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Huntsman Corporation (NYSE – HUN)
Second Quarter 2024 Prepared Comments
August 5, 2024

On August 6, 2024, at 10:00 a.m. ET, Peter Huntsman, Chairman, President and CEO, and Phil Lister, Executive Vice President and CFO, will host a public question-and-answer session with analysts accessible on our website or by telephone as detailed in our second quarter 2024 financial results news release. These are their prepared remarks to accompany our results. They should be read together with the second quarter 2024 financial results news release and the slides detailing our second quarter 2024 financial results, both of which were publicly issued and posted on our website (www.huntsman.com/investors) after the close of NYSE trading on August 5, 2024.

This document, the accompanying slides, and the call/webcast include certain forward-looking statements about our projections or expectations for the future. All such statements are forward-looking statements and, while they reflect our current expectations, they involve risks and uncertainties, and are not guarantees of future performance. You should review our filings with the SEC for more information regarding factors that could cause actual results to differ materially from these projections or expectations. We do not plan on publicly updating or revising any forward-looking statements during the quarter.

We also refer to certain non-GAAP financial measures such as adjusted EBITDA, adjusted net income or loss and free cash flow. You can find reconciliations to the most directly comparable GAAP financial measures in our earnings release which has been posted to our website at www.huntsman.com/investors.

Slide 4: Overview

Huntsman reported second quarter 2024 revenues of $1.6 billion and adjusted EBITDA of $131 million. Second quarter net income attributable to Huntsman was $22 million and operating cash flow from continuing operations was $55 million.

Slide 5: Polyurethanes

Adjusted EBITDA for our **Polyurethanes** division in the second quarter was $80 million. Our sales volumes improved by 9% year-over-year as well as sequentially, slightly above normal seasonality. We currently expect volumes to continue to show year over year improvement through the remaining two quarters of 2024.

Adjusted EBITDA declined versus the prior year on the back of lower average MDI prices, but average MDI prices did improve sequentially in all three regions. Adjusted EBITDA margin in the second quarter of 8% was slightly down from the prior year due to lower pricing and lower equity earnings, offset by higher volumes and lower feedstock costs. Sequentially adjusted EBITDA margins have moved in the right direction, increasing from 4% in the first quarter. That said, we still consider margins to be well below mid-cycle average.

Our European volumes increased slightly year-over-year due to some positive demand trends in adhesives and coatings that offset lower insulation demand. Pricing in the region improved sequentially but pressures remain, and the trend moved slightly downward as we exited the quarter. Although much lower than peak natural gas pricing, Europe's energy costs remain high and end market demand for MDI remains relatively subdued. It also remains to be seen how much of an effect interest rate cuts by the ECB will have on our business. In the meantime, our completed restructuring initiatives are having a positive impact and are more than offsetting fixed cost inflation. Our MDI operations at Rotterdam, The Netherlands have recently been impacted by several upstream raw material supplier force majeure declarations. We were forced to conduct a controlled shutdown of our larger MDI unit and we have also now declared force majeure. The upstream operations of our suppliers have started coming back online and we are currently in the process of restarting our unit and rebuilding inventories. We estimate the adjusted EBITDA impact in the third quarter to be $5 million to $10 million.

Year-over-year volumes in Asia were up mid-single digits versus the prior period with sales into automotive, elastomers, and furniture more than offsetting lower volumes in other markets. Despite a mixed demand environment in China, average MDI prices were stable to higher in the region. Our near-term expectations are for relative margin and volume stability continuing through the third quarter. Our PO/MTBE Joint Venture contributed $18 million during the second quarter. For the third quarter, the joint venture has scheduled its once every four-year turnaround, which we expect to impact equity income by about $10 million compared to the second quarter.

In North America, we continued to see sharply higher volumes due to favorable comparisons resulting from the aggressive destocking we saw through much of 2023. Volumes increased 21% year-over-year due to a modest improvement in underlying demand, the absence of destocking, and some business wins. Pricing was relatively stable to slightly higher in the region compared to the first quarter, with some upward movement expected in the third quarter as we have seen some tightening in the market. As a reminder, a significant portion of North American sales are sold under contracts containing price escalators to adjust for movement in key raw materials. Two-thirds of our Polyurethanes Americas portfolio is construction, approximately 40% of which is currently commercial and 60% is residential. Approximately 75% of our residential exposure is directly related to new construction. As a result, the

Americas is our most sensitive region to construction activity when compared to our other regions globally. We would expect demand and margin strength to improve from current levels once any cut in interest rates feeds through the broader economy and allows construction activity to pick up.

