Trinseo Second 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
- David Begleiter, Analyst, Deutsche Bank
- Frank Mitsch, Analyst, Fermium Research
- Hassan Ahmed, Analyst, Alembic Global Partners
- Matthew Blair, Analyst, TPH

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Trinseo Second 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 the close of market on Wednesday, August 6. 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 turn the call over to Bee van Kessel. Please go ahead.

Bee van Kessel

Thank you, Amy 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 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 financial 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 7th, 2026.

Now, I would like to turn the call over to Frank Bozich.

Frank Bozich

Thanks Bee, and welcome to our second quarter 2025 earnings call.

Our core business results in the second quarter were slightly below the expectations we had, due to weaker than expected demand across most applications, and due to unfavorable net timing associated with falling feedstock prices. The seasonally higher volumes that we normally see in the second quarter were dampened by trade uncertainty after the April tariff announcements in the US. We experienced high order cancellations early in the quarter, which we believe was linked to increased geopolitical and trade uncertainty, but we saw the magnitude of cancellations dropping significantly during the quarter. In this environment, it's critical that we remain intensely focused on two things: controlling the things we can control, which are fixed costs and working capital; and cultivating our key growth and sustainability platforms.

In 2025, we expect to realize $105 million of EBITDA benefits from self-help actions. Specifically, we expect to see $35 million in fixed costs savings from previously announced restructuring initiatives, $30 million of mix improvement and commercial initiatives, and $40 million associated with our change in the polycarbonate business model. We expect these actions to offset most of the incremental demand weakness and margin degradation we've seen so far in 2025, resulting in roughly flat year-over-year Adjusted EBITDA.

On working capital, I'm very proud of the work our team has done over the past 3 years to drive structural improvement through systems and processes. Over this period, we've reduced working capital by $560 million, with about half of that coming from a 17-day reduction in our cash conversion cycle.

We've also made outstanding progress in our transformation strategy by driving growth in higher value applications. Recycled plastic containing products grew 7% in the first half of 2025 and command higher unit margins. For Binders, CASE and Battery Binders were the two bright spots this quarter, with year-over-year volume growth of 3% and 19%, respectively. I will elaborate more on our relatively new Battery Binders technologies later in the call.

I am also pleased to report that we released our 15th annual Sustainability and Corporate Social Responsibility report. We continue to make progress on our 2030 sustainability goals as we

remain committed to our investments in advanced recycling technologies and sustainable product offerings.

Before I turn the call over to Dave, I would like to elaborate more on our new and unique Battery Binders platform. Trinseo opened its Global Battery Application lab in Shanghai in 2017 and started selling our first-generation high-performance binders for Lithium-ion EV battery and Energy Storage Solution applications in 2020. Our latex binder's function in the lithium-ion battery is to bind the anode active materials, which are predominantly graphite and silicon, to the current collector which is a copper foil. The polymer needs to provide strength, ionic conductivity, and formulation compatibility while at the same time having the ability to withstand a harsh battery cell operational environment to ensure long battery life. To do this, it must resist mechanical, thermal, chemical, and electrochemical stress. Consequently, despite the binder typically accounting for less than 2% of the total battery cost, it holds a highly critical role in enabling both strong battery performance and efficient battery manufacturing.

This year we're launching our 4th generation VOLTABONDTM Anode binder which enables long-lasting, fast charging, high energy density batteries. This advancement, as well as our global footprint with plants in each region, are key advantages we have to serve these applications. Additionally, we have our 1st generation water soluble binder prototypes available for testing at key players after demonstrating strong performance in our own labs. Our volume compounded annual growth rate over the past 5 years has been 63%, and we expect this highly profitable platform to continue double digit growth over the next 5 years. For these reasons, Battery binders represents one of our top strategic growth platforms.

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

David Stasse

Thanks, Frank. We ended the second quarter with $42 million of Adjusted EBITDA, which was below our guidance, driven by larger unfavorable impacts from raw material timing, the lack of seasonal demand pickup that Frank spoke about earlier, and lower equity affiliate earnings at Americas Styrenics.

First half 2025 volumes were 13% below prior year, with the largest decreases coming in Latex Binders paper and board applications, automotive applications in North America and Europe, and Polystyrene, where we've passed on uneconomic volumes. Of the volume decline we've seen in the first half, about two-thirds is what we consider transactional volume, meaning it's generally lower margin with spot-based pricing and not spec'd or formulated in nature.
At the segment level, Engineered Materials Adjusted EBITDA was $1 million below prior year despite lower volumes sold into automotive and building and construction applications. Lower volumes were offset by lower fixed costs and mix improvements from higher recycled content sales into consumer products applications.

Latex Binders Adjusted EBITDA was $9 million below prior year, mainly driven by lower volume in Europe and Asia as well as significant pricing pressure across all regions. This volume decline

is most acute in paper and board applications in China, where we've seen demand weaken considerably since the tariff announcements leading to temporary mill closures. On a positive note, our higher margin targeted growth platforms in CASE and Battery Binders continue to outperform the market.

Lastly, Polymer Solutions Adjusted EBITDA was $11 million below prior year, driven by lower volumes into B&C and automotive applications and increased Asian imports into the European market. We are therefore pleased to see that the European Commission recognizes the ABS dumping activity from both South Korea and Taiwan in their pre-disclosure in July.

Second quarter free cash flow was negative $3 million, in line with guidance, and we ended the second quarter with $399 million of total liquidity.

Now I'll turn the call back over to Frank.

Frank Bozich
Thanks, Dave.

As previously mentioned, we expect full year 2025 adjusted EBITDA of roughly $200 million. While the current demand level is disappointing, we believe there are five triggers for improvement of the demand environment: First, trade certainty in any form should improve consumer confidence and provide a landscape for new investments; Second, an enactment of the anticipated Federal reserve interest rate cuts, which will lower our own interest expense and improve consumer confidence; Third, a resolution of the various military conflicts we see in Europe and the Middle East; fourth, are positive regulatory reforms in the Chemical space in China, which could result in the closure of older non-competitive assets and reduce destructive industry pricing; and lastly, stronger support for the EU chemical industry as outlined in the EU Chemical Industry Action Plan. While the outcome of each of these items remains uncertain, we are encouraged by the dialogue taking place around each of the items.

And now we're happy to take your questions.

Questions and Answers

Operator
Thank you. The line is now open for questions. We do request for today's session that you please limit to one question and one follow up. We'll pause for just a moment to compile the Q&A roster.

Your first question comes from the line of David Begleiter with Deutsche Bank. Your line is now open.

Q – David Begleiter

Good morning. Frank and Dave, you've done a good job in Europe, closing some older non-economic capacity in styrene and polycarbonate. Can you talk to MMA production in Europe and why you haven't taken similar action there, given that they're also challenged economics? Thank you.

A – Frank Bozich
David, thanks. Look, we continually evaluate each of our assets. We've prioritized taking action basically on three dimensions, including the speed of execution, the magnitude of the benefit, and the cost to achieve. So we continue to look at various opportunities and we'll evaluate that asset appropriately. If we make the decision or work with our works councils, we'll come to a decision that's appropriate.

Q – David Begleiter
Understood. I know it's early for next year. But in terms of what's in your control for next year versus what's not, can you help us bridge some of the items that could help lead to maybe a higher EBITDA outcome in 2026? Thank you.

A – Frank Bozich
Yes. Let me back up a little bit and give you some context for what we're currently seeing. As we started 2025, our expectation was for demand levels that were similar to 2024, which we believe were low by historical standards with some pent up demand. However, the impact of trade uncertainty, in particular, has been an incremental headwind. So, the resolution of any of trade uncertainty, in whatever form that takes, as well as lower interest rates, we think unlocks demand and gets us back to a level that we expected and possibly greater. And remember, a 10% volume increase for us is about $100 million of EBITDA improvement. I'll go back to what I've said on previous calls. We believe even last year that there has been pent-up demand in building and construction and automotive both in Europe and North America, where we have a significant exposure. If we think about housing, I believe the number off the top of my head is there is a 6-million-unit shortfall versus household formation over the past decade. In the automotive industry, the car park right now is at historic age. So we think that interest rates and tariffs certainly get us back to reasonable prior year demand levels and stimulate demand recovery from the pent up demand that's out there.

Operator
Thank you. Your next question comes from the line of Matthew Blair with TPH. Your line is now open.

Q – Matthew Blair
Great. Thank you and good morning. I was hoping you could talk a little bit more about the AmSty business. I understand there were some polystyrene outages in Q2. How much of a headwind was that to last quarter? And are there some repair costs in Q3? If so, how much of a headwind will that be to the Q3 number?

A – Frank Bozich

There was a mechanical outage in one of the styrene assets in AmSty last quarter and it had approximately a $5 million impact. There will be increased repair costs in the coming quarter that are reflected in the current outlook.

A – David Stasse:
Matt, Frank's right. There is a $5 million impact to us -- to the equity income we recognize from AmSty in the second quarter. Looking forward to the back half of the year, there will be an impact. And by the way, it was a styrene plant, it was not polystyrene. There will be a similar impact I would say, to the third quarter. So I would expect the progression of AmSty's earnings to us over the back half of the year to be: Q3 will be a similar number to Q2, and then results will be higher in the fourth quarter as we expect better operational reliability.

