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Huntsman Corporation (NYSE – HUN)
Third Quarter 2024 Prepared Comments
November 4, 2024

On November 5, 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 third quarter 2024 financial results news release. These are their prepared remarks to accompany our results. They should be read together with the third quarter 2024 financial results news release and the slides detailing our third 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 November 4, 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 third quarter 2024 revenues of $1.5 billion and adjusted EBITDA of $131 million. Third quarter net loss attributable to Huntsman was $33 million and operating cash flow from continuing operations was $134 million.

Slide 5: Polyurethanes

Adjusted EBITDA for our **Polyurethanes** division in the third quarter was $76 million. Our sales volumes improved by 5% year-over-year, despite outages in the quarter impacting growth by 2%. Through the first nine months of 2024, volumes have increased 8% compared to the prior year. Despite the lack of meaningful pricing improvement associated with this increased volume, the level of growth that we and others in the industry are seeing off a low base is important heading into 2025, as demand may benefit further from the potential impact of interest rate cuts in the United States and Europe as well as stimulus in China.

Adjusted EBITDA declined versus the prior year on the back of lower pricing and significantly lower equity earnings from our commodity PO/MTBE joint venture in China, partially offset by higher sales volumes and lower fixed costs. Adjusted EBITDA margin in the third quarter of 8% was similar to both the prior quarter and prior year. While we view this stability in profitability positively relative to the declines which began in the second half of 2022, we consider margins to be below mid-cycle average with significant upside anticipated once the industry cycle improves.

Our European volumes decreased by mid-single digits year-over-year as positive demand trends in composite wood products, elastomers, adhesives and coatings was more than offset by lower insulation demand. The volumes were also impacted by a MDI force majeure event at the beginning of the quarter caused by a third party outage and an unplanned outage in Rotterdam at the end of the quarter. The Adjusted EBITDA impact from the unplanned outages amounted to approximately $10 million for the quarter. Margins in Europe were impacted by competitive pressure from both domestic producers and imports into the region. Natural gas related costs in the region have been trending higher towards $13 per mmbtu, more than 6 times the current cost in the United States, and offsetting some of the benefit from lower benzene costs. We remain focused on improving the profitability in this region. To mitigate the impact of European energy policies and regulatory environment that are unfavorable to industrial companies, we continually look to reduce costs to remain competitive in the region. We recently completed a European restructuring program, and we expect to deliver additional cost savings during 2025.

Year-over-year volumes in Asia were down low single digits versus the prior period with higher sales into automotive, adhesives, and furniture offset by lower volumes in other markets. Despite a mixed demand environment in China, average MDI prices were stable to higher in the region. We are not yet seeing the impact from the Chinese stimulus announcements and our near-term expectations are for relative margin and volume stability continuing through the fourth quarter. Our PO/MTBE joint venture contributed $5 million during the third quarter. This was significantly below expectations due to lower than anticipated MTBE margins. Given current trends, we expect lower MTBE margins in the fourth quarter compared to the third quarter which will mean equity income below our third quarter result.

North America saw the strongest volume growth of the three regions in the third quarter. Regional sales volumes increased due to favorable comparisons resulting from the aggressive destocking we saw through much of 2023. Volumes increased 18% 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 second quarter, and margins improved versus the prior year period on lower costs and better utilization. As a reminder, a significant portion of MDI North American sales are sold under contracts containing price escalators to adjust for movement in key raw materials and we currently sell only a small portion of our portfolio into the monthly spot market. Two-thirds of our Polyurethanes Americas portfolio is linked to construction, approximately 40% of which is currently commercial and 60% is residential and approximately 75% of our residential exposure is directly related to new construction. As a result, the Americas has been 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 as construction activity is helped by lower interest rates spurring construction activity as we move through 2025.

Our global automotive business, which represents approximately 15% of the Polyurethanes portfolio by volume, grew slightly year-over-year in the third quarter. Strength in our China automotive business, including electric vehicles, was offset by weakness in our Americas business with relatively stable volumes in Europe. Similar to reported global automotive production rates, our automotive business did slow quarter over quarter more than we had anticipated. We expect automotive production globally to remain challenged in the fourth quarter. Our global elastomers platform represents approximately 10% of our Polyurethanes portfolio and we expect to continue to deliver solid profitability that is well above the business segment average while also seeing some modest volume improvement versus the prior year.

As the global construction and industrial markets recover, we expect our Polyurethanes business to return to average cycle profitability, well above our current returns. Further, the cost savings we achieved over the past two years are reflected in structural changes, which we expect will enhance our operational leverage as volumes return to a more normalized environment.

Fourth quarter demand is typically a lower volume quarter due to seasonality when compared to the second and third quarters. When compared to prior year results, we expect volume and margin improvement in the Americas and China regions to offset lower equity earnings and continued headwinds in Europe. We expect Polyurethanes adjusted EBITDA for the fourth quarter to be in the range of $45 million to $60 million.

