frank Bozich.

Frank A. Bozich

Thanks Andy and good morning everyone. During the second quarter we delivered healthy earnings and closed out the quarter with the third highest first-half Adjusted EBITDA in the company's history, all while navigating an increasingly challenging economic environment. As the second quarter progressed, we began to observe slowing demand and destocking broadly across Europe, but particularly in building and construction and consumer durables like appliances and furniture. These conditions have accelerated early in the third quarter. This is most pronounced in Engineered Materials, Polystyrene and Base Plastics, where we're seeing lower levels of demand compounded with customers delaying orders awaiting lower prices from rapidly falling feedstock costs. In polycarbonate, which is quite energy intensive, market prices have not increased to reflect the rise in energy costs.

In North America we're seeing relatively stable demand with double digit year-over-year improvement expected in automotive. In Asia, we're encouraged by easing Covid restrictions in China and are hopeful that it leads to increased production in the area, although regional economic data from July has not reflected that yet. The uncertainty in the global macroeconomic landscape only underscores the importance of our strategy to transform Trinseo to a less cyclical specialty material and sustainable solutions provider.

A key part of that transformation remains the divestiture of our Styrenics business. We began a formal sales process during the first quarter of this year and saw strong interest from strategic and financial parties. Since that time there have been broad changes to the economic conditions including geopolitical uncertainty in Europe and rapid rises in interest rates to combat high inflation. This conspired to shut down the acquisition financing market, which ultimately led to us being unable to conclude a transaction at a fair valuation. While we are focused on our transformation strategy, we are also committed to obtaining the fair value for this highly cash generative business, so on July 26 we announced a pause to the sales process.

I want to be very clear that the separation of the Styrenics business is still a key component of our transformation journey and, based on the significant interest we saw during the process, we anticipate a successful separation of these assets in the future. For now, we will utilize the cash they provide to fund organic growth projects including expanding our sustainable product portfolio, decreasing our CO2 footprint and energy intensity, while returning cash to shareholders.

The Styrenics divestiture was just one component of the transformation and our work is ongoing on the other facets of that strategy shift. The integration of the acquired PMMA business and Aristech Surfaces is going as planned and we're on track to capture at least $60 million of run-rate synergies by mid-2024. We also recently completed the first wave of the ERP implementation for the PMMA business in North America with the European go-live expected later this year. When complete, we expect these migrations will result in transition service savings of approximately $6 million per year. In addition, we still expect annual savings of at least $25 million related to the upgrade of our legacy Trinseo ERP system which we expect to complete next year.

Another important part of our transformation is growing in recycled-material-containing products. This is accomplished not only by growing sales of existing product offerings but also by introducing new offerings, like the recent launch of our ALTUGLAS™ R-Life Acrylics, which are comprised of chemically recycled PMMA and are used in a variety of applications including transportation, building & construction, and lighting. Sales of our recycled products not only have a positive environmental impact but also align with our strategy of targeting higher growth, higher margin and less cyclical markets.

Including sales from the recently acquired plastics collector and recycler Heathland, first-half sales volume and variable margin for products containing recycled content grew 62% and 86%, respectively, versus prior year. Our first half revenue for these products was $39 million. Further growth in recycled content sales will be supported by focused R&D and capital projects.

More information on our Sustainability strategy and metrics can be found in our 12th annual Sustainability Report which we released in July. New additions to this year's report include the TCFD framework in addition to SASB and GRI as well as the inaugural supplemental Core Impact Report, which provides a holistic view of how we define, create and disperse value. The report also includes our highlights from 2021 and updated progress toward our 2030 Sustainability Goals including emission reductions, employee safety and D&I targets. I want to thank our Sustainability team for another stellar report and our employees who have been integrating sustainability into our daily operations and company culture.

Before I turn the call over to Dave, I want to make a few comments regarding natural gas in Europe. There are two key questions our stakeholders are interested in understanding. The first is: "What if there is limited natural gas availability in Europe?" The second: "What is the impact from higher and more volatile prices?"

We have fourteen production sites in Europe including four in Germany. With the exception of Stade polycarbonate and Boehlen styrene monomer, we have robust contingency plans for continuing operations in the event of a natural gas curtailment. Boehlen is currently down for planned maintenance but, looking forward, if energy supply is curtailed, we have the option to idle Boehlen and procure styrene from the market, or to run our Terneuzen site more intensely. In Stade, there are multiple lines and we consume about 50% of the site's production for our higher margin compounded products, so we have the ability to reduce rates by 50% without impacting our downstream specialty business.

