Trinseo Second Quarter 2023 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
- Michael Leithead
- David Begleiter
- Matthew Blair
- Hassan Ahmed
- Laurence Alexander
- Roger Spitz

Presentation

Operator introduction:
Good morning, ladies, and gentlemen, and welcome to the Trinseo second quarter 2023 Financial Results Conference Call. We welcome the Trinseo management team, Frank Bozich, President & CEO, David Stasse, Executive Vice President & CFO, and Andy Myers, Director of Investor Relations. Today's conference call will include brief remarks by the management team followed by a question-and-answer session. The company distributed its press release, along with its presentation slides, at close of market Thursday, August 3rd. These documents are posted on the Company's Investor Relations website and furnished on a Form 8-K filed with the Securities and Exchange Commission.

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

Andy Myers
Thank you, [operator], and good morning, everyone. At this time, all participants are in a listen-only mode. After our brief remarks, instructions will follow to participate in the question-and-answer session.

Our disclosure rules and cautionary note on forward-looking statements are noted on slide 2. During this presentation, we may make certain forward-looking statements, including issuing guidance and describing our future expectations. We must caution you that actual results could differ materially from what is discussed, described, or implied in these statements. Factors that could cause actual results to differ include, but are not limited to, 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 call. The replay will be available until August 4, 2024. Now, I would like to turn the call over to Frank Bozich.

Frank A. Bozich

Thanks Andy, and welcome to our second quarter 2023 earnings call.

Before I comment on our second quarter results and what we are seeing in the market, I'd like to start by giving a brief update on our sustainability journey.

In July we issued our annual Sustainability & Corporate Social Responsibility Report, which details how we continue to implement our sustainability initiatives and shape the future of the company. We made fantastic progress last year toward our 2030 Sustainability Goals, with waste and energy improvements at our facilities around the world, the acquisition of Heathland to supply our businesses with a reliable source of recycled feedstock, and the development of our decarbonization strategy. Our employees have set the stage for continued, sustainable progress, and the advancements made to date are a testament to their dedication. I want to extend a heartfelt thanks to those who played a role in our efforts, as they have set us on a path to success.

Now I'd like to turn to the second quarter results. As expected, our Q2 sales volume was similar to both Q1 and the average over the last 3 quarters as volume has stabilized at about 20% below mid-cycle levels. We continue to see lower demand across many applications, particularly in building & construction and consumer durables, as end consumer demand remains soft and as customers continued to destock.

In Q2, the total sales volume for the company was down 17% from prior year. However, volumes for products containing recycled materials, products for CASE applications, and our technologies that enable our growth programs outperformed the broader portfolio while experiencing improved unit margins. This relative performance shows that these offerings have more resiliency during periods of destocking and lower structural demand.

Despite overall demand temporarily stabilizing at this low level, we were able to deliver our third consecutive quarter of sequentially higher Adjusted EBITDA while generating positive Free Cash Flow.

In the first quarter we announced more than $100 million of cash improvement initiatives and we are well on our way to achieving that. In the second quarter, we continued to make progress on

these initiatives and this resulted in $43 million of free cash flow. Based on our progress to date, we have increased our outlook on Free Cash Flow in 2023 despite lower profitability.

So far in the third quarter, we continue to see demand at similar levels to the first half of the year. While the timing and trajectory of the market recovery is unknown, we are addressing what we can to optimize near-term performance while preparing for the market recovery.

Late last year we announced several asset restructuring initiatives, and we've seen the expected benefit of those in the first half of the year. As we continue to assess the structural challenges facing our value chains since the natural gas supply from Russia was disrupted, we are taking additional actions to optimize our business.

We recently began works council discussions regarding the potential closure of our styrene facility in Terneuzen, the Netherlands. If closed, we will no longer produce styrene, and we will purchase all of our styrene needs from third parties. We have always purchased all of our styrene needs in North America and Asia, as well as a significant percentage of our European requirements. This model is not new to us and at times we have in fact sourced all of our styrene needs for Europe from the market. With the elevated energy costs in Europe, styrene production in the region is some of the highest cost in the world. Plus, given recent and planned global styrene capacity additions, we believe this feedstock will remain structurally long through the end of the decade.

Therefore, we believe we will be able to purchase styrene at a lower price than our production cost. This action would also reduce production risk, ongoing capex and turnaround cost, as well as lower our carbon footprint. I would like to point out, however, that styrene production will remain an important profit contributor to our joint venture, Americas Styrenics, as they enjoy world class economics for energy and raw materials. We already source styrene from AmSty in North America and we anticipate AmSty supplying a greater share of our future needs.

We are also evaluating our PMMA cast and extruded sheet network in Europe, including the possibility of consolidating operations. And finally, we are taking measures to lower operating costs including headcount and other reductions. This includes our recent Executive Leadership changes to create a more streamlined organizational structure.

In aggregate, we anticipate these actions will improve annual EBITDA by approximately $70 to $90 million in 2024.

Before I hand the call over to Dave, I'd like to follow-up on a topic that came up on our Q1 earnings call regarding mid-cycle EBITDA. During the call, we indicated that following the sale of our styrenics businesses, our mid-cycle EBITDA would be about $350 million. This amount is lower than our previous estimate, and I'd like to discuss some of the drivers for that.

The primary drivers are higher energy costs from the war in Ukraine and reduced growth rates for chemical demand in China. The change in energy and feedstock costs relative to the rest of the world has reduced the competitiveness of many segments of the chemical industry in Europe, including some of our own. Coupled with lower demand in China, this has resulted in

lower margin expectations for Europe for many globally traded products. Let me remind you that over half of our revenue is generated in Europe.

Within Engineered Materials, we have seen significant margin degradation in our MMA production as a result of higher natural gas and ammonia costs which could not be offset through ammonium sulfate sales. We believe this could be permanent as the price of ammonium sulfate in Europe is currently being capped at the landed cost of Chinese production.

I'd like to go a bit deeper on Engineered Materials. Slide 6 of our earnings presentation divides the products we offer into three categories ranging from less differentiated to more specialized. On the far left in the less differentiated category is MMA, which is where we believe we have permanently lost profitability given our current configuration and the changing regional economics of key inputs.

We purchase MMA in North America at cost via a capacity rights agreement, and this is one of the lowest-variable cost assets in the world. However, we produce our own MMA in Europe, and with the elevated energy and ammonia cost, our MMA plant has become less competitive compared to Asian and North American plants, and therefore we are structurally disadvantaged. Assuming energy costs in Europe remain among the highest in the world, we believe our MMA-related profitability, which is currently negative in Europe, may not return to historic mid-cycle profitability levels. However, we have made investments in our European assets over the past twelve months to flex our network to take advantage of regional cost differences. We have also identified specific investments that we can make to reduce the energy and carbon intensity of our assets to make them more competitive.

The middle section of the slide includes the cast and extruded PMMA sheets. These products are more specialized and therefore margins are more dependent on end applications and the service levels required by our end customers. While we saw a negative impact from imports coming into Europe from Asia when energy and input cost differences were highest, we are watching to see if the elevated energy costs will have a permanent impact on trade flows. While currently both volumes and margins are below mid-cycle conditions, we believe profitability of these products will return to near historic levels. In addition, our potential consolidation of operations will make our network more competitive going forward.

The far-right section contains the most specialized products within EM – Rigid Compounds mainly for consumer electronics applications, PMMA resins, continuous PMMA sheets and TPEs. These products are highly formulated, solution-based, differentiated offerings that are value priced. While demand is currently below normal levels, margins have been very resilient, and we believe overall profitability of these products will also return to historical levels. In addition, these are technologies where we have significant growth opportunities that are enabled by new innovations, recycling and through substitution for higher cost materials. These growth opportunities create future upside to our historical performance for these technologies.

In summary, higher energy costs and overcapacity in China have had a major impact on the European chemical industry. The ultimate impacts are not yet known, but we've already seen

this greatly influence the region, including a reduction in our MMA and polycarbonate profitability. Please understand that while we have already taken some actions to address this, we will continue to look at ways to optimize our business given this new operating environment. Please also understand that this does not change our strategy of focusing on higher value, formulated and sustainable products. If anything, it accelerates our need to do this. Ultimately, the actions we have announced, our ability to flex our network, and the growth investments we are making will allow us to increase our mid-cycle earnings potential in the near term.

And now I'd like to turn the call over to Dave.

David Stasse

Thank you, Frank. Our second quarter Adjusted EBITDA was below our expectation due mainly to $16 million of negative net timing from decreasing raw materials. $9 million of this was in Engineered Materials from declining natural gas and ammonia prices. Results also included $4 million for fixed cost under absorption from inventory reductions, and $3 million higher than forecasted natural gas hedge losses.

