

Q1 2022 Earnings Call

Company Participants

- John Floren, President and Chief Executive Officer
- Rich Sumner, Vice President of Marketing Logistics
- Sarah Herriott, Director, Investor Relations

Other Participants

- Ben Isaacson, Analyst
- Cherilyn Radbourne, Analyst
- Hassan Ahmed, Analyst
- Jacob Bout, Analyst
- Jason Crawshaw, Analyst
- Joel Jackson, Analyst
- Joshua Spector, Analyst
- Laurence Alexander, Analyst
- Matthew Blair, Analyst
- Michael Leithead, Analyst
- Nelson Ng, Analyst
- Steve Hansen, Analyst
- Unidentified Participant

Presentation

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Methanex Corporation Q1 2022 earnings call. I would now like to turn the conference call over to Ms. Sarah Herriott. Please go ahead.

Sarah Herriott {BIO 21418601 <GO>}

Good morning, everyone. Welcome to our first quarter 2022 Results Conference call. Our 2022 first quarter news release, management's discussion and analysis and financial statements can be accessed from the reports tab of the Investor Relations page on our website at methanex.com. I'd like to remind our listeners that our comments and answers to your questions today may contain forward-looking information. This information biased nature is subject to risks and uncertainties that may cause dated outcome to differ materially from the actual outcome. Certain material factors or assumptions were applied

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in drawing the conclusions or making the forecasts or projections which are included in the forward-looking information.

Please refer to our first quarter 2022 MD&A and our 2021 Annual Report for more information. I would also like to caution our listeners that any projections provided today regarding Methanex's future financial performance are effective as of today's date. It is our policy not to comment on or update this guidance between quarters. For clarification any references to revenue average realized price EBITDA, adjusted EBITDA, cash flow, adjusted income or adjusted earnings per share made in today's remarks reflect our 63.1% economic interest in the Atlas facility, our 50% economic interest in Egypt facility and our 60% economic interest in Waterfront Shipping.

In addition, we report our adjusted EBITDA and adjusted net income to exclude the mark-to-market impact on share-based compensation and the impact of certain items associated with specific identified events. These items are non-GAAP measures and ratios that do not have any standardized meaning prescribed by GAAP and therefore unlikely to be comparable to similar measures presented by other companies. We report these non-GAAP measures in this way, because we believe they are a better measure of underlying operating performance and we encourage analysts covering the company to report their estimates in this manner.

I would now like to turn the call over to Methanex's President and CEO, Mr. John Floren for his comments and a question and answer period.

John Floren {BIO 7546684 <GO>}

Good morning. I hope that everyone is continuing to stay safe and healthy. Today, we will review our strong first quarter 2022 financial results, provide an overview of the methanol markets, discuss our operational results and share our near-term outlook, then we will open up the call for questions. Turning to our financial results. Methanol posted prices were supported in the first quarter of 2022 by favorable supply-demand fundamentals. Our average realized price of \$425 per ton and higher produced product sales volume drove adjusted EBITDA of up \$337 million and adjusted net income of \$159 million or \$2.16 per share.

Now, turning to the methanol market. Global methanol demand in the first quarter of 2022 increased slightly compared to the fourth quarter of 2021. This increase was driven by an increase in operating rates for methanol to olefins or MTO plants after the impact from the dual control policy in China and turnarounds in the fourth quarter. MTO operating rates increased by approximately 20% from 65% during the fourth quarter of 2021 to 85% in the first quarter of 2022. Demand from traditional chemical applications was lower in the first quarter compared to the fourth quarter due to the seasonal slowdown in manufacturing activity during the Lunar New Year in China, combined with some downstream turnarounds in the United States.

Traditional demand has recovered from the seasonal lows in February. Industry operating rates remain challenged during the first quarter due to ongoing operating rate constraints

related to winter conditions in the Middle East and feedstock availability and cost in Europe. Methanol prices in the first quarter were supported by tight industry conditions and the impact of continued high global energy prices on producer costs. Increased production from our end is expected in the second quarter and we expect tight market conditions to continue as plants in Trinidad, Europe and Asia have planned turnarounds.

We estimate the industry cost curve, which is set in China is \$382 to \$400 per ton based on coal price range of RMB1000 to RMB11,00 per ton. Our main posted prices were slightly lower in all regions, North American prices decreased by \$21 per ton to \$638 per ton. Asia-Pacific and China prices decreased by \$20 and \$30 per ton to \$520 and \$470 per ton respectively. Our European contract price is set quarterly and we increased our second quarter 2022 by EUR65 per ton to EUR570 per ton. Our first quarter discount rate was in line with our guidance of 2022 at 20%.

The methanol market fundamentals remain solid. Today we have not seen significant evidence of demand destruction because of sustained elevated methanol prices, COVID related lockdowns in China, the conflict between Russia and Ukraine or inflationary pressures. Industry operating rates remain challenged and high energy prices and geopolitical events could further constrain production. High global energy prices enhance methanol's cost competitiveness against alternative fuels and we continue to see firm demand from traditional chemical applications.

Now, turning to our operation results, our production levels were lower in the first quarter compared to the fourth quarter due to lower gas availability in New Zealand minor unplanned outages and Geismar and Trinidad and a 20-day planned outage in Egypt. In Chile, production levels in the first quarter were comparable to the fourth quarter as our Chile IV plant ran continuously in both quarters. We expect to continue operating both Chile plants through the end of April 2022.

In Medicine Hat, production in the first quarter was slightly higher compared to the fourth quarter and the plant ran at nearly full operating rates. We continue to forecast our 2022 production to be approximately 7 million equity tons although actual production may vary quarter by quarter based on gasoline availability, planned maintenance, extended planned outages or unanticipated events. Now, turning to our balance sheet and capital allocation. In February, we closed the previous announced strategic partnership with Mitsui O.S.K. limited or MLL involving Waterfront shipping and received proceeds of approximately \$145 million.

We ended the first quarter in a strong financial position with approximately \$1.1 billion in cash and \$600 million of undrawn backup liquidity, which meets our goal of having cash on hand to fund the remaining G3 capital cost spend as well as having \$300 million for operational flexibility. Our disciplined approach to capital allocation has not changed and our priorities remain the same. We use the cash we generate to maintain our business, pursue accretive growth opportunities and continue our consistent track record of returning excess cash to shareholders.

Construction on our Advantaged Geismar 3 project is progressing well and is on schedule, on budget and is expected to reach commercial production by late 2023 or early 2024. At a time, we believe the industry will need new supply to meet growing demand, G3 will enhance our current asset portfolio and significantly increase our cash flow generation capability. At \$400 dollar metric ton average realized price, G3 generates approximately \$325 million of adjusted EBITDA per year. Its world-class CO2 emissions intensity profile will help us meet our recently published commitment to reduce our greenhouse gas emissions intensity.

Our capital cost estimate for the G3 project is \$1.25 billion to \$1.35 billion and we've spent approximately \$620 million to the end of the first quarter. We expect approximately \$625 million to \$725 million of remaining capital cost before capitalized interest. We continue to anticipate spending approximately \$100 million per quarter, although the timing of expenditures may fