Trinseo Third 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

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to Trinseo's Third 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 Thursday, November 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, Kelvin 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 November 7th, 2026.

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

Frank Bozich

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

I'd like to begin by sharing some information on trade flows in our chemistries as we believe this is instructive for understanding how the end markets we serve have reacted to tariff uncertainties. We have included some of this information on slide 4 of our presentation materials. In general, we saw a sharp increase in the imports of Asian polymers to both the US and Europe beginning in Q1. We believe this was a reaction to the threatened tariff levels that ultimately were announced in early April and an attempt to fill supply chains in the US ahead of the tariffs being implemented and a redirection of trade flows to Europe from Asia because of slowing demand in China. With respect to the US, on slide 4, you can clearly see a significant increase in imports of ABS, primarily from Asian producers, beginning in the first quarter to get ahead of tariff implementation. Exports from the US of both ABS and PMMA decreased versus prior year and the decrease was most pronounced in the exports to Canada and Mexico. A similar dynamic occurred in Europe where Asian material that is typically consumed in China was redirected to the European market, putting margin pressure on the more standard grades of ABS and PMMA.

These industry trade flow dynamics continued into the third quarter, resulting in lower volumes versus prior year, but similar volumes quarter over quarter. Whether these new levels of demand are transitory or structural remains to be seen, however late in the third quarter and into the fourth quarter, we are seeing an increased run-rate of sales of our more formulated, higher margin products that is higher than the year-to-date average and prior year levels. In the case of our more formulated PMMA resins, the year-over-year increase in volumes was over 10% beginning in late Q3 and this has continued into Q4. We do believe there is a drive to reshore demand even at slight premiums to the import parity price to derisk the longer Asian supply chain and address potential tariff impacts in both Europe and the US.

Concerning our focus on sustainability, I want to highlight the fact that the European Parliament finalized its End-of-Life Vehicle (ELV) regulations in September. This mandates that new vehicles must contain 20% recycled plastic within six years - 15% of which must come from End-of-Life Vehicles - and this increases to 25% within ten years. This action formalizes the EU's drive for greater product supply chain circularity. We have been resolute in pursing investments to scale up the technology for our circular recycled content containing platforms and expect these regulations to drive demand in the near term. Our pilot plants for recycled PC, ABS, and MMA are sold out. The volumes are still small but will become more meaningful as we ramp up. Year-to-date, our recycled content containing plastics sales grew 2% across all applications, with our recycled solutions in Engineered Materials growing at 12%.

Before I hand-over to Dave, let me comment on our press release from the 6th of October, in which we announced the discontinuation of virgin MMA production in Italy and the intention to close our polystyrene production facility in Germany. We took this difficult decision after

carefully considering our options and the impact on our employees. However, it is clear to us that these assets will not be competitive in the long term. Our Rho, Italy site will remain focused on PMMA resin production and will also be the site for our investments in recycled MMA. Pending works council negotiations in Germany, these projects should lead to $30 million of EBITDA improvement next year and the cash savings will exceed restructuring costs beginning in 2026.

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

Dave Stasse
Thanks, Frank.

We ended the third quarter with $30 million of adjusted EBITDA, which was impacted by $9 million of unfavorable raw material timing and negative equity affiliate earnings from Americas Styrenics due to an $8 million headwind from repair and other costs related to an unplanned outage that occurred in June.

At the segment level, Engineered Materials Adjusted EBITDA was flat versus prior year as fixed cost improvements and slightly higher volumes in PMMA resin for building and construction and automotive applications were offset by lower volumes in medical. On medical sales, I want to remind you that we reported increased sales last year related to the closure of our Stade polycarbonate site and customers stocking up prior to the shutdown.

Latex Binders Adjusted EBITDA was $9 million below prior year mainly driven by lower volume in Europe paper and board applications, as well as significant pricing pressure in Europe and Asia. Our higher-margin targeted growth platforms in CASE and battery binders continue to outperform the market. Sales volumes in battery binders were up 27% versus prior year for the quarter as we continue to enhance our portfolio, including new customer wins in anode binder applications. We're currently working closely with five of the 15 largest lithium ion battery producers in the world.