Slide 6: Performance Products

Our Performance Products division reported adjusted EBITDA of $42 million for the third quarter. The adjusted EBITDA margin of 15%, was slightly below the prior year and stable compared to the second quarter. Total sales volumes increased 4% year-over-year driven by higher sales volumes in maleic anhydride and ethyleneamines. The positive impact to adjusted EBITDA from the higher volume was offset by lower average margins, primarily due to increased competitive pressure.

From a market perspective, sales volume increased in construction, fuel & lubes, and coatings & adhesives due to modest underlying demand improvement and the absence of destocking in the respective channels, which more than offset weakness in industrial-related markets.

As we have stated over the past year, our focus in Performance Products remains on improving sales across our strategic markets in order to position this business more favorably once markets begin to show consistent improvement in underlying demand. Variable unit margins remained stable in the quarter, remaining well above pre-pandemic levels and, together with our fixed cost discipline, will allow for solid operational leverage with an upturn in the business cycle.

Capital investments in our performance amines product lines serving the semiconductor polyurethane catalyst markets are steadily advancing towards completion, commissioning, and commercialization over the next year. Once fully operational, these investments are expected to strengthen Performance Products and support the division with sustained growth in the future.

We expect the fourth quarter to be seasonally weaker than the third quarter with no improvements in economic activity, leading to guidance for Performance Products adjusted EBITDA in the range of $20 million to $30 million.

Slide 7: Advanced Materials

Our **Advanced Materials** division reported adjusted EBITDA of $47 million in the quarter. Overall sales volumes increased 5% year-over-year, as volume improved across most of the division's core markets, including the power, coatings and aerospace markets. Sales volumes in our automotive and general industrial markets were below our projections, which drove results slightly below our guidance range. Nevertheless, improved volumes and stable variable margins allowed strong adjusted EBITDA margins of 18%.

Aerospace revenue grew 8% year-on-year and the growth in this segment has been solid year to date up 7%. While commercial related composite sales can move from one quarter to the next due to supply chain challenges faced by the OEMs, our aerospace interior adhesives applications business has continued to experience solid growth. Demand for our composite related products is tied predominantly to wide body production rates, which has a positive outlook over the next several years. In the near-term, we expect to see further supply chain disruptions, including an impact from the Boeing strike in the fourth quarter. In addition, compared to the prior year, we expect to see lower defense-related sales which were exceptionally high this time last year, and benefited the fourth quarter of 2023 by approximately $5 million.

Slowing industrial activity across all the regions had a negative impact on our general industrial and automotive businesses within Advanced Materials, which was partially offset by our aerospace and infrastructure related businesses. We expect demand trends in our industrial business to remain a headwind in the fourth quarter which is typically the seasonally softest quarter. Pricing and variable margins have been stable across our end markets and we expect this to continue for the remainder of the year.

While we will be disciplined as we continue to explore all 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, including our MIRALON® technology 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 fourth quarter we expect Advanced Materials adjusted EBITDA to be in the range of $35 million to $40 million.

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

Adjusted EBITDA for the third quarter was $131 million compared to $131 million in the second quarter of 2024 and $136 million in the third quarter of 2023. Revenues increased 2% compared to the prior year and declined 2% compared to the prior quarter. Adjusted EBITDA margin improved to 9%.

Volumes improved 5% year-on-year with consistent growth across each of our business segments. Excluding outages at our Rotterdam MDI facility in the third quarter, volume growth would have been 7% year-on-year. Sequentially, volumes declined seasonally by approximately 3%. Approximately 60% of our volumes in the third quarter went into construction, as residential, commercial or infrastructure-related sales, with approximately 40% of those volumes into North America. Year-on-year volumes were up 14% in North America, down 4% in Europe and flat in Asia. Sequentially, volumes were down approximately 3%, with relatively consistent declines across all regions. Automotive volumes, which represent approximately 15% of our portfolio, increased 3% year-on-year and declined 6% sequentially with small gains in China offset by lower sequential growth in Europe and North America.

In local currency, price/mix declined year-on-year in Polyurethanes by 1%, Performance Products was down 3% and Advanced Materials was down 7%. Sequentially, price/mix was relatively flat for all divisions and unit margins were also flat compared to the second quarter with an improvement in raw materials offset by negative mix. Adjusted EBITDA benefited by approximately $10 million from a build in inventory in the third quarter ahead of a MDI turnaround at our Rotterdam facility in the fourth quarter. This build and subsequent drop in inventory during the final quarter of the year will lead to an approximately $20 million movement sequentially between the third and fourth quarters. Equity income from our Chinese PO/MTBE joint venture was considerably lower year-on-year by $25 million due to weak MTBE margins.

Total SG&A costs were 7% below last year's level and lower sequentially by 13%. Lower non-cash incentive compensation expense drove the decline in SG&A, with cost savings offsetting inflation. On a 9-months basis, SG&A is 3% or $15 million below 2023 with half of the decline due to a lower incentive compensation accrual in 2024.