Q – Matthew Blair
Sounds good. And then regarding your 2025 full year guidance, the implied figure for the back half of the year, does that incorporate any of the net timing headwinds in Q2 being reversed?

A – Frank Bozich
No, it does not.

A – David Stasse
Matthew, for us, timing is very hard to predict. I mean, it's really a function of what happens largely to styrene prices, frankly, over the next six months. So, it's hard to predict. But standing here today, the guidance we've given assumes flat net timing for the back half of the year.

Operator
Thank you. Your next question comes from the line of Frank Mitsch with Fermium Research. Your line is now open.

Q – Frank Mitsch
Hey, good morning. Frank, I was intrigued by your comments that the pace of cancellations due to the trade issues were slowing down as you progressed through the quarter. I was wondering if you could elaborate on that, and if that's the case, I mean, should we not start to see the pace of business match underlying demand here in the third quarter?

A – Frank Bozich
I think what we saw happening in Q2 was that the order book that we began the quarter with reflected a normal seasonal uptick in demand. And as a result of the trade announcements in early April, it was that uptick that was taken off the table. So that's how I read what we saw occur during the quarter.

Q - Frank Mitsch
So you don't think that those pent up orders will be flowing through in 3Q?

A – Frank Bozich

As I said, if we see trade certainty and these in the improvements in interest rates or any of the 5 factors that we mentioned, we believe that's a trigger for an improvement in demand and a recovery of those lost orders. But again, sitting here today, it's impossible to predict the timing for that or have any certainty for when that would occur. But yes, I believe that would be a trigger.

Q - Frank Mitsch
Okay, terrific. And, interesting comments regarding battery technology on the Latex Binders side. Roughly how much is the battery business of that segment today? And I believe David, you also mentioned that there was significant pricing pressure in latex in Q2. It was positive price in Q1, but you got flipped to negative price in Q2. Any elaboration or any color on that would be helpful. Thank you.

A – Frank Bozich
I'm going to give you a number by memory of our Latex Binders business. CASE and Battery Binders represents approximately 20% of the volume last year, but a significantly higher share of our margin. I believe that, because of the pressure we've seen in paper and board this year, it's a significantly higher portion this year, but I don't have an exact figure. We can get that to you. For your second question, could you repeat it, Frank?

Q - Frank Mitsch
It was about the significant pricing pressure. Prices in latex were up in Q1 and then obviously down in 6% in Q2. David indicated significant pricing pressures. I was just curious if you could elaborate on where that's coming from?

A – Frank Bozich
You can imagine a lot of our latex goes into paper board packaging. In particular, in China with the beginning of the tariff announcements, you can just look at the 35% reduction in container shipments out of China. Those are mostly packaged goods, right? So, there was a significant reduction in demand in China in paper and board in Q2 as a result of that, and, as a consequence, there were mill closures. Consequently, a lot of the industry was scrambling to fill and keep their volumes, and were very aggressive with price. Some of that volume declined too. A lot of that is transactional and transitory, and we chose not to participate in some of that volume, and that's why we saw the volume decrease in the second quarter. But again, we believe that's transactional and transitory activity that we can get back.

Q - Frank Mitsch
Thank you.

Operator
All right. Thank you. And the next question comes from the line of Hassan Ahmed with Alembic Global. Your line is now open.

Q – Hassan Ahmed

Good morning, Frank and Dave. I wanted to revisit, and I, you know, obviously understand that it's early days to give any 2026 guidance. But, you know, as I take a look at what you guys are guiding to for 2025, it seems for the back half of the year, which typically is a seasonally weaker sort of period, you know, you'd be at a quarterly run rate EBITDA of around $50 million a quarter. If you sort of annualize that, and again, obviously, this is a seasonally weak period, you're at least at $200 million in a well-below normal demand environment. Let's assume demand doesn't really improve materially next year, but seasonality maybe kicks in further, benefited from your cost cutting drive and the like. So what sort of minimum benchmark could we think about? Would you guys do at least $250 million of EBITDA, in that environment in 2026? And what would that mean at least for free cash flow next year?

A - Frank Bozich

I think that this goes back to the question before. I give the same answer I gave earlier, that we believe that right now, we're seeing transitory headwinds that affect a depressed demand in the business and suppress it significantly from prior year, which was already low with pent-up demand. So, I believe that we will see a resolution of one or more of the five items that I mentioned and that will have a significant impact on our end demand in most of our end markets. Again, I believe that we have significant leverage to the upside with volume, and that would come about with some more certainty regarding trade interest rates and the various regulatory activities around the world.

