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Huntsman Corporation (NYSE – HUN)
Second Quarter 2023 Prepared Comments
July 31, 2023

On August 1, 2023, 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 that is accessible on our website or by telephone as detailed in our financial results news release. These are the CEO's and CFO's prepared remarks to accompany Huntsman Corporation's second-quarter 2023 financial results. They should be read together with the second-quarter 2023 financial results news release and the slides detailing our second-quarter 2023 financial results, both of which were publicly issued and posted on our website (www.huntsman.com/investors) after the close of NYSE trading on July 31, 2023.

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 the 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 will also refer to 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.

<u>Slide 4: Overview</u>

Huntsman reported second quarter 2023 revenues of $1.6 billion and adjusted EBITDA of $156 million. Second quarter net income attributable to Huntsman was $19 million and operating cash flow from continuing operations was $40 million.

<u>Slide 5: Polyurethanes</u>

Adjusted EBITDA for the **Polyurethanes** division in the second quarter was $88 million. We continued to see weak demand across our markets, especially in North America. Lower demand combined with a competitive pricing environment continued to put substantial pressure on the Polyurethanes business during the quarter. However, higher equity earnings and seasonally stronger volumes helped improve results sequentially.

Overall sales volumes in the quarter declined 10% year on year, but improved 10% sequentially, which was consistent with average seasonality. On a year-on-year basis, the Americas region accounted for the decline in volumes, partially offset by Europe, which saw 3% improvement.

Demand in our European region improved modestly and costs have moved lower with a decline in natural gas prices. From our vantage point, while steady, the business conditions remain sluggish. Our insulation business in the region delivered approximately 20% volume improvement versus both the prior year and prior quarter. Our other major markets in Europe showed stable to improved volumes sequentially. Profitability in the region, on a sequential basis, improved on the back of lower feedstock costs but we see continued competitive pressure on MDI pricing. Natural gas pricing, though lower for the quarter, is still consistently higher than pre-2021 prices and remains well above US pricing. We continue to make progress on our previously announced European restructuring initiatives and we will see further cost savings as we move through the second half of 2023.

In China, we are seeing some steady improvement but recovery post-COVID lockdown remains below expectations from the beginning of the year. We expect China to remain on a slowly improving trajectory as the economic environment gradually returns to normal. We are seeing positive demand trends in certain construction markets and some consumer related markets, and our PO/MTBE Joint Venture was also improved during the quarter where we saw increased profitability. The JV contributed $26 million in equity earnings for the quarter. We also announced that we had signed an agreement with BASF and our local partners to separate the parties' MDI production assets that comprise our joint venture in China, an uncoupling envisioned from the very outset of the joint venture decades ago. We expect the separation to be completed in the fourth quarter of this year following receipt of the required regulatory approvals, permitting and other customary closing conditions after which each company will operate their separate crude MDI production units independently.

The largest headwind that impacted Polyurethanes first quarter results and which continued into the second quarter was the depressed demand level on the back of destocking in our Americas region, specifically in our construction businesses. Two-thirds of our Polyurethanes Americas portfolio goes into construction end markets, approximately 40% of which is currently commercial and 60% is residential, of which nearly 75% is directly related to new construction.

For our composite wood products in the Americas, which is linked closely to residential construction, the weak demand we saw in the first quarter continued into the second quarter, although it did improve sequentially. We are seeing some signs that the worst is behind us in this segment and may start to improve in the coming quarters. Improvement in our spray foam business appears to be slightly ahead of that, and volumes were roughly flat with the prior year. In-line with our comments last quarter, our commercial related insulation markets continued to see weak demand.

Our global automotive business, which represents approximately 15% of our Polyurethanes portfolio, delivered volume improvement versus the second quarter a year ago. We continue to expect volumes in Automotive to increase in the low single digits for the year. Our Elastomers platform comprises approximately 10% of our Polyurethanes portfolio and delivered solid profitability on the back of margin expansion from lower feedstocks, despite overall demand weakness.

We are taking decisive and proactive steps to make our Polyurethanes business stronger, more efficient, and better positioned to respond when the current, challenging macro conditions abate. The business will benefit for many years to come from the much-needed drive for better energy conservation and efficiency we see being legislated today. 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 including electric vehicles which require approximately 20% more polyurethanes.

