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Huntsman Corporation (NYSE – HUN)
Third Quarter 2023 Prepared Comments
October 31, 2023

On November 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 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 our third quarter 2023 financial results. They should be read together with the third quarter 2023 financial results news release and the slides detailing our third 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 October 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 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.

Slide 4: Overview

Huntsman reported third quarter 2023 revenues of $1.5 billion and adjusted EBITDA of $136 million. Third quarter net income attributable to Huntsman was $0 million and operating cash flow from continuing operations was $167 million.

Slide 5: Polyurethanes

Adjusted EBITDA for the **Polyurethanes** division in the third quarter was $81 million. Depressed demand across our markets, especially in construction, combined with a competitive pricing environment continued to place pressure on the Polyurethanes business during the quarter. When compared to the second quarter of 2023, the pricing headwinds more than offset modestly improved volumes and lower costs. Adjusted EBITDA margins for the quarter were 8%.

Overall sales volumes in the quarter declined 4% year on year, but improved 2% sequentially, which was consistent with average seasonality. On a year-on-year basis, the Americas region accounted for much of the decline in volumes, partially offset by Europe due largely to favorable comparisons as overall demand remained muted.

Demand in our European region improved versus the prior year and overall costs moved lower, partially offset by continued competitive pricing in the region. While volumes improved versus the prior year, overall business conditions in Europe remain depressed. Due to favorable year-over-year comparisons, we saw volumes in Europe improve 12%, led by our insulation, adhesives and coatings markets. Compared to the prior quarter, insulation in Europe was basically flat while our adhesives and coatings businesses improved. Total European volumes were essentially flat on a sequential basis. Profitability in the region improved compared to the prior year period on the back of lower feedstock costs but we are continuing to see competitive pressure on MDI pricing. We expect total feedstock costs to move higher in the fourth quarter when compared to the third quarter, and we expect a competitive pricing environment to partially offset price increases intended to mitigate the impact of higher costs. We continue to make progress on our previously announced European restructuring initiatives that should be largely completed by the end of the year.

Our China region remains lethargic since the economy reopened post-COVID however, we saw growth of 7% compared to the second quarter due in large part to gains in our automotive, elastomers, adhesives, and coatings businesses. We expect China to remain on a slowly improving trajectory as the economic environment corrects. We are seeing positive demand trends in certain construction markets and some consumer related markets. Pricing for commodity polymeric MDI in China has declined in recent weeks, back to the levels we saw in July at approximately 15,500 RMB per ton. Our PO/MTBE Joint Venture improved during the quarter. The JV contributed $28 million in equity earnings for the quarter. We expect our JV equity earnings to decline approximately $10 million quarter over quarter due to seasonality and lower margins.

The Americas region remains the biggest headwind year over year for Polyurethanes due to depressed demand level on the back of significantly pressured margins, specifically in our construction businesses. Two-thirds of our Polyurethanes Americas portfolio is construction, approximately 40% of which is currently commercial and 60% is residential, of which nearly 75% is directly related to new construction.

Our composite woods product (CWP) segment, which is linked most closely to residential construction, has remained weak through the first nine-months of 2023 and we do not expect this market will improve until next year. For CWP to improve, we need to see a rise in new construction and increased activity at the downstream OSB manufacturing mills. Our Huntsman Building Solutions spray foam business did see an improvement in volumes in the quarter both sequentially and year over year, although competitive pricing in the industry is currently more than offsetting the increase in volumes.

Our global automotive business, which represents approximately 15% of the Polyurethanes portfolio, saw slightly lower volumes of 1% year-over-year, although volume remains higher than 2022 on a year-to-date basis. We continue to expect volumes in Automotive to increase in the low single digits for the year. Our Elastomers platform represents approximately 10% of our Polyurethanes portfolio and delivered solid profitability with good margins in the quarter, despite overall demand weakness in industrial and footwear markets.

We are focused on making our Polyurethanes business stronger, more efficient, and better positioned to respond when the challenging industry conditions improve. The business will benefit for many years to come from the much needed, 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 including electric vehicles which require approximately 20% more polyurethanes.

We are on track to deliver the $60 million in divisional cost savings as planned. This includes our exit from geographies that did not generate acceptable returns, as well as further consolidation of back-office functions. While not material to Huntsman overall, we did sign an agreement to sell our Russian assets to a third party in September. The transaction is subject to multiple government approvals in the US, Europe, and Russia. The timing of closing this transaction is uncertain due to many factors including unanticipated changes in regulations and delays.

The fourth quarter will be challenging for Polyurethanes, as the typical seasonality in construction will likely see above average customer inventory management. Competitive pricing and higher feedstock costs will also pressure margins. Lastly, we expect equity earnings to be about $10 million lower than the third quarter. Putting it all together, we expect Polyurethanes adjusted EBITDA for the fourth quarter to be in the range of $40 million to $50 million.