Our network of sites provides us with the unique ability to utilize alternative energy sources if Russian gas is curtailed, or to ship from other regions at lower cost to meet market demand. Overall, a significant curtailment could become an upside in some of our chemistries due to their plant locations and the options to use non-Russian energy. For example, approximately 30% of European Styrene monomer comes from plants in Germany and Eastern Europe and in certain curtailment scenarios we could see supply driven fly up margins.

Regarding higher natural gas prices, during the first half of the year the average gas price in Europe was approximately $100/MWh and our spending on natural gas was more than $100 million higher than last year. We have taken numerous commercial actions to pass through this cost increase, including increasing the frequency of our pricing updates. In fact, I am very happy to say that we have maintained our unit margins in almost all our products except Styrene and

Polycarbonate. However, we estimate that our earnings were impacted by about $25 million from higher gas prices in the first half of the year primarily in styrene, polycarbonate and polycarbonate containing compounds. If natural gas prices stay at their current levels through the second half of the year, the year-over-year impact would be $170 million higher cost than the second half of 2021. In the event of continued high prices and no curtailment or rationalization of supply, we can supply from other regions at significantly lower cost.

In short, we have contingency plans that allow for our continued ability to supply and optimize cost in either scenario, with some potential upside if there are supply disruptions related to curtailments.

Now I'll turn the call over to Dave who will talk more about our financial performance.

David Stasse

Thanks Frank. I'd like to start by giving a little more color on what we're seeing in some important end markets in each region. As Frank mentioned, during the second quarter we encountered softening demand in Europe driven by economic uncertainty and higher costs of materials and energy. Please recall that more than 50% of our sales are in Europe. This demand softening was most acute in consumer durables and building and construction. Second quarter automotive volume was sequentially similar, but still down significantly year-over-year as chip shortages and material constraints persisted.

In Asia, we saw broad weakness and destocking in all markets in the second quarter due to the COVID-19 restrictions. While we are hopeful for a robust demand recovery in the second half of the year, we've seen no sign of it yet in the third quarter and we've not included this in our guidance.

The area of relative strength in both the second and third quarter is North America, where volumes are relatively stable. Americas Styrenics had a very strong quarter driven by high styrene margins despite an unplanned outage early in the quarter.

Both benzene and styrene prices increased significantly in the second quarter, ultimately reaching record high prices in June. This led to a $32 million positive timing impact in the second quarter as well as a $181 million working capital build.

Both benzene and styrene have fallen more than 20% since June, and we expect this downward trend to continue through the end of the year. As such, we expect a large working capital release in the second half as well as negative net timing. We've already seen this early in the third quarter as free cash flow in July was more than $50 million.

Our ability to generate cash even in challenging economic times has been a consistent theme over the course of the company's history. For example, even in 2020, the worst economic environment in recent history, we generated almost $200 million of free cash flow. We're in a solid financial position to continue our transformation agenda and return cash to shareholders. Now I'll turn the call back over to Frank for an overview on our latest outlook.

Frank Bozich
Thanks Dave. Moving to our full-year outlook, we are guiding to Net Income of $28 to $63 million and Adjusted EBITDA of $475 to $525 million. This reduction in our guidance reflects three factors. These are the continued slowing of the European economy impacting demand, near term destocking by customers in advance of lower raw material prices, and market prices in Styrene and Polycarbonate that fail to recover recently increased energy costs. We believe the third quarter will be the trough for the year due to the destocking we're seeing in Europe and Asia, and we expect this to resolve itself late in the quarter.

In response to these challenging conditions, we are taking action to improve profitability and cash generation. For example, we are lowering our capital spending to $150 million by deferring projects that do not impact safety or reliability, and we're actively managing costs by managing attrition and reducing discretionary spending. Please note that these cost controls will not impact our transformation or growth initiatives including sustainability investments.

As we mentioned, this forecast includes about $35 million of negative net timing impact in the second half as raw material prices begin to normalize from extremely high levels. Now, as Dave mentioned earlier, the lower prices will also trigger a release of working capital during the second half. We estimate Cash from Operations for the full year to be approximately $250 million leading to a free cash flow of $100 million. This assumes that the working capital impact is roughly neutral for the year, offsetting the $284 million working capital used in the first half via inventory control and a large benefit as raw material prices are reduced from historically high levels.