A – David Stasse

Hassan, I'll add a couple of points related more to the key free cash flow side. We have a slide in our deck, on slide 14, where we outlined the cash flow components for 2025. If I were to bridge these things to 2026, restructuring cost of $55 million, that will be a much lower number in 2026 than $55 million this year. The other is interest expense. Cash interest this year is $200 million. Clearly, since the last call we had, I think there's been a bias -- there's been a market consensus view that there will be -- given the employment statistics, probably more rapid succession of rate cuts than we previously thought. And 100 basis points of rate cuts is worth $19 million a year to us. So, I think it's obviously too early to put numbers on 2026. But certainly, I think the numbers that are listed on this page will be much lower than $365 million of cash outflows next year.

Q – Hassan Ahmed

That's definitely very helpful. Now, as a follow up, obviously all sort of fairly recent with regards to the whole anti-dumping measures in the EU as it relates to ABS. But how do you see this playing out? How do you see China reacting to it? And how does it all drill down back to you guys?

A – Frank Bozich

Yeah, well, look, there's a lot of uncertainty with regard to that, but I know that the EU Commission outlined a Chemical Industry Action Plan that includes some protectionism and also an anti-dumping protection to ensure that there is fair competition with imports into Europe. So we're encouraged by that. We're waiting to see how that takes place. But at the same time,

what you see happening in China, the regulatory discussions there related to the anti-involution policy, this would rationalize the non-competitive or older, non-integrated assets in China. This makes us optimistic that that will be addressed.

I want to spend a second on this, because there's some discussion about it. The statistic that I've seen is that 21% of the Chinese chemical industry capacity is older than 15 years old. Those assets would be the ones that would be most likely subject to the anti-involution policies. And if that capacity comes off the table, it would help the industry broadly, not only in China, but in the rest of the world. The other thing I want to point out is that, while there's uncertainty with regard to the trade policies and the tariff policies that have been introduced in the US, on balance, we would benefit from tariffs because we produce locally.

In particular, we understand that the US government, or its policy makers, are focused on trans-shipment of Chinese products into Mexico that would be compounded and then brought into the US as USMCA-compliant. Now, if that is addressed, that's a significant upside for not only us, but everybody in the chemical industry. It's too early to tell, but those are the discussions and the ideas that are being floated, which are very encouraging.

Q – Hassan Ahmed
Frank, thank you so much.

A – Frank Bozich
Thank you.

Operator
Thank you. And your final question comes from the line of Laurence Alexander with Jefferies. Your line is now open.

Q – Daniel Rizzo
Good morning. It's Dan Rizzo on for Laurence. I was just wondering with the guidance you give for 2025, why now finally give it? You're giving yearly guidance, but you're not giving Q3 guidance. I mean, is visibility improved, or just why the change in policy from last quarter?

A – Frank Bozich
I think it's simply that it's been a very dynamic and volatile environment from a policy standpoint that's affected the industry. And at this point in time, we've seen what the impacts of that were in Q2. I would say starting in Q3, we see sort of a similar market dynamic that we had in Q2. So we believe absent certainty around any of those five things, that we can anticipate a similar environment to Q2 for the remainder of the year. But clearly we expect that resolution of any of those five items will change that to the positive.

A – David Stasse
I think from a policy perspective, you're right, we gave quarterly guidance earlier in the year because we had limited visibility. I don't think anything has really changed, frankly, on our

visibility. We still have the same limited visibility, but we chose to give annual guidance just because of where we are in the year. I mean, we're kind of approaching two thirds of the way through the year and we thought it was appropriate to give annual versus quarterly guidance, but that's really the only reason why.

Q – Daniel Rizzo
Thank you. That's helpful. And then just a little more granular. With the corporate costs, I think, they're running roughly $20 million to $25 million a quarter. Is that how we should think about it over the long term, given all the kind of moves you made, the cost you've taken out, that that's seems to be a decent run-rate or will it be a little more volatile than that?

A – Frank Bozich
No, I think the current run rate we're at reflects the actions that we've taken to date. And that's appropriate to use in our forecast.

A – David Stasse
And just one other just minor pull in. Due to kind of the accounting treatment of stock compensation, our Q1 corporate costs are always going to be higher than the other three quarters of the year. We've mentioned that in prior calls, but I just want to make sure you're aware of that. So annualizing the first half of the year probably is not a good approach.

Q – Daniel Rizzo
Okay. Thank you very much.

Operator
Thank you. There are no further questions at this time. This does conclude today's conference call. You may now disconnect.