As it relates to fixed cost absorption, preserving liquidity in this environment is a top priority for us, and we continue to work to reduce working capital. In the second quarter, we had Free Cash Flow of $43 million including a working capital reduction of $52 million which was driven by inventory reductions. So while the decision to run at lower operating rates resulted in lower profitability, the cash benefit was significant.

Free Cash Flow for the first half of the year was $66 million, and we are increasing our free cash flow guidance for the year to $100 million, despite reducing our EBITDA outlook, as we anticipate a larger working capital decrease for the year.

We ended the second quarter with $270 million of cash and more than $500 million of liquidity including our undrawn bank facilities.

The last item I'd like to discuss is our capital structure and refinancing plans. As slide 13 in our deck shows, we have $660 million of debt maturity due in September of 2024 and $500 million due in September 2025. Addressing these maturities remains our highest priority, and I'm very confident that we will be able to accomplish that in the third quarter.

Now I'll turn the call back over to Frank who will talk about our expectations for the third quarter and the remainder of 2023.

Frank A. Bozich

Thanks, Dave. Looking ahead to the rest of the year, we are guiding to a net loss of $460 million and an Adjusted EBITDA of $215 million.

This updated full-year outlook is $60 million below the low end of our prior guidance primarily from weaker market conditions in the second half of the year leading to lower expected margins in Feedstocks, Engineered Materials and Polystyrene, with the remainder due to second quarter impacts of $23 million mostly from unfavorable net timing.

Sequentially, our guidance implies an average of about $60 million of Adjusted EBITDA in Q2 through Q4. While we don't anticipate the unfavorable net timing of the second quarter to repeat in the back half of the year, we expect similar sales volume but lower margins in Feedstocks, including impacts from our Terneuzen facility being down, as well as Engineered Materials, from a lower expectation for ammonium sulfate prices.

As we continue to navigate a sustained, low-demand environment, we've been proactive to take significant actions to enhance profitability and cash generation, including numerous initiatives regarding asset optimization, cost reductions and liquidity improvements. As we look ahead into 2024, the year-over-year benefit of these actions, combined with lower losses from natural gas hedges, are expected to result in over $100 million of EBITDA improvement.

Now I'm happy to take your questions.

Questions and Answers

Operator
Thank you, Mr. Bozich. (Operator Instructions) We'll take our first question this morning from Frank Mitsch at Fermium Research.

Q – Frank Mitsch
Hey, good morning, gentlemen. Hey David, you indicated that the top priority is to refi the coming maturities, and you noted on the cash flow guidance the interest cost was $155 million. Can you talk about if you are successful, and it sounds like you expect to be successful on a refi here in 3Q, how might that change?

A – David Stasse
Yes. Good morning, Frank.

I'll make a couple of added comments on the refinancing, and given where we are in the process, this is really all we can say at this point. We've obviously been in deep discussions with a variety of lender groups both public and private and have run what I think is a very healthy process and had a lot of interest in helping us with the refinancing, and that's what gives me confidence in being able to get something done in the third quarter. The guidance that we give in the slides at the $155 million of interest this year, that's reflective of our current capital structure. It's not reflective of what we may get in a refinancing.

Look, clearly what we get in refinancing is going to be higher. The debt we are refinancing was put in place six years ago at a much different interest environment and operating environment. So the interest expense will be going up, I just can't say at this time, Frank, since we're still going through the process, what that will be. When we have something to disclose, again I'm very confident about it being in the third quarter, we'll disclose it when we have everything wrapped up.

Q – Frank Mitsch
Understood. Thank you. And Frank, can you talk about Terneuzen and the decision to shut it down? I thought I saw a press report that it was currently down for production issues. I know

you have discussions with the works councils, but any thoughts on timing of when that might occur and what the overall embedded cost might be in terms of shutting it down? And then I believe you said that you'd be getting like $70 million to $90 million on some of these actions as a benefit for 2024. Any additional color on scenarios would be very helpful.

A - Frank A. Bozich
So maybe let me start. So as events would have it, we had a technical issue that caused us to have an unplanned outage in Terneuzen the week before last, so the plant currently is not running. And that unplanned outage is part of the reason we've anticipated a reduction in Feedstocks contribution through the end of the year.