There's currently a lot of uncertainty in the forward outlook for the global economy. But even if this slowdown turns into a more pronounced economic downturn, we are well positioned to continue producing solid earnings while using the proceeds from our highly cash generative businesses to organically invest in growth platforms that align with our transformation strategy while returning cash to shareholders.

Now we're happy to take your questions.

Questions and Answers

Operator
(Operator instructions). Our first question comes from the line of Frank Mitsch with Fermium Research. Your line is open.

Q – Frank Mitsch
Hey, good morning folks and thank you so much. Frank, I was wondering if we could dig a little bit deeper into the volumes that you're seeing that you saw in the second quarter and what you saw in July, preferably by geography. How the trend was and is there a material deceleration in July and so far in August? And I believe that you had mentioned that in China, you had anticipated to see the benefits in July the lockdown easing, but you didn't see that? So could you give us a tour of the world in terms of that volume sequence? That would be awesome. Thank you.

A – Frank A. Bozich
Sure. So let me first say that globally, I'd say, automotive volumes have held steady in quarter and the beginning of the third quarter. But what we have seen is there is no effect that we've seen in previous cycles where commodity prices have dropped rapidly and people suspend buying to reduce inventory anticipating lower future feedstock costs or raw material costs. We can point to a couple of those periods, namely Q3/Q4 2018 is a great example. And this is a phenomenon that lasts for one to two quarters and as they flush out higher cost inventory and they anticipate buying lower cost material. So, we see that it's been most pronounced in Europe and in Asia in both building and construction and in consumer goods, like for example, think white goods or appliances. So, I would say most pronounced in Europe in those two markets, building and construction and consumer goods. Second most pronounced in Asia. North America is relatively steady.

Q – Frank Mitsch
That's helpful. So, is that more of a July and August phenomenon in Europe than a June phenomenon? Or did you already see it in June? I'm just trying to gauge the sequential.

A – Frank A. Bozich
Yeah, we started seeing it in June when the prices started dropping. And I'd also say we are seeing slow down from higher costs in Europe and the economy slowing.

A – David Stasse
Frank, this is Dave I'd like to add something. I mean, I think, Frank is right. We started to see this in June and it really accelerated in July. I think we see August being effectively a repeat of July. What's historically happened when we've seen these destocking periods, as you know Frank, is a V-shaped recovery where when the feedstock prices drop you see a big snap back and restocking. We clearly do not have that in our forecast and what we think is different this time is the inflationary environment and the impact that's having on consumers and consumer demand. So, what our guidance is reflective of I think is clearly some improvement in demand in September and the fourth quarter, but clearly not a V shaped, more of an L-shaped recovery I would say in the back half of the year. So, not the snapback that you're used to maybe in previous destocking cycles.

Q – Frank Mitsch
That's very helpful. And then on the free cash flow side, the EBITDA for the year was lowered by $150. The free cash flow was lower by just $75. Now, you did mention net working capital has been a release of about $50 million in the quarter. Is that the main reason for why you're projecting your free cash flow to be at least not decline as much as your EBITDA? Is it really just all in the working capital side?

A – David Stasse
Yeah, we've lowered our capex also from the last forecast. We've lowered capex by $30 million, Frank. And we've obviously taken a look at everything and deferred volume related capex and capex that we can defer that has no impact on reliability or safety. We've done that. Our cash taxes have come down obviously reflective of lower profitability and we're going to be

very aggressive in the back half of the year on reducing our inventories. So, I think all of that Frank is kind of what gives you that result.

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

Q – David Begleiter
Thank you. Frank and Dave, just on styrenics would you consider selling AmSty separately?

A – Frank A. Bozich
We actually have restrictive covenants in our bylaws where our joint venture partner has certain affirmative rights under the structure. So, they would have certain rights if we wanted to sell it independent of the other assets, okay? Now, that being said, we actually like AmSty in the cycle because they are quite advantaged in their cost structure relative to the rest of the world and they're performing extremely well. So, in this environment it would have to be a very fair or attractive valuation for us to be interested in parting with it.

Q – David Begleiter
Understood. And just on Feedstocks and Polystyrene for the period of time you still own it, do you plan on running those businesses any differently? And, specifically on Feedstocks, do you expect this business to be negative EBITDA in the back half of the year? Thank you.

A – Frank A. Bozich
So, we think in Q3 it will be negative and get to zero in Q4 and that's anticipating operating rates moderating like we've said over time to get to sort of equilibrium supply demand balance. But it will be negative in Q3. And again it's a good business. We like the business very much. It has a lot of opportunity in sustainability, it's a very cash generative business as you know. So, we will continue to operate it as normal, business as usual and when the right circumstances exist, we would consider divesting it for fair value.