We are on track to deliver the $60 million in cost savings we have laid out for Polyurethanes as planned. This includes the exit of geographies that did not generate acceptable returns, as well as further consolidation of back-office functions. As we've stated in the past, we continue to work diligently towards an orderly exit from our Russian operations and remain fully compliant with sanctions in what remains a highly complex and rapidly changing political, legal and regulatory environment. Today, Russia represents less than 1% of our corporate revenue and we are hopeful that we can complete an exit during 2023.

Looking further into the third quarter, we expect stable demand with some typical seasonality in Europe and continued but moderating demand challenges in construction. Competitive pricing pressures are expected to more than offset any raw material or energy benefits. Putting it all together, we expect Polyurethanes adjusted EBITDA for the third quarter to be in the range of $75 million to $90 million.

Slide 6: Performance Products

The **Performance Products** division reported adjusted EBITDA of $55 million for the second quarter as weak demand and increased competitive pressures in certain markets impacted overall profitability. While the 18% margin is modestly below our stated, long-term expectations of 20% to 25%, we expect this business to return to that range of profitability when demand comes back to more normalized levels. Volumes declined 31% year-over-year.

The year-on-year volume decline was due to lower demand across all regions, particularly in our Ethyleneamines and Maleic Anhydride businesses. Despite significantly lower demand year-on-year, we did see generally stable demand quarter-over-quarter, with volumes down 2% versus the first quarter. Markets where we saw positive sequential trends included construction, coatings and adhesives as well as urethane additives into spray insulation. The sequential improvements in those markets were more than offset by weakness primarily in agricultural, electronics and industrial markets.

Capital investments into our differentiated Performance Amines products serving polyurethane insulation, EV batteries, and semiconductor markets continue to move forward. We expect these projects to start up in early 2024 and be accretive to earnings as the economic environment improves.

In Performance Products, we expect to see some seasonality in Europe and Asia looking forward, as well as continued competitive pressures, resulting in the third quarter to be lower than the second quarter. Overall, Performance Products third quarter adjusted EBITDA should be in the range of $40 million to $50 million based on current demand visibility and with the expectation of some continued moderate pricing pressure in areas such as Ethyleneamines.

Slide 7: Advanced Materials

The **Advanced Materials** division reported adjusted EBITDA of $51 million in the quarter, an increase of $3 million versus the first quarter, but down $16 million versus the prior year due to lower sales volumes. The weaker volumes were due to lower sales in certain low margin commodity products and continued weakness in the infrastructure coatings and the industrial adhesives markets. Total volumes were largely flat quarter on quarter and good cost control drove the adjusted EBITDA improvement.

The sales volumes decline of 19% was due in part to our ongoing reduction of bulk liquid resin commodity sales and our core specialty business was down less than the segment average. The Americas was the weakest region due to depressed demand primarily from our coatings, adhesives, and general industrial markets.

Going forward, our Aerospace business will benefit from the improving trends, including increased travel and new airplane orders. Sales revenue increased 4% sequentially and 7% versus the prior year. Our order backlog is solid, and we expect growth as we move through the rest of 2023 and into 2024. Increase in demand for our products is heavily tied to wide body production rates.

We continue to seek out bolt-on acquisitions for Advanced Materials that will both expand the overall portfolio and deliver growth, as well as improve the overall returns of the business. We are also continuing to invest in organic growth opportunities, including our Miralon business, which we expect to aggressively scale over the coming years, as well as products for insulating materials for electric vehicles and next generation resins for 5G electronics applications. We believe the combination of new technologies and our strength in composites positions Advanced Materials well for the future, as industry presses aggressively to make automobiles and airplanes lighter while adding strength and performance.

For the third quarter, we expect stable demand in our Advanced Materials business subject to some modest volume decline for typical seasonality, and for the division to deliver similar results in the third quarter versus the second quarter. We expect third quarter adjusted EBITDA for this division to be in the range of $48 million to $53 million.

Slide 8: Year over Year & Quarter over Quarter

Adjusted EBITDA for the quarter was $156 million compared to $410 million in quarter 2 of 2022. Sequentially adjusted EBITDA improved 15% compared to $136 million in quarter 1 of 2023.

The decline versus the prior year was driven by reduced volumes of 16% across the portfolio. Volumes declined in each region, in the Americas by 29%, Europe by 12% and Asia by 4%.

