Trinseo First Quarter 2025 Earnings Call

Company Participants

- Bee van Kessel, Senior Vice President, Corporate Finance, and Investor Relations
- Frank Bozich, President, and Chief Executive Officer
- David Stasse, Executive Vice President and Chief Financial Officer

Other Participants

- Daniel Rizzo, Analyst, Jefferies
- Frank Mitsch, Analyst, Fermium Research
- Hassan Ahmed, Analyst, Alembic Global Partners
- Matthew Blair, Analyst, TPH

Presentation

Operator Introduction

Good morning, ladies, and gentlemen. Welcome to the Trinseo First Quarter 2025 Financial Results Conference Call. We welcome the Trinseo management team, Frank Bozich, President, and CEO; David Stasse, Executive Vice President, and CFO; and Bee van Kessel, Senior Vice President, Corporate Finance, and 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 after close of market on Wednesday May 7. 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.

I will now hand the call over to Bee van Kessel.

Bee van Kessel

Thank you, Greg, and hello, 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 notes on forward-looking statements are noted on slide two. 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 financial measurements. A reconciliation of these measurements to the corresponding GAAP measures is provided in our earnings release and in the appendix of our investor presentation. A replay of the conference call and transcripts

will be archived on the company's Investor Relations website shortly following the conference call. The replay will be available until May 8, 2026.
Now, I would like to turn the call over to Frank Bozich.

Frank Bozich
Thanks, Bee, and welcome to our first quarter 2025 earnings call.

Core business results in the first quarter were in line with expectations and sequentially higher due to seasonality and prior quarter customer destocking. Despite persistent market weakness, the first quarter was Trinseo's seventh consecutive quarter of improved year-over-year adjusted EBITDA improvement, driven by various management actions we took early in this industry downturn. Against the backdrop of trade uncertainty and lower consumer confidence, our adjusted EBITDA improved to $65 million. This is up $20 million versus prior year as a result of restructuring actions we've taken to improve business mix and the polycarbonate licensing agreement we previously announced.

Our focus has been on executing actions aligned to our transformation strategy and driving growth in areas that represent opportunities in any business environment. The levers we possess to continue growing our more specialized technologies are specifically related to geographic expansion, material replacement, process change and sustainability. With this focus, in the first quarter, we grew our volume in recycled content containing products by 33% over prior year, consumer electronic applications by 43%, PMMA resin volumes in Asia more than doubled, and CASE volumes grew by 3% in a flat demand environment.

Last year, we announced our proprietary asset and technology license deal with Deepak Chem Tech, and with the recognition of $26 million in licensing income in Q1 this year, I'm pleased to say the projects are on track and delivering in line with our expectations. In total, we estimate these projects are worth $52 million. As our two companies work together, we continue to view this agreement as mutually beneficial and see this as the initial steps of a strategic and collaborative partnership in India.

Before, I turn the call over to Dave, I'd also like to talk a bit about China as a growth market. We'll cover tariffs later on. While we believe India will be a broad growth opportunity for us, in China, we have been more focused on our more specialized products in our portfolio. For the last couple of years, the team has been working to grow our more specialty PMMA products, and these efforts are starting to payoff. That, plus our sustainable solutions for consumer electronics are important growth drivers for us in China. Combined in Q1, they delivered 50% volume growth versus prior year, and we are adding resources for further growth.

Now, I'd like to turn the call over to Dave.

David Stasse
Thanks, Frank. I'd like to give a little more color on the first quarter and what we're seeing in the early part of Q2.

At the segment level, Engineered Materials Adjusted EBITDA was higher than prior year despite lower volumes sold into automotive and building and construction applications. This was more than offset by higher margins from moderating input costs, particularly natural gas in Europe as well as better sales mix.

Latex Binders adjusted EBITDA was similar to prior year despite lower volume. Most of this volume decline was in the paper and board applications in China, where we've seen demand weakened considerably since the tariff announcements. Offsetting this was improved mix with higher sales in CASE and battery, as well as benefits from our cost savings initiatives.
Lastly, Polymer Solutions adjusted EBITDA was also above prior year despite significantly lower volume due to $26 million of polycarbonate licensing income in the quarter and our own polycarbonate restructuring actions.

Segment volumes were down 15%, driven by lower automotive sales in all three regions, as well as uneconomic volume and polystyrene that we have declined to accept for the time being.

First quarter free cash flow was negative $119 million and included $25 million of outflows related to our refinancing that closed in January. Aside from this, we had a typical seasonal working capital outflow of $84 million as we rebuilt receivables after a very slow end of Q4. We expect free cash flow in the second quarter to be about breakeven and then positive in the second half of 2025.

Now, I'll hand the call back over to Frank.

Frank Bozich
Thanks, Dave.

Before I get into our outlook, I'd like to highlight our potential exposure to the proposed tariffs. Over 95% of our product sales are produced within the region in which they're sold, so we anticipate little direct impact. That said, tariffs or disruptions to trade have created an uncertain demand environment, particularly in China and for the automotive industry. You're seeing these impacts in China early in the second quarter where tariff uncertainty has had a significant impact on demand for many of the industrial applications we supply.

On the flipside, tariffs may have a positive pricing and demand impacts in certain regions where we're a local producer. For example, in 2024, the US ABS market was about four hundred kilotons, of which over 30% were satisfied by imported products, most of which came from Asia. Last year, between 10% and 15% of PMMA resin and surface applications in the US were supplied by Asian imports. Lower imports can obviously have both positive volume and higher price impacts. The largest unknown around tariffs is their impact on overall demand, which could be significant.

In December last year, we furnished full year 2025 guidance in connection with the announcement of our debt refinancing transaction. Since then, the economic and geopolitical conditions have become more uncertain and even more difficult to predict. Therefore, we are withdrawing our previously furnished full year guidance and will only provide an outlook for the upcoming quarter.

We expect second quarter adjusted EBITDA to be between $55 million and $70 million, led by seasonally stronger volumes in building and construction, lower costs in Engineered Materials, and improved AmSty earnings.

We're encouraged by our first quarter performance and we believe we are seeing the impact of our restructuring actions and the transformation strategy reflected in our results. We continue to gain traction with our specialty and sustainable offerings and remain committed to our focus on higher growth and higher margin business, which we can uniquely serve. In the near term, we're confident in our ability to navigate these uncertain business conditions and positively manage those things in our control.

And now we're happy to take your questions.

Questions and Answers

Operator
Thank you. And it looks like our first question today comes from the line of Hassan Ahmed with Alembic Global Partners. Hassan, please go ahead.

Q - Hassan I. Ahmed
Good morning, Frank, and Dave. Just a question around some of the volume patterns you guys are seeing. You guys obviously talked about the EM business and consumer electronics sort of volumes being up 43% over there. So, my question basically is that did you see some sort of uneven sort of volume patterns ahead of some of these tariffs being implemented? Just trying to get a sense of the sustainability of some of these volumes you guys are seeing.

A – Frank Bozich
Hassan, thanks for the question. We looked at this really closely and we don't really see any pre-buying to beat the tariffs or a lumpiness in the demand. In fact, the Q1 demand has continued into Q2 so far. And if you think about this business, we've made a big effort over the past several years to win new applications and new customers with recycled material. So, again, we see it – right now, we don't see any indication that it was distorted by pre-buying to be beat tariffs.

Q - Hassan I. Ahmed
Understood. Very helpful. And just two really quick ones. One, on the free cash flow guidance for Q2. You guys talked about being sort of breakeven free cash flow wise. How comfortable are you with attaining that with the sort of guidance range you've given? So, that's one side of it. And the

other side of it is, what are you guys seeing in terms of industry shutdowns, particularly on the styrene, polystyrene side of things?

A - David Stasse
I'll answer the first part. Look, we're confident in being able to hit that. We've, obviously, got one month in the books already and some visibility into May as well. We do have working capital levers that we can pull and continue to manage very closely, particularly around inventory. So, Q1 is a seasonally weak working capital quarter for us because of working capital build variable compensation payments, things like that. So. yeah, I'd say sitting here where we are today, I think we feel pretty confident in Q2. The other thing I'll point out is that related to the Deepak, the polycarbonate licensing transaction, we did collect $21 million in April. So, we've already collected that and that's, obviously, included in the guidance as well.

A – Frank Bozich
Hassan, regarding your second question on the impacts of styrene closures, frankly, we don't really see a big impact or any negative impact to our business, obviously, because we're no longer a styrene producer in Europe and the European market is significantly oversupplied. So, our ability to source material hasn't been hampered in any way. And as it relates to AmSty, AmSty has one of the best cost positions in the industry and they continued to produce. The styrene monomer has been a very good business for them. So, we don't really see any impacts to our business.

Hassan I. Ahmed
Very helpful. Thanks so much, Frank and Dave.

Operator
All right. Thank you, Hassan. And our next question comes from the line of Matthew Blair with TPH. Matthew, please go ahead.

Q – Matthew Blair
Thank you and good morning. We had two questions on AmSty. Can you talk a little bit more about the performance in the first quarter? I think the slide mentioned some headwinds from timing issues, but were there also headwinds from outages both on the styrene as well as polystyrene side? And then the second question is, is there any update on AmSty sale process?

A – Frank Bozich
Let me just take the last question first and then Dave can talk about the performance in the quarter. We're fully committed to market AmSty and monetize this asset. We're waiting. Our focus is to maximize the value. And so, as such, we're going to wait for the best valuation environment that we can get. And when that comes, we'll begin more actively marketing the asset.

A – David Stasse:
Matthew, so let me start with the timing and just to explain the cause of that as it relates to AmSty. The North American benzene prices fell over 30% kind of late in 2024 and had a timing

impact on the AmSty in Q4, which kind of bled into Q1 as well. And it was exacerbated by the low volumes.

Low volumes sold both styrene and polystyrene. So, it takes longer for that. There's a lagged effect of the higher priced benzene going through the P&L. So, that's what really impacted the first quarter. That was about an $8 million impact in the first quarter. They did also accelerate a relatively minor turnaround from early Q2 into late Q1. That was about another $2 million impact on the quarter.

So, the two of those combined are about $10 million impact on Q1, which – look, they did negative $2 million. If you add back that $10 million, that's $8 million. I mean, that's still a – by any historical standard, that's still a weak quarter for AmSty. And you are right, there was a polystyrene outage at one of their polystyrene sites that's been resolved. So, all of their outage issues have been resolved. We do expect significantly better results for AmSty in the second quarter than what we've seen in the first quarter.

Q – Matthew Blair
Then maybe if I could follow up. Could you talk a little bit more about this opportunity in battery binders? I don't know if we've seen any mention of that previously. The slides mentioned it's related to grid. So, I guess, this is more on the industrial side and not exactly autos exposure. Is that the right interpretation?

A – Frank Bozich
Actually, we've been investing technical resources in anode binders. So, we make a latex binder that goes into the anode of lithium-ion batteries. And the biggest step – and we've been winning new platforms and new awards in that area with the various battery manufacturers. And we've been expanding our qualifications to new batteries – battery producers around the world.

Now, we have sort of a unique advantage in this. We have a good technology, which we've demonstrated. And also, we have a global footprint that makes us a bit unique relative to the rest of the suppliers to the industry. So, as they expand globally, we can supply that binder in each region. And so, it's been a good growth business for us and we expect to continue growing because we have a very low penetration of the top fifteen suppliers today, but it's becoming meaningful.

The applications – we just wanted to point out that some of the applications that we have recently won are related to grid storage and that seems to be getting a lot of traction. But we also have solutions and have one business that go into mobility and automotive batteries. Hopefully, that answers the question.

Q – Matthew Blair
Yes. Thank you very much.

Operator
All right. Thanks, Matthew. And our next question comes from the line of Laurence Alexander with Jefferies. Laurence, please go ahead.

Q - Daniel Rizzo
It's Dan Rizzo on for Laurence. So, I understand with the seasonality with cash flow and what you expect in the second quarter, you did say that you expect cash flow to be positive in the second half of the year. But I was wondering if it's – I mean, is there a path to getting back to breakeven or positive cash flow for the full year of 2025?

A – David Stasse
I'd point you to slide thirteen in our earnings deck. And we've shown this slide the past couple of earnings releases. And it's a list of our cash outflows, CapEx, interest taxes, restructuring costs, et cetera. And if you add it all up, it's $370 million. So, our EBITDA would need to be $370 million to be cash flow breakeven for the year.

Now, we're not giving full year guidance, obviously. But, I would say related to that is the working capital number in here to the extent there would be incremental deterioration in the business and EBITDA was lower, obviously we would be able to offset that with inventory actions that would more than offset, frankly, any EBITDA deterioration if we did see that. That's what I would point you to. Again, I apologize for not directly answering your question, but since we're not giving annual EBITDA guidance, I just think that's the best way to calibrate it for you.

Q - Daniel Rizzo
Thanks for the color. Is there a possibility or is there like any other licensing deals that could happen with something else or another technology you're working on? Is that something that could be another avenue of growth?

Answer – Frank Bozich
The simple answer is yes. And we see a lot of interest in our recycling technologies broadly from the industry, and we're scaling those up and demonstrating those at commercial scale. So, I think in the future that could also be an opportunity. And frankly, the polycarbonate technology is very attractive and a very good technology as demonstrated by the interest from Deepak. So, I wouldn't preclude that we could do more in the polycarbonate area too.

Operator
And our next question comes from the line of Frank Mitsch with Fermium Research. Frank, please go ahead.

Q – Frank Mitsch
I want to follow up on AmSty. On a normal basis you said about $8 million in 1Q and expected it to be materially higher. I forget exactly the euphemism to be higher in the second quarter. Last quarter, you indicated that you thought 2025 would kind of get us closer to that average of $65

million or so. How are you thinking about AmSty profitability? And any orders of magnitude you could provide around that would be very helpful.

A - Frank Bozich
Like we said last year, the average from 2022 to 2024 for AmSty was about $68 million of EBITDA contribution. And we expect to be much closer to that than we were to last year's performance, which by memory was $15 million. So again, notwithstanding the timing, with impact that we saw in Q1, I think, we still have the confidence in that trajectory.

Q - Frank Mitsch
So, we're going to be mid-forties or higher by year end potentially on AmSty. And coming back – I mean, one of the highlights was clearly consumer electronics, that 43% growth in last quarter was up 61%, which are a not normal sort of growth. I'm just curious if you could expand upon that business and kind of orders of magnitude as well in the portfolio because, obviously, these numbers are pretty eye popping.

A – Frank Bozich
Let me give you examples of where we're supplying into those applications. So, almost all consumer electronic brands are products that we would supply into. This could be the device itself; it could be chargers; it could be any number of other products. One of the big drivers in consumer electronics is sustainability or circularity. And we've been able to meet all of the technical requirements with very high levels of recycled material contained in our product. So, upwards of over 50% recycled content, and we believe we have a unique advantage because of that.

If you name a brand or if you think of a brand, we're probably in some of their devices with that material with a sustainable solution. And if you go to page 10 in our presentation, you can see that it's not insignificant. It's 20% of our Asia Pacific revenue is consumer electronics. And to give you a sense, this is one of the higher margin businesses, more specialized businesses that we have in the portfolio. So, you can do some of the arithmetic to get to an order of magnitude of how big that is.

Q – Frank Mitsch
It is interesting because Asia Pacific was down significantly and yet this business was up significantly. So, obviously, the rest of Asia Pacific was very problematic.

A – Frank Bozich
What was driving Asia Pacific on a significant downward trajectory was the sales that go into appliances. You could see appliances is for our HIPS products and is a big – polystyrene is a big application for us in Asia. And then paper and board also got off to a very slow start and we think that a lot of that is tariff driven. But those tend to be the lower margin parts of our business also. So, I would say in Asia, it was – where we saw significant negative volume developments year-over-year was in the appliances and paper board. Then obviously in the other areas, the more formulated products improvements.

A – David Stasse
Frank, I just want to add one thing just related to the comment on volume. If you look at Asia in particular for us, polystyrene is about 45% of our total Asia volume. So, when we're talking about Trinseo as a whole and volume changes as a whole, polystyrene kind of dwarfs it just because of the market size. It dwarfs, kind of over-washes large margin volume changes in consumer electronics, for example, that have far higher margins, obviously. But the volumes just aren't there.

So, Frank is right. In Asia is where we've seen – two things. It's where we've kind of walked away from the uneconomic business on a year-over-year basis. It's also where we – the home appliance, the export market for appliances out of China has been obviously severely affected by the tariffs. So, that's the real driver of the polystyrene decline on a year-over-year basis. And then, we've got Latex Binders as well, which goes into paper and board applications. And China is down kind of mid-teens year-over-year. And I think that's also been exacerbated by the tariff announcements.

Operator
That does conclude today's question-and-answer session, as well as today's call. So, thank you all for joining us, and you may now disconnect. Have a great day, everyone.