The one opportunity that we do have to improve the performance that's in our control is really how we operate Bohlen and it's, as I mentioned, it's currently in a turnaround and we do have the opportunity there to delay its restart or idle it for some period of time and better leverage our asset introducing coupled with market purchases.

Operator
Your next question is from the line of Mike Leithead with Barclays.

Q – Mike Leithead
Great, thanks so much guys. First question, I just wanted to better understand the earnings bridge into the back half. So, $164 EBITDA in 2Q. The back half implies about, $75 million or so per quarter in 3Q and 4Q. So, are you assuming a step down 3Q into 4Q? Do you take a big step in 3Q before recovering in 4Q? Just how you guys are thinking about the trajectory of your business into the back half?

A – Frank A. Bozich
Yes. So, Q3 will be the trough quarter for the year with recovery in Q4 and there are a couple drivers. Number one is that that we anticipate most of the negative timing to occur in Q3. And we stated that was about $35 million of negative timing impact. And also the destocking effect that we see, we believe is going to be most pronounced in Q3 and people will use the extended August shutdown in Europe to destock and await lower raw material prices.

Q – Mike Leithead
Got it. That makes sense. And then maybe second I guess just high level on the portfolio. I mean you touched on in your remarks that the Styrenics business is giving you some pretty substantial free cash flow right now. My guess is, if we look at Trinseo ex Styrenics right now, with the de-stocking and the polycarbonate weakness, it's a bit of a tough picture right now. So, I guess does that give you any pause in trying to ultimately divest this business or I guess just how do you think about the re-rating potential for the stock when there still some pretty significant volatility in areas like base plastics within the portfolio?

A – Frank A. Bozich
Yeah, I think that we have the right strategy to separate Styrenics and find the right home for it and with someone who will invest in it. The remainder of the portfolio, we're quite happy with. Frankly, notwithstanding the margin challenge that we've got in polycarbonate, the rest of the portfolio, we've been able to manage margins and sustain our unit margins at levels that are very attractive through this cycle, and we just anticipate that there is going to be some destocking mainly in those other markets. So, in the long term, we feel very good about it and we know we have the ability to grow this business because of the growth opportunities that we have. So, I don't see that this would give us any pause about the way we're thinking about the portfolio.

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

Q – Hassan Ahmed
Good morning, Frank and Dave. Just a question around, in the past, as you guys went through the portfolio transformation you sort of gave us some indications of what the new normal earnings power of the company will be. Obviously, the macro has changed a fair bit since then. So, I'm just trying to get a sense of, in your mind, what do you think the trough earnings potential is of the current portfolio with Styrenics in the mix?

A – Frank A. Bozich
Yes, I think that if we look at trough earnings in a sustained negative environment that would probably be in the $400 range.

Q – Hassan Ahmed
So, essentially if one was to sit there and annualize Q3, which seems to be far lower on an annualized basis, I mean, one would get to that $400 number?

A – Frank A. Bozich
No. Q3 is going to be depressed below that sort of annual run rate level because we're going to see the $35 million of negative timing flowing through and we're going to also have European August shut down, which is normal slowness in seasonality coupled with destocking. So, I am not going to guide Q3, but we think Q3 will be the trough of the year, and the abnormal period for us is simply because of the factors that I described.

A – David Stasse
I think over the course of the year when I look at this and try to quantify what trough earnings would be, I think that the annual number is about 400 as Frank said and that's reflective of the trough condition of each business. So, you'd have to have obviously each business simultaneously in trough conditions.

The other thing I would point out to you Hassan is on even at $400 million of EBITDA, we would still be quite cash generative. Our maintenance CapEx is $60 million a year. Our interest is about $95 million a year. At that level of EBITDA, our cash taxes are probably in the $30 million range. So, even in that kind of draconian situation, we're still generating $150 million to $200 million of free cash flow a year.

A – Frank A. Bozich
Let me add just a few more comments. Again, we see automotive as very steady. We see North America as very steady. There are significant pressures in Europe right now where the European market is slowing. We've had two weeks at $200 natural gas and so Europe is the biggest concern. And with dropping feedstock and with dropping demand in Europe, I think that is one region where we would expect sort of trough cycles. Just trough earnings in that region but the other regions are performing better.