Our global automotive business, which represents approximately 15% of the Polyurethanes portfolio by volume, grew high single digits in the second quarter. We continued to see strength in our China automotive business, including electric vehicles, improved demand in our Americas business and relatively stable volumes in Europe. We do expect some moderation in automotive demand trends in the third quarter. Our global elastomers platform represents approximately 10% of our Polyurethanes portfolio and continues to deliver solid profitability that is well above the business segment average.

Looking forward, we believe Polyurethanes will benefit for years to come from the global drive for better energy conservation and efficiency. We remain well positioned to bring energy-saving solutions to both residential and commercial construction markets, as well as innovative improvements to the lightweighting of automobiles. As a result, we expect our Polyurethanes business to return to average cycle profitability when our markets fully recover. Further, the cost savings we achieved over the past two years are reflected in structural changes, and they will enhance our operational leverage as volumes return to a more normalized environment.

Third quarter demand is typically similar to the second quarter. We expect volume and pricing improvement in the Americas region to offset lower equity earnings and headwinds in Europe. We expect Polyurethanes adjusted EBITDA for the third quarter to be in the range of $75 million to $90 million.

Slide 6: Performance Products

Our **Performance Products** division reported adjusted EBITDA of $46 million for the second quarter. The adjusted EBITDA margin was slightly better than the first quarter at 15%. Total sales volumes increased 8% year-over-year driven by a seasonal increase in demand and modest restocking, particularly in coatings & adhesives and fuels & lubes. The positive impact to adjusted EBITDA from the higher volume was offset by lower average margins, primarily due to the competitive intensity in certain markets.

Sequentially, volumes increased slightly as construction and coatings & adhesives related markets experienced modest underlying demand improvement and the absence of destocking in the respective channels. We also saw a modest increase in variable unit margins primarily related to improvements in our European and Asian coatings & adhesives business.

Our focus remains on improving sales across our markets and we expect continued year-over-year volume improvement as we move into the third quarter of 2024. While down year-over-year, our variable unit margins remain markedly higher than pre-pandemic levels.

Capital investments in our performance amines product lines are steadily advancing towards completion and commissioning over the next year. Once fully operational, these investments will strengthen Performance Products, and support the division with sustained growth in the future.

We expect the third quarter to be seasonally weaker than the second quarter for Performance Products with adjusted EBITDA in the range of $35 million to $45 million.

Slide 7: Advanced Materials

Our **Advanced Materials** division reported adjusted EBITDA of $52 million in the quarter. Overall sales volumes increased 9% year-over-year, as volume improved across most of the divisions core markets, including the power, coatings and aerospace markets. Improved volumes and stable variable margins allowed for higher returns with the business delivering adjusted EBITDA margins of 19%.

Aerospace revenue grew 10% year-on-year. While commercial related composite sales increased only modestly due to the continuing supply chain challenges faced by the OEMs, we are seeing business wins and continued growth in our aerospace interior adhesives applications business. Demand for our composite related products is predominantly tied to wide body production rates, which has a positive outlook over the next several years. In the near-term, growth this year in aerospace will be driven by interior adhesives applications. We continue to expect full year growth in aerospace in 2024.

Industrial activity improved versus the prior year as we are seeing decent demand in our power and automotive businesses on the back of increased infrastructure spending and increasing electronic and hybrid penetration in automotive. We expect demand trends in our industrial business to be relatively stable in the third quarter and follow typical seasonal volume patterns.

While we will be disciplined as we continue to explore further growth opportunities, Advanced Materials remains our primary focus for bolt-on acquisitions to expand the overall portfolio, drive sales growth, and improve the overall returns of the business. We will also continue with capital lite organic projects, R&D investments and we will drive improvements in site productivity. We remain very positive about the long-term prospects for the Advanced Materials division over the coming years.

For the third quarter we expect Advanced Materials adjusted EBITDA to be in the range of $48 million to $53 million, with high teen margins.

Slide 8: Year-over-Year & Quarter-over-Quarter

Adjusted EBITDA for the second quarter was $131 million compared to $81 million in the first quarter of 2024 and $156 million in the second quarter of 2023. Revenues increased 7% compared to the prior quarter and declined 1% compared to the prior year.