Lastly Polymer Solutions Adjusted EBITDA was $19 million below prior year driven, driven by $9 million of unfavorable timing, lower ABS volumes and unfavorable mix related to the closure of our polycarbonate plant.

Third quarter free cash flow was negative $38 million, and we ended the third quarter with $346 million of available liquidity. The fourth quarter is typically our seasonally strongest month for free cash flow due to a working capital release. We expect our free cash flow in the fourth quarter to be positive $20 million and our year end liquidity to be over $350 million.

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

Frank Bozich
Thanks, Dave.

Looking forward, we expect fourth quarter 2025 Adjusted EBITDA of roughly $30 to 40 million and, as Dave mentioned, positive free cash flow of $20 million. This forecast assumes a continuation of the year-to-date dynamics and a somewhat exaggerated seasonal year-end effect as well as $5 to $10 million of negative raw material timing. We will remain intensely focused on what is under our control, including improving our free cash flow in the short and long term through continued inventory management, restructuring activities, and other actions.

Additionally we continue to believe there are at least five triggers that could improve the demand environment: First, trade certainty in any form should improve consumer confidence and provide a landscape for new investments; Second, a continuation of Federal Reserve interest rate cuts, which will lower our own interest expense and improve demand for housing and consumer durables; Third, a resolution of the conflict in Ukraine; Fourth, is the rationalization of higher cost, less environmentally sound chemical assets in Asia, and lastly, stronger support for the EU chemical industry as outlined in the EU Chemical Industry Action Plan.

And now we're happy to take your questions.

Questions and Answers

Operator
Ladies and gentlemen, we will now begin the question-and-answer session. Your first question comes from the line of Alex Kelsey of Wells Fargo. Please go ahead.

Q – Alex Kelsey
Thanks for hosting the call and taking the question. I wanted to start with Slide 4, on the trade flows. I think one of the dynamics we've seen among a number of chemical companies is just structurally higher imports of China products into Western markets. That's just structurally depressed pricing and influence demand. So I'm just curious, is it your view that this is transitory in nature, truly just getting ahead of tariffs, or are you seeing just a structural difference in how China is behaving with regard to your markets?

A – Frank Bozich
Yes, thanks for the question. Actually, we don't know whether it's structural or transitory. It's too early to tell, as we said in the prepared comments. But I would tell you that, in our chemistries, the biggest and the more problematic dynamics are in the countries where we're seeing the most increase in inflows, which are actually Taiwan and Korea.

In our chemistries, we believe that their domestic markets don't support the significant capacity that's been built over the years. And where they used to have an outlet to supply China, that volume or that surplus capacity is now being redirected to Europe and North America. And I would point out that at least our analysis would indicate that those are higher cost assets in these chemistries. The other thing I would point out that's problematic from a trade flow

standpoint is the use of using imports of resin produced in China and Korea into Mexico that can be compounded, relatively lightly compounded locally and then brought into the U.S., under the U.S. MCA tariff convention, tariff free.

Now, our understanding, from our trade associations and our discussions, is that this sort of pathway or loophole in the U.S. MCA is a goal to be closed by the administration, but it would be helpful in our value chains. And, that's where, from China via Chinese products, we see more of the impact of Chinese flow into Mexico.

Q – Alex Kelsey
Do you have any perspective of, within PMMA and ABS, maybe this is a tricky one, but how much of the market Taiwan/Korea/China represents today versus, 12 months ago, 24 months ago, whatever the right time frame might be?

A – Frank Bozich
Well, I can't precisely answer what share of the market that they represent, but what I would tell you is that the import volumes on the percentage increase in imports to, for example, into Europe from South Korea in the first half of 2025 was up 18% over prior year, and in Q2, it went up to 26% increase over prior year. They are by far the biggest importer of ABS into Europe. In the case of PMMA, imports from South Korea were up, marginally in the first half, into Europe, but in the case of imports into the U.S., the biggest import, increase in imports, sorry, the biggest imports, increase in imports came from South Korea and Taiwan for ABS, where, it was approximately 23% increase, but then Mexican product increased 75%, so that was that pathway that we were talking about.

Now, I want to point out, though, that, remember, we make mass ABS, and these are basic, generally basic-grade or standard-grade polymers that are coming in under these conventions that are more broadly used in the less specified or formulated products.