Q – Hassan Ahmed
Understood, very helpful. And as a follow up, again, I actually have two sort of divergent things. One is this sale in the Styrenics business. I mean obviously you guys cited high European prices as well as the rising rate environment. And both those things seem to be sort of the new normal, right? So, do you foresee a situation where obviously high European gas prices sort of linger on, obviously rates keep going up that you guys turn around and say, look, we're not going to divest this business? That's the first part.

And then just on the allocation of capital side of things, I mean you guys bought back a million shares in Q2 and the share pricing is very deflated. Should we expect even in a trough environment with your cash flow looking as good as it is for you guys get more aggressive with buyback going forward?

A – Frank A. Bozich
So, I'll take the second question first. It's fairly simple. We have authorization to buy back $200 million worth of shares. We will do that and when that authorization expires, we'll go back to the Board and we'll have a discussion with them for whatever decision or reauthorization or new authorization we agree to with the Board of Directors.

So, as it relates to the first question, I think rising interest rates was not the issue necessarily with the valuation. It was the closure of the debt financing markets and the inability or the challenge to use traditional leverage financing to affect transactions – that affected our process. The thing about this business is that the free cash flow coverage of the leverage that someone would have to have at fair valuation is significant. So, the business can justify a cycle and the sale can be justified through a cycle of higher interest rates. That's not an issue. But they have to have the ability to get leveraged finance. So, I'm not worried about our ability to do it. It's just that leveraged finance markets or traditional debt markets need to reopen for the buyers.

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

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

Q – Angel Castillo
Hi, thanks so much for taking my question. I just wanted to follow up on that conversation prior regarding the trough. Maybe from a normalized perspective I guess your number is $750 million and kind of normalized EBITDA through the cycle. Is that still the right way to think about it or have any aspects of the business changed, in particular if you add some more color on Engineered Materials which you kind of viewed as a greater than $60 million EBITDA per quarter business? That would be helpful. Thank you.

A – Frank A. Bozich
Yes, so let me start with Engineered Materials. So, Engineered Materials actually in Q2 showed underlying normalized performance that's actually better than Q1. We saw solid demand and we saw our ability to sustain margins. We have some non-period expenses that depressed it somewhat, but we feel we're in a good position to get to $50 plus million per quarter of earning EBITDA contribution from EM when the markets normalize. And when I say market, it is automotive unconstrained demand back at, let's say, 2019 levels and we also see the building and construction markets get back to where they were – where we're not depressed in, for example, tubs and bath and spa.

So, those two factors really are depressing the demand. And then with the synergy capture that we'll be getting, I'm pretty comfortable that when the market demand is there, we have a structure to be able to get that business to perform like we anticipated.

Q – Angel Castillo
And is it fair to assume that $750 million of normalized EBITDA is still the right way to think about it then?

A – Frank A. Bozich
Yes, I think that's fair. Splitting Styrenics at about $250 through the cycle and the remaining Trinseo at $500, yes.

Q – Angel Castillo
Got it. And then for the second half range, I was wondering if you could give us a little bit more color as to maybe what would be required in order to come in closer to the higher end versus perhaps the lower end of that second half of the full year guidance?

A – Frank A. Bozich
Yeah. So, the higher end of the guidance would mean a faster recovery in China. So, China recovery accelerating with the ending of COVID lockdowns. It would also mean that, as Dave described in his answer earlier to Frank about the recovery from destocking, if it's more of a V-shaped recovery from the destocking, then I could see that getting us to the high end as opposed to an L-shaped recovery of the destocking. That would help.

The other thing I think, and this is a really important point, if China demand accelerates in many of their capital goods markets, et cetera, we believe that will tighten the polycarbonate market supply & demand balance up a bit. And right now, as a background, China consumes about 70% of the world's polycarbonate and with China slow, Europe somewhat slow and but Europe having extremely high energy costs, there's been oversupply situation and the market prices have not allowed European producers to recover the energy increase. So, if China tightens up and we see strong demand there and that will improve the supply & demand balance, we could imagine a scenario where that pricing, the market prices allow us to pass on the polycarbonate price. So that's an upside. We don't know. That would be an upside to the back half of the year forecast that we've got.

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

Q – Matthew Blair
Good morning. I was hoping you could talk a little bit more about the outlook in Polystyrene. The volumes came down quite a bit quarter over quarter. What was the driver of that and if there is any hope of getting this segment back up to the $50 million EBITDA level per quarter that we saw a year ago?