Now, we've begun the consultation process with the works council and there's a very structured process, and I can't really comment more than to say, we're going to work constructively with our employee groups to find a good solution for everybody. Typically in the Netherlands, this is approximately a six-month or less process. As it relates to the estimate of the cost, we're still evaluating that and we are still negotiating the social plan, which is a component of that. So it's hard to say what the exact cost will be, but we have some estimates for that.

A - David Stasse
As Frank said, we're still in the middle of this and we'll have to go through the works council process. As an estimate right now, I would use a total cost including decommissioning, dismantling, and severance of about $50 million, spread $30 million in 2024 and $20 million in 2025.

Q - Frank Mitsch
Got it. Thank you so much.

Operator
Thank you. We go next now to Mike Leithead at Barclays.

Q - Michael Leithead
Great. Thanks. Good morning, guys.

First question in Engineered Materials, Frank you talked about MMA production in Europe probably being permanently uncompetitive or just not returning to historical levels. And I think you also talked about being able to store some favorable MMA, I believe from Dow. So similar to Terneuzen, would you look to ultimately shutter European capacity and source more in the open market there?

A - Frank A. Bozich
You sort of broke up in the middle of the question. Could you repeat the question?

Q - Michael Leithead
Just on your MMA in Europe, you talked about it being mostly uncompetitive or unprofitable. So, similar to Terneuzen, would you look to shutter European MMA capacity and buy more from third parties?

A - Frank A. Bozich
We don't have any plans to make a structural change in the way we operate in Rho at this time. We have made investments that give us the flexibility to buy from the market for our downstream PMMA production, and those will be effective by the end of this year. But I think the important point to recognize, and that we're trying to bring forward, is that our expectation for mid-cycle earnings from MMA contribution in Europe is lower than it has been historically. We don't anticipate it returning to normal.

Now, the other thing that's important to realize is that we are making investments to recycle PMMA to recover the MMA in our facility in Europe. And our financial outlook for that investment is very, very favorable, and it will require the assets that we have in Rho in our facility to continue operating to help us with the recycling. So hopefully that gives you some color, but no plans to close the plant.

Q - Michael Leithead
Great. That's super helpful. And then maybe just quickly for Dave. I just wanted to clarify, when you talked about the refinancing, is the current plan to address both the 2024s and 2025s in whatever action you may take?

A - David Stasse
Mike, it's a good question. I understand the question, but unfortunately I just can't talk about it since we're in the middle of discussions with lenders right now, Mike. So, it's just premature. We'll have an announcement, I think, hopefully in the third quarter. We're obviously looking at a '24 and '25 solution, as well as a '24 only. I just can't comment right now, Mike.

Q - Michael Leithead
Fair enough. Appreciate it. Thank you guys.

Operator
We'll take our next question now from David Begleiter at Deutsche Bank.

Q - David Begleiter
Thank you. Frank, what does the closure of Terneuzen mean for your European polystyrene assets?

A - Frank A. Bozich
David, I think that our polystyrene assets are going to remain very profitable. We have a great franchise in polystyrene, both in Europe and in North America because of the segments that we focus on, and the mix of our product line is mainly focused on HIPS and some higher-end applications. So again, we anticipate that our polystyrene assets will continue to perform very well as the market allows based on the technology position we have.

Q - David Begleiter
Very good. And how is the overall sales process for certain assets within the Styrenics portfolio progressing?

A - Frank A. Bozich
We have some specific interest in some of our specific Styrenics assets from some strategic buyers within the regions, and it's ongoing. I just want to manage expectations that because these are some strategic buyers, it's highly unlikely that anything happens very soon, because there are regulatory approvals that would be required to complete a transaction. But, it's ongoing.

I want to go back to the first question you raised about our polystyrene franchise. It's important to understand, we've operated a very profitable polystyrene franchise that wasn't backward integrated in Asia. We don't think that's a model that's required given our product mix and so again, we feel very comfortable about our competitive position and the strength of earnings potential for that business going forward.

Q - David Begleiter
Thank you.

Operator
We'll go next now to Matthew Blair at TPH.

Q - Matthew Blair
Good morning, Frank and Dave. AmSty seems a little weaker than expected in Q2, do you have any more color there? And U.S. styrene spot prices have risen about 20% so far in July, do you think that'll be a tailwind for your Q3 AmSty results?