Q – Alex Kelsey
Got it. Okay. And then on the comment -- on the PMMA comment, the formulated PMMA comment, I thought the commentary about seeing sequential ramp into Q4 was positive. One, has something changed in that market from a supply or demand dynamic to suggest we're at trough and rising off trough levels, and then within the EM segment, what percentage of that is, air quotes, formulated PMMA?

A – Frank Bozich
Yes, I think it's too early to say, as we don't know that the market dynamic is changing necessarily. So it's too early to tell. And like I said, this is a late Q3, early Q4 dynamic that we observed, and we're watching it and trying to understand it.

We believe that there is an effort on behalf of many of the customers in North America and Europe to de-risk their supply chain from a complexity standpoint and also with regard to

potential tariffs or trade barriers in North America and Europe. So I guess at this point, we're watching it. But again, it was good to see that increase over prior year.

Q – Alex Kelsey
And then that second question that I asked in terms of however you want to define it, what percentage of revenue/EBITDA/volume in EM would you define as formulated?

A – Frank Bozich
Yes. I wouldn't disclose that specifically. It's a material part of our EM segment, but we wouldn't share that information generally.

Q – Alex Kelsey
Okay. And then on AmSty, I have one question, maybe accounting related, but if the shutdown unplanned maintenance was taken in Q2, I'm curious why there's an impact on Q3 EBITDA. And then more generically, can you just talk about what's being done within AmSty to sort of right-size that business, just given how underperforming it's been this year?

A – David Stasse
Alex, this is Dave. The unplanned outage occurred at the end of the second quarter in June. But it was related to the production of styrene, which is obviously upstream to polystyrene. So what they have to do then is go out and buy styrene, obviously at a cost higher than what they can make it for. And that increase in cost of goods sold in this case, goes through the P&L in the third quarter. So there are both this impact and the repair costs that are included in the results. The total impact to our equity income for the year for AmSty was $10 million – $2 million of it was in June and $8 million of it was in the third quarter. And the composition of that is both the cost of repair, but also the higher cost raw materials from the styrene that they had to buy going through the P&L.

Related to the second question about what we are doing to right-size it, I don't think anything is necessary to right-size the business. They have two styrene units that are very competitively positioned on the global cost curve for styrene. 70% of the styrene they produce, they consume internally in polystyrene downstream, and the other 30% goes into the merchant market. But again, they're on the left side of the cost curve. So I don't think there's anything necessary to do there from a right-sizing perspective. Clearly, styrene is long globally, and it's why we exited our European plants. So styrene margins are lower, a lot lower than they used to be. But I don't think a necessary step there is going to be any capacity rationalization.

Q – Alex Kelsey
Okay, that's helpful. And then last one for me, when we were entering 2025, and I understand things have changed, the expectation was flat volumes started us at $200 million-ish of EBITDA, plus cost saves got us to something closer to $300 million, if I'm remembering correctly.
I know it's probably early on 2026, but again, it feels like we're lower for longer, maybe troughing. But if you take some of that same analogy, where the business is forecasted to be at

the end of 2025, all else equal in an up 10% volume environment, down 10% flat, any range of outcomes for what we could think about for 2026?

Q – Frank Bozich

Yes, let me tackle the last thing first. We've said this consistently, that a 10% volume increase across the portfolio results in about $100 million of EBITDA. And again, we don't have a view on 2026, and are not prepared to give any guidance for 2026, but I think it might be helpful to go back to how we were thinking as we entered this year. Our expectation for significant increase in 2025 over 2024 was driven by five factors. One was stable volume. Number two was the sale of our polycarbonate assets to Deepak. Also the known business wins that we had, a more normalized earnings from AmSty, and the cost savings initiatives that we announced last year. What I would tell you is that we got the known business wins or the incremental business wins in our downstream markets, we delivered the cost savings, and we executed on the Deepak sale. Where we had a shortfall versus our expectation was on the more normalized earnings from AmSty, and then the volume development that occurred, what we would attribute to really global tariff uncertainty. So I think with what's in our control, we've done a good job of managing. But that's how this year developed. And again, it's premature for us to give you guidance for next year.

Operator

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