Slide 6: Performance Products

Our **Performance Products** division reported adjusted EBITDA of $47 million for the third quarter as weak demand and increased competitive pressures in certain markets impacted overall profitability. Adjusted EBITDA margins were 17% for the quarter. We expect Performance Products to return to a higher level of overall margins once demand returns to more normalized levels. Volumes declined 26% year-over-year largely due to continued headwinds in the Americas construction markets and weak demand in Europe. While total volumes remain depressed, we note that volumes were only down 3% from the second quarter, which is similar to typical seasonality.

The year-on-year volume decline was due to lower demand across all our product lines, particularly in our Ethyleneamines and Maleic Anhydride. We did see end-market growth in gas treating as well as polyurethane catalysts that serve the automotive and spray foam markets. Sequentially, we saw continued downward pressure in construction impacting Maleic Anhydride sales although we did see modest improvement in the Fuel and Lubes markets which has been a headwind for most of the past year.

Over the past 18 months, we have regularly updated investors on three capital investment into our differentiated Performance Amines product lines intended to serve polyurethane catalysts used in insulation and automotive applications, Electric Vehicle batteries, and semiconductors. We are now moving forward with the two projects that serve the semiconductor and polyurethane insulation markets, and we expect both projects to be completed in the first half of 2024 and to start contributing to results in the second half of 2024.

On the other hand, we have made the decision to pause the project that serves Electric Vehicle batteries until the economics and market conditions improve. Pricing for ultrapure ethylene carbonates (UPEC), a vital raw material in electrolytes which goes into electric vehicles, is currently depressed. Pricing has dropped approximately 75% due to the aggressive import of Chinese material into the US. The current level of pricing will not generate the returns we would expect, and we took the difficult decision to suspend the project. We are the only company in the United States that can produce UPEC for the domestic Electric Vehicle market at this time and we do not expect pricing to stay at depressed levels forever, assuming the United States Government remains focused on growing a US-based EV supply chain. Once we have clear line of sight that pricing will improve, we can complete this project within 12 months after deciding to restart the project. We will save approximately $10 million of capital expenditures in 2024 as a result of suspending this project.

In Performance Products, the fourth quarter is seasonally the weakest quarter of the year, and we expect this year's fourth quarter to be challenging as customers aggressively manage their year end inventories, combined with lower margins particularly in Europe. We expect Performance Products fourth quarter adjusted EBITDA to be in the range of $25 million to $35 million.

Slide 7: Advanced Materials

The **Advanced Materials** division reported adjusted EBITDA of $49 million in the quarter, in-line with the expected range we gave last quarter and delivered a stable 18% margin. Volumes decreased 21% year over year, with the weakest growth coming in the infrastructure coatings and industrial markets, specifically in the Americas region coupled with the continued deselection of lower margin business.

Volumes declined modestly quarter over quarter due primarily to seasonality. The division did have a modest benefit from lower costs globally, which helped to keep margins stable despite the overall weak demand. Average pricing for the division remained relatively stable.

Aerospace revenue grew 13% year-on-year with our business benefitting from higher defense sales which drove an improvement in adjusted EBITDA. Commercial aerospace related sales growth continues to be hindered by the well-known supply chain issues. However, we believe that deliveries are improving at the OEM's which should ultimately help to smooth out the supply chain volatility as well as improve production rates. Demand for our products is predominantly tied to wide body production rates, which has a strong backlog of orders and positive demand dynamics as we look out over the next several years.

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. We recently announced that we have commenced construction of a 30-ton unit in San Antonio, Texas, and this is an important step in the broader commercialization of this business. We are working through a pipeline of opportunities to grow applications containing Miralon with potential customers in the battery, transportation and construction related markets. If the 30 ton unit performs as expected and customer demand continues to gain momentum, we will commence construction of a 5,000 ton unit in 2025. A reminder that we have already commercialized Miralon and sell into several markets including into NASA for satellites. We are very positive about the prospects for this business over the coming years.

For the fourth quarter, we expect typical seasonality in our Advanced Materials division with some potential for above average customer year-end destocking as we move through the quarter. Despite the headwinds we expect this business to show stable profitability and to be equal to or slightly above last year's fourth quarter. We expect fourth quarter adjusted EBITDA for this division to be in the range of $40 million to $45 million.

Slide 8: Year over Year & Quarter over Quarter

Adjusted EBITDA for the third quarter was $136 million compared to $156 million in the second quarter and $271 million in the third quarter of 2022. Revenues declined 6% compared to the prior quarter and 25% compared to the prior year.

Volumes improved 1% sequentially, following a 6% improvement in the second quarter. Volumes were 1% down in North America, flat in Europe and improved 6% in Asia. Year on year volumes were down 10% driven by a 22% decline in the Americas as a result of a slow construction market, Europe was flat driven by Polyurethanes with a relative improvement compared to the 3rd quarter in 2022 and Asia declined slightly.