A - David Stasse
Matt, good morning. The answer is yes, it will be a tailwind for AmSty's Q3 results. In fact, the two parts of the question are linked. Styrene margins were weak globally for the duration of the second quarter, and as you know, North America is an export market and there was no draw from Europe, where a lot of those exports end up. So nothing is on the water, and a lot of North American styrene units were running at low levels of utilization. Some were even shut for economic reasons in the second quarter. AmSty wasn't, but some others were.

So nothing is on the water, or maybe it was recently, but nothing was exported. And those depressed level of styrene margins is what you're referring to and is what you're seeing in the Q2 results for AmSty.

Now, you're right, spot prices have risen pretty sharply recently. There have been a couple of unplanned outages in Europe, including our own in Terneuzen, and we and others are out buying in the spot market to replace that production. But as I said, there's nothing on the water and there's some outages, so it's lifted global styrene spot prices.

That'll be a headwind for the Feedstocks business in the third quarter, but I would expect that to be largely offset by a tailwind for AmSty in Q3. And look, these kinds of issues tend to resolve themselves pretty quickly. I would expect a month or two probably, and then we would revert back to where we were before this started. But that's the answer to your question, Matthew.

Q - Matthew Blair
Great. Thank you. And then could you talk about how your construction end market is faring so far in Q3? Has there been any improvement or has it gotten worse than Q2?

A - Frank A. Bozich
No, we see it steady with the levels that we saw in Q2. No significant improvement that I could speak of by region, probably with North America slightly weakening, Europe being slightly better than we thought, and China being sluggish.

Q - Matthew Blair
Got it. Thank you very much.

Operator
And we'll go next now to Hassan Ahmed at Alembic Global Advisors.

Q - Hassan Ahmed
Good morning, Frank and Dave.

Back during your Q4 earnings call, you guys talked about this arbitrage opportunity on the MMA side between the cost deltas in Asia and Europe, and you were talking about more Chinese products coming into the European market. From the sounds of it that probably is still lingering on. Is that the case, first of all?

A - Frank A. Bozich
Actually what we've seen is a decreased amount of material coming in from Asia into Europe, and it's really based on the lowering of European input costs. So, Europe has closed the gap from the peak delta that we saw last year. There are still some import quantities, but it's being reduced. I think the important thing to take away from our commentary is that our expectation for mid-cycle earnings is just lower due to the MMA cost competitiveness than it used to be.

Q - Hassan Ahmed
Understood. And then again, sort of going back to that Q4 earnings presentation, there was a chart in there that looked at historic destocking, and you talked about how destocking typically lasted two quarters and the restock thereon after was quite impressive. With all of these changes that you talked about; be it on the MMA side, be it on the European cost structure side, be it even some of the closures that you guys are announcing, how are you thinking about a volume rebound on a go-forward basis?

A - Frank A. Bozich
If I understand the question, we believe there is a restocking cycle that will happen simply because of the dislocation between chemical output and industrial output. Right now, we're in a period that's almost as long as the great recession in a way, so you can't see a dislocation between chemical production and industrial output that sustains itself at these levels. So there has to be some correction at some point in the various value chains. It's very difficult to predict

when we think that'll happen, but I'm not sure if the timing of that recovery is the question or the magnitude of the recovery?

Q - Hassan Ahmed
Yes, I got most of the answer. But I guess where I was headed with the question was that, look, relative to some of the commentary that you made back in Q4, as you presented those charts, obviously there have been some structural changes in the marketplace, particularly on the MMA side. So the question really was, as you're thinking about the new normal for your earnings profile, has the volume aspect also been factored into that new normal? Meaning, are we in this new normal that your volume growth may not actually be as good as you previously perceived it to be even in a recovery?

A - Frank A. Bozich
What I would tell you is that our outlook for China growth is lower today than it was six months ago. The forecast that we've been monitoring and the outlook for 2025 growth in the industrial output in China just since February of this year has decreased approximately 20% from various forecasting agencies. So our outlook for growth in China is lower. Our overall demand growth, I would say, I'm still very optimistic about our ability to grow volumes, especially because of the adjacent markets that our growth programs target, as well as our ability to replace virgin material with recycled material in both ABS, polycarbonate, and in PMMA as we continue to advance those.

So while I think some of the value chains we participate in are structurally disadvantaged, recycling has become more advantaged, and that's a growth opportunity for us in our value chains.

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

Operator
Thank you. We go next now to Laurence Alexander at Jefferies.

Q - Laurence Alexander
Good morning. To what extent are your restructuring savings contingent on a recovery in demand? And I guess then related to that, if demand does not improve in the first half or say, first several quarters, or even just next year if it's flat-lined, what's your scope for further restructuring actions? Or are you getting pretty much as lean as you can get?

A - Frank A. Bozich
Thanks, Laurence. The answer to the first question is, it's not dependent on volume recovery. Those are real hard cost-saving dollars that we believe will come irrespective of a volume recovery that we see in the broader markets. The answer to the second question is that, as I mentioned in the script, in the prepared remarks, we have been making investments that allow us to flex the way we operate our global network to move products between sites to optimize the network to have an overall lower cost. So there are always things we can do going forward, and there are additional significant things that we're constantly evaluating to use our regional

network to optimize our cost structure. Those were not included in the $100 million, or the $70 million to $90 million, of improvement that we talked about or defined in these initiatives already.

A - David Stasse
Laurence, I'd like to just add a clarifying statement to that. The restructuring actions that we're discussing today are $70 million to $90 million. And we had it in the press release, but it hasn't come up on this call, that our hedge losses will be between $30 million and $35 million less in 2024 than they're going to be in 2023. So what Frank mentioned, you add the two of those up and that's how, all things being equal, 2024 would be $100 million better from restructuring and natural gas hedges versus 2023.

Q - Laurence Alexander
Great. Thanks.

Operator
Thank you. We go next now to Roger Spitz of Bank of America.

Q - Roger Spitz
Thank you very much, appreciate it. The first question is, the $215 million EBITDA guidance for this year suggests $128 million in the back half, so Q3 will be lower than Q2 of $54 million, suggesting Q4 will be higher than $74 million, if I'm doing my sums correctly. How do you get to this number in a traditionally seasonally weak quarter?

A - Frank A. Bozich
I think what our guidance of $215 reflects is $60 million a quarter on average on the back half of the year. And there will be some headwind, as Dave said, from the styrene monomer outage in Terneuzen, and then the short-term offset tailwind associated with earnings from AmSty. The calendarization of that is impossible to tell you, but suffice it to say that our guidance reflects $120 million in the second half of the year.

A - David Stasse
Roger, one other thing, as I was just mentioning the natural gas hedges a minute ago. As we go through the year, we had $18 million of hedge losses in Q1 and $12 million in Q2. In the back half of the year, we'd see that number being around $15 million, so the impact of hedge losses goes down as we go throughout the year as well.

A - Frank A. Bozich
And I'll pile on a little bit to give you more color. In Engineered Materials, the credit we get from ammonium sulfate sales is typically seasonally lower in Q3 than it is in Q4, because the fertilization season in Southern Europe is really Q4 and early winter. So typically, we would see a seasonal uplift in prices in Q4 relative to Q3 for ammonium sulfate.

Q - Roger Spitz
Thank you for that. And then, so after taking out the $200 million of working capital, or inflow, how should we think about working capital going forward? I mean, you start in the year $500 million, I'm using current assets, current liabilities other than cash and debt, and some other

stuff. That would suggest you go down to about $300 million, which you haven't been at in a very long time. If you see any recovery at all, obviously it's a high-class problem, but are you at bare bones, and would really have to be a material working capital outflow in 2024 if things start going the way you're looking at?

A – David Stasse
So, Roger, you're right. We're operating at a very low level of working capital and that's reflective of the low level of volumes we've been selling for the past four quarters, as well as low prices. Feedstock prices are low as well, so we've had huge deflation in the balance sheet.

So clearly when there's a recovery, we're going to have an increase in prices and volume, and we will have a working capital increase. I think probably, Roger, the way I would characterize the gains we've made, or the release of working capital, is that half of it we think we can hold on to because we've gotten much better at managing days of inventory. And substantially all of the reduction in working capital we've seen this year, year-to-date, has been from pounds of inventory, not prices. So, we've just gotten much better and put a lot of rigor around our supply chain processes, as you can appreciate, to reduce the days of inventory that we're carrying. And I think we can, in a recovery scenario, hold on to half of what we've produced.

Operator
Thank you. And ladies and gentlemen, that is all the time we have for questions this morning. We'd like to thank you for joining the Trinseo second quarter 2023 financial results conference call, and we all wish you a great day. Goodbye.