A – David Stasse
Yeah, Matthew. Good morning. This is Dave. I'll go ahead and take that one. I think there are two answers to your question. First is, the largest single end market for our polystyrene business is appliances. It's about 40% of our end market demand, and specifically appliances in Europe and Asia. That is probably the market where we've seen the single largest destocking across the whole portfolio. So, I think the combination of that, as well as record high styrene prices that we saw in June. So, if you look back in history at our polystyrene demand and by quarter and if you track that again styrene prices, you'll see that the market acts pretty efficiently and really reduces the purchases when we go through these periods of times where we have spikes in styrene prices.

So, on the one hand we've got appliances end market demand destocking. On the other hand, we've got styrene prices at record highs in June coming down in July, certainly coming down more in August. So, we've got people delaying purchases because of that and because they

know styrene prices are coming down further. I don't think there's really anything more to the story than that. Obviously in North America, Matthew, we Trinseo don't participate in the polystyrene market but our JV Americas Styrenics does. Their polystyrene business had a fantastic quarter. They're having a very good year actually. The appliance market I would say in North America is quite a bit healthier than it is in Europe and Asia right now.

Q – Matthew Blair

Got it. That's helpful. And then I guess just digging into Engineered Materials a little bit more, could you talk about the performance of some of your recent acquisitions, whether it's Aristech or PMMA? Are those performing up to your expectations? Was that part of the softness in the quarter?

A – Frank A. Bozich

Yeah, there is softness. We see the potential for those business in normal demand environment to generate over $50 million a quarter in EBITDA contribution before we layer in some of the synergy capture that we're going to be getting. The markets that are negatively affecting the business now and in Q2 are -- there is destocking in the bath and tub market I would say generally. You have the Asian market, for export market, for bath and tub and construction products has basically been shut down for two quarters because of the very high cost of freight to move those products out of Asia into other markets.

And then we're seeing some destocking in the building and construction and consumer products end markets from the PMMA business. So, from a market standpoint, there is a destocking effect and the temporary issue with the end market demand that we see in bath and tubs. PMMA in auto is very stable. So, the applications that we're in, in fact, in lighting is stable and in some of the new applications that we're working on in paint replacement we're actually seeing growth.

Operator

Your final question comes from the line of Eric Petrie with Citi.

Q – Eric Petrie

Hi, good morning Frank and Dave. Could you go over your mix of purchased versus produced styrene monomer and if those natural gas contingency plans go into play, how does that shift?

A – Frank A. Bozich

So, Terneuzen has a nameplate capacity of approximately 500kmt and Boehlen has a nameplate capacity of approximately 300kmt. And in a good demand market we would typically supplement that with periodic external purchases but significantly less than Boehlen production. So, by far we're a small cap merchant buyer of styrene monomer.

In the event of a gas curtailment that would affect the market, what we would envision doing is running Terneuzen much harder. We would idle Bohlen and then we would supplement with

market purchases. And what we would envision happening is styrene monomer coming from North America to supplement any shortfall that you saw in the European market. So that's the scenario of a gas curtailment in Europe.

Let me just point out our Terneuzen asset is largely insulated from the impacts of Russian natural gas because the Netherlands by memory only has 14% of the Netherlands energy supply comes from Russia and also our feedstocks are coming from Dow's cracker in Terneuzen, which is largely insulated. They're cracking LPG. So, we're very confident Terneuzen will run and that we can get the supplies we need from imports.

Q – Eric Petrie

Okay, helpful color. And then secondly, if I could move to the end markets of PMMA, did PLEXIGLAS® see a bump up in demand during COVID and are you seeing more of a reduction there? And then just in terms of auto exposure, are you growing in line, below or above end market, which is global auto builds versus 2019 levels?

A – Frank A. Bozich

Yes, thanks. Great question. So, to be clear, there was a COVID tailwind in the sheet part of the PMMA business. So, the whole market for protective sheeting, which isn't necessarily very good margin, but utilizes assets grew quite significantly during the COVID period. Now, that offsets a decline in auto because, as you remember, there were quite a few auto plants that were shut down.

And during that COVID period during 2020, the business performed fairly well from a volume standpoint. What we've seen though is that the protective sheet market, the COVID related protective sheet market, has declined. And automotive is somewhat constrained by the chip shortages and I would also say that in Europe they've been constrained by the Ukraine supply chain issues - for example, cable harnesses. So, since then we've gone to a normalized sheet business, but constrained demand in automotive, based on cable harnesses and chips. And then building and construction has been growing I would say generally up until Q2.

Operator

Ladies and gentlemen, thank you for your participation. This concludes today's call.