Variable unit margins were lower, driven by Polyurethanes and Performance Products, as overall price decreases of $226 million more than offset a year-on-year reduction in cost of sales of $211 million. Advanced Materials saw an improvement in unit margins as price declines in the industrial coatings market were more than offset by year-on-year benefits to raw materials. In local currency, prices declined year on year by 12% with Polyurethanes down 14%, Performance Products down 12% and Advanced Materials down 2%. Sequentially, compared to the second quarter, prices were 6% lower. Polyurethanes down 6% as prices for Polymeric MDI declined in each region, 7% in Performance Products with price reductions in Maleic Anhydride, particularly in Europe, and in Ethyleneamines, while Advanced Materials pricing declined 2% due to the low end of the industrial coatings portfolio. Raw materials were markedly lower than the third quarter of last year, with natural gas in Europe in particular, declining from approximately $60 per MMbtu in the Netherlands and approximately $30 per MMbtu in the UK to around $10 per MMbtu in both countries. Since the end of September, gas prices in Europe have notably risen to approximately $15 per MMbtu while the price of our highest volume raw material, Benzene, rose approximately 20% with the October contract, which represents an increase of approximately 40% since July.

Slide 9: Cost Reduction Initiatives

SG&A costs remained under control as our cost optimization program more than offset year on year inflationary increases. Foreign exchange was a negative $20 million as the Chinese Renminbi weakened substantially compared to the US dollar. Year on year noncash pension expense increased $10 million with equity earnings from our PO/MTBE joint venture in China improving by $10 million. Our cost optimization program remains on track to meet or exceed our $280 million run rate target by the end of the year. At the end of September our run rate stood at $275 million with additional benefits to come in the fourth quarter, in particular in Europe. Excluding inflation and any changes to noncash pension expense, our year-on-year benefits in 2024 from our cost optimization programs will be approximately $60 million. We see additional opportunities to improve our cost base in 2024, with a focus on manufacturing cost efficiency as well as the completion of our European restructuring.

As indicated, we hope to exit Russia by the end of this year, although this timing remains highly uncertain owing to the volatile regulatory environment in Russia. If the deal to sell our Russian business does close, we expect to take a loss on the transaction, primarily resulting from a noncash cumulative translation adjustment as a result of the weakening of the Russian Ruble over time.

Slide 10: Cash Flow and Liquidity Considerations

Our adjusted tax rate for the quarter was high as profitability for the year has declined and we are unable to take a tax benefit for losses in certain jurisdictions. Going forward, our annual rate will stay higher than the long-term expectation of 22%-24% until profitability returns across a broad range of jurisdictions.

Cash flow from operations for the third quarter was $167 million with a conversion ratio to Adjusted EBITDA of 123%. Working capital was a cash inflow in the quarter of $62 million as we reduced inventory volumes by approximately 5%. We intend to reduce inventory volumes by an additional 10% in the fourth quarter leading to a lower amount volumetrically at year end than the prior year. We made some additional cash pension payments of just over $10 million in the third quarter which will provide a benefit in 2024 and 2025. Capital expenditures was $50 million for the third quarter, and we expect approximately $230 million for the full year with a higher level of activity in the fourth quarter as we begin to complete two of the Performance Products projects. Overall, free cash flow for the quarter was $117 million and the fourth quarter will also deliver a cash inflow with seasonal trends and as we continue to manage working capital in a lower sales environment.

As we look towards 2024, our focus will be on disciplined cash management, controlling what we can control irrespective of any chemical industry cycle recovery. Our current guidance for 2024 capital expenditure outlay amounts to between $200 million and $220 million, a reduction from our spend levels in 2022 and 2023 and below our depreciation and amortization level of approximately $280 million. In addition to the reliability and safety at our facilities, we will focus our capital spend on completing our semi-conductor and insulation catalyst projects in Performance Products. We are also continuing to invest in Advanced Materials across aerospace and defense as well as in Miralon as we scale up that technology. We expect to spend less cash on restructuring in 2024, about half the level of 2023, freeing up approximately $30 million year on year. In addition, a reduction in incentive compensation for 2023 performance will result in approximately $20 million lower cash in 2024. We continue to expect to receive approximately $50 million to $60 million resulting from the jury trial we won against Linde/Praxair in Louisiana. Finally, we believe that we can further improve our working capital management and are in the process of initiating an enhanced corporate-wide supply chain program to deliver additional cash in 2024.

Adjusted earnings per share was 15 cents per share for the quarter and we completed $100 million of share buy backs. Our dividend yield is currently approximately 4%, combined with share buybacks we have delivered north of 10% return of capital yield to shareholders in 2023. As we look into the fourth quarter of 2023, we are calibrating share buybacks to the current environment. Given business conditions we expect to buy back approximately $50 million of shares in the fourth quarter. At the end of 2023 we expect to have approximately $550 million remaining of the $2 billion share repurchase program our board of directors authorized in the first quarter of 2022. As we then move into 2024 share buybacks will continue to be an important aspect of our capital deployment to shareholders. Our balance sheet remains strong and with $1.8 billion in available liquidity.

This concludes our prepared remarks regarding the third quarter 2023 results and our current outlook. We look forward to updating the market when we report our fourth quarter 2023 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, increased energy costs in Europe, inflation and resulting monetary tightening in the US, 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, 2022, 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.