Year on year pricing across our total portfolio declined by $181 million, while cost of sales declined $80 million. Price erosion was most pronounced in MDI which led to lower year on year unit margins. As indicated last quarter, pricing in Performance Products also came under downward pressure in Amines and Maleic even while overall unit variable margins remain strong. In Advanced Materials unit variable margins expanded with slight improvements in both pricing and cost of sales.

Sequentially, volumes did improve 7% consistent with the normal seasonal increase in quarter 2 construction markets more than offsetting a decline in sales into some of our industrial markets. In Polyurethanes, unit variable margins declined in the Americas due to lower prices while European margins improved sequentially due to the impact from lower natural gas prices. Pricing in Performance Products declined compared to quarter 1 by $19 million. Unit variable margins in Advanced Materials were sequentially flat.

SG&A costs were lower both year on year and sequentially owing to our continuing cost optimization program and lower expense for annual incentive compensation. SG&A as a % of sales was 10% on a last 12-month basis with lower sales.

Year on year pension expense reduced adjusted EBITDA by approximately $10 million. Year on year foreign exchange reduced adjusted EBITDA by approximately $25 million driven by the negative impact from both the Turkish Lira and Chinese Yuan as both currencies weakened compared to the US Dollar. The Euro was relatively stable year on year with a slight strengthening sequentially. Equity

Income from our PO/MTBE China Joint Venture improved year on year and sequentially by $9 million and by $16 million respectively as unit margins in the PO production co-product of MTBE improved.

Adjusted EBITDA margins were 10% for the company, a sequential improvement from 8% in quarter 1 and 5% in quarter 4 of 2022. Polyurethanes margins came in at 9% with both Performance Products and Advanced Materials delivering 18% for the quarter.

Slide 9: Cost Reduction Initiatives

We concluded the end of quarter 2 at a $265 million run rate on our ongoing cost optimization initiatives compared to our starting point in 2020, as savings from our European restructuring accelerated. We are focused on delivering our commitment of $280 million by the end of the year and expect to meet or exceed that target. For 2023, as we have guided, we expect an in-year benefit of approximately $80 million before the impact of inflation and the increase in non-cash pension expense. We recognize that despite headline reductions in inflation, both core inflation and wage rates remain high, and we will continue to work to offset this impact beyond 2023.

Slide 10: Cash Flow and Liquidity Considerations

2nd quarter cash flow from operations reflected an inflow of $40 million and free cash flow for the 2nd quarter was an outflow of $11 million. We spent $51 million in capital expenditures including towards previously reported organic growth investments in Performance Products targeting insulation catalysts, semi-conductors, and electric vehicles. We incurred an outflow in working capital as payables decreased disproportionately to inventory due to timing of production compared to payments as well as inventory build for a turnaround in China that stretched from the end of quarter 2 into the start of quarter 3. We expect the difference in payables and inventory to balance out in the 2nd half of the year. Also, as noted earlier, we announced the planned separation of our unconsolidated Joint Venture with BASF and our local partners that will require cash payments from our available liquidity to reconcile some outstanding debt at the joint venture, cash taxes on separation as well as returning cash to minority shareholders. The settlement of cash from the planned separation is not material to our total liquidity. Once completed, we will regain full operational control of 1 of the 2 crude MDI units that comprised the venture, as well as the strategically important HCL recycling unit. As we move into 2024, we could expect the separation to be marginally positive on our earnings and free cash flow.

In 2023 we expect to incur between $230 million and $250 million of capital expenditures compared to $272 million in 2022. We will continue to manage spend appropriately in a down economic environment.

We closed the quarter with $1.9 billion of liquidity and net debt leverage of 1.6x on a last 12 months adjusted EBITDA. As we have continued to state, our balance sheet is investment grade, and we remain committed to maintaining that rating.

Adjusted earnings per share for the 2nd quarter was 22 cents per share. Our year-to-date adjusted tax rate sits at 30% with a higher rate in quarter 2 due primarily non-cash $8 million tax expense for a valuation allowance increase in Europe. We now estimate that our full year adjusted tax rate will be between 26% to 29%. We expect our long-term adjusted effective tax rate to be approximately 22% to 24%.

We repurchased just under $100 million of shares in quarter 2 at an average price of $25.76 and, through the end of June, have repurchased $199 million of our stock, in line with guidance we gave at the beginning of the year.

This concludes our prepared remarks regarding the second quarter 2023 results and our current outlook. We look forward to updating the market when we report our third quarter 2023 results.