Volumes increased 8% sequentially, slightly better than our typical seasonal improvement. Volumes improved 9% year-on-year and the destocking we witnessed throughout 2023 appears firmly behind us. Approximately 55% of our volumes in the second quarter went into construction, as residential, commercial or infrastructure related sales. Year on year volumes were up 17% in North America, flat in Europe and up 8% in Asia. Sequentially, volumes improved in North America but stayed flat in Europe. North America saw the largest falls in 2023 generally but 2024 is beginning to return the market towards more normalized levels. Asia improved sequentially as expected, with Automotive performing particularly well.

Sequentially, unit margins improved slightly in the second quarter as MDI price increases in Europe and Asia more than offset a negative mix impact across the portfolio.

In local currency, price/mix declined year-on-year in Polyurethanes by 9%, Performance Products down 11% and Advanced Materials down 10%. Sequentially, compared to the first quarter, price/mix was relatively flat for all divisions. Raw material costs were lower than in the second quarter of last year driven by natural gas, caustic, chlorine and propylene oxide. Sequentially, raw materials impacting cost of sales were slightly higher driven primarily by the price of benzene.

Our cost target in 2024 is to ensure that a $60 million year-on-year benefit from our cost optimization program are structuralized and offset inflation excluding any year-on-year impact from non-cash employee benefits. Note that in 2023, non-cash incentive compensation expense provided a $20 million tailwind as a result of reduced performance. In the first half of the year, total SG&A costs were below last year’s level with the second quarter showing a year on year increase due to higher accruals for non-cash incentive compensation. Sequentially, we maintained SG&A at the same level as the first quarter, offsetting the inflationary increase of annual merit compensation changes.

The impact on Adjusted EBITDA across the company from foreign exchange was slightly improved year-on-year largely due to the negative impact in the second quarter of 2023 from the weakening of the Turkish Lira; and relatively flat sequentially, as movements across our currency exposures largely canceled each other out. Corporate expense rose year-on-year due to a higher accrual for non-cash incentive compensation and LIFO valuation losses.

Our adjusted effective tax rate for the quarter was 23%. For the first half of the year our adjusted effective tax rate is 27%. As indicated in our prior quarter prepared remarks, we have been trending slightly lower than our modeling range of 34% to 37% for the full year adjusted effective tax. As a result, we are updating our full year guidance to a range of 30% to 34% and continue to highlight that our long term adjusted effective tax rate is expected to be between 22% and 24%.

Slide 9: Cash Flow and Liquidity Considerations

Cash flow from operations for the second quarter was an inflow of $55 million compared to an inflow of $40 million in the prior year period. Primary working capital was a cash outflow in the quarter of $84 million driven primarily by sequentially higher revenue resulting in an increased receivables balance. Our inventory volumes remain well under control at 4% below the second quarter 2023 ending balance and 3% above the prior quarter due owing to the normal build through the second and third quarters as we head into a planned turnaround at one of our MDI units in our Rotterdam facility in the fourth quarter. We will remain focused on controlling our inventory levels throughout 2024 as we continue to progress our corporate-wide supply chain program.

Capital expenditures were $50 million for the second quarter, as we continued various process safety and reliability projects and progressed growth projects in our Performance Products division. We have spent $92 million in the first half of the year and we expect a relatively similar spend profile in the second half of the year. Our modeling guidance for our full year capital expenditure is a range of $180 million to $200 million. Free cash flow for the quarter was positive with an inflow of $5 million compared to an outflow in the prior year period.

In 2024, we will remain disciplined on cash management, and we will maintain our investment grade balance sheet. In addition to an approximate $40 million reduction in year-on-year capital expenditure, we expect to spend approximately $30 million less cash on restructuring as well as $35 million less cash spend on pension contributions and incentive compensation for 2023 performance.

Adjusted diluted earnings per share was 14 cents per share for the quarter. Following an increase in the first quarter our annual dividend is now $1.00 per share and our dividend yield is currently approximately 4.5%. We did not repurchase any shares in the first half of the year and do not anticipate doing so in the third quarter. Our continued focus in the second half of 2024 is on improving our cash delivery and we will evaluate any share repurchases on a quarter-to-quarter basis. Our balance sheet remains strong, and while our net debt leverage ratio is relatively high due to our last 12 months adjusted EBITDA, we expect that ratio to decline by the end of the year. We closed the quarter with $1.3 billion in available liquidity.

This concludes our prepared remarks regarding the second quarter 2024 results and our current outlook. We look forward to updating the market when we report our third quarter 2024 results.