Our Polyurethanes Adjusted EBITDA margins are currently below 10% and as we move towards 2025, we will initiate additional restructuring actions within the segment in order to improve cost competitiveness. We expect to achieve $40 million to $50 million of Adjusted EBITDA improvements excluding inflation over the course of 2025 and 2026. Related cash spend is targeted at approximately $50 million over the next 24 months, of which approximately $30 million is expected to occur in 2025.

The impact on adjusted EBITDA across the company from foreign exchange was negligible in the quarter both sequentially and year-on-year, with the Euro and Chinese Yuan relatively stable across periods compared to the US Dollar. During the fourth quarter, we expect to complete liquidation of our legal entity in Argentina, which we exited last year as part of our cost saving program. The liquidation will result in a non-cash cumulative translation adjustment of approximately $30 million to GAAP net income in the fourth quarter.

Corporate expense declined year-on-year and sequentially due to a lower accrual for non-cash incentive compensation and overall cost control offsetting inflation.

Our adjusted effective tax rate for the quarter was 41%. On a year-to-date basis our adjusted effective tax rate is 35%. Our full year guidance range remains 30% to 34% with some risk around that range due to the low level of pre-tax income in 2024, amplifying percentage rate movements. 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 third quarter was an inflow of $134 million compared to an inflow of $167 million in the prior year period. Primary working capital was a cash outflow in the quarter of $9 million, driven primarily by sequentially higher inventory related to the planned build of inventory ahead of planned MDI turnarounds in the fourth quarter. We will continue to control our inventory levels, which will decline during the fourth quarter.

Capital expenditures were $41 million for the third quarter, as we continued various process safety and reliability projects and progressed growth projects in our Advanced Materials and Performance Products divisions. We have spent $133 million in the first nine months of the year. We have narrowed our guidance for our full year capital expenditure to a range of $180 million to $190 million. Free cash flow for the quarter was positive with an inflow of $93 million. Within the quarter we did benefit from a one-time dividend of $34 million as we continue to progress the liquidation of our former Chinese crude MDI joint venture, which we expect to complete during 2025.

Adjusted diluted earnings per share was 10 cents per share for the quarter. Our quarterly dividend is currently 25 cents per share, an annual payout of $1.00 per share and our dividend yield is currently approximately 4.5%. We did not repurchase any shares in the third quarter and do not anticipate repurchasing shares in the fourth quarter. Our focus remains on improving our cash delivery year-on-year and we will evaluate any share repurchases on a quarter-to-quarter basis.

During the quarter, we successfully placed $350 million of senior notes due in 2034 with a 5.70% coupon rate. The bond issuance was 8 times oversubscribed at the peak of the order book reflecting, in our view, the positive long-term outlook for our portfolio and our disciplined approach to allocation of capital. We used the proceeds to reduce borrowing on our revolver and securitization program to zero at the end of the third quarter. We subsequently entered into a cross-currency US dollar to Euro swap due in the fourth quarter of 2027, for the full $350 million. We will pay Euro interest of 4.25% for the next 3 years, effectively lowering the US dollar interest amount payable. We have a 10-year Euro 300 million note maturing in April 2025 with a coupon rate of 4.25% which we intend to pay off in the ordinary course. We will then have bond maturities in 2029, 2031 and our newest issuance in 2034. As a result, 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 year end. We closed the quarter with $1.7 billion in available liquidity.

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

Forward-Looking Statements:
This press release includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements include statements concerning our plans, objectives, goals, strategies, future events, future revenue or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, divestitures or strategic transactions, business trends and any other information that is not historical information. When used in this press release, the words "estimates," "expects," "anticipates," "likely," "projects," "outlook," "plans," "intends," "believes," "forecasts," or future or conditional verbs, such as "will," "should," "could" or "may," and variations of such words or similar expressions are intended to identify forward-looking statements. These forward-looking statements, including, without limitation, management's examination of historical operating trends and data, are based upon our current expectations and various assumptions and beliefs. In particular, such forward-looking statements are subject to uncertainty and changes in circumstances and involve risks and uncertainties that may affect the Company's operations, markets, products, prices and other factors as discussed in the Company's filings with the Securities and Exchange Commission (the "SEC"). Significant risks and uncertainties may relate to, but are not limited to, high energy costs in Europe, inflation and high capital costs, geopolitical instability, volatile global economic conditions, cyclical and volatile product markets, disruptions in production at manufacturing facilities, reorganization or restructuring of the Company's operations, including any delay of, or other negative developments affecting the ability to implement cost reductions and manufacturing optimization improvements in the Company's businesses and to realize anticipated cost savings, and other financial, operational, economic, competitive, environmental, political, legal, regulatory and technological factors. Any forward-looking statement should be considered in light of the risks set forth under the caption "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2023, which may be supplemented by other risks and uncertainties disclosed in any subsequent reports filed or furnished by the Company from time to time. All forward-looking statements apply only as of the date made. Except as required by law, the Company undertakes no obligation to update or revise forward-looking statements to reflect events or circumstances that arise after the date made or to reflect the occurrence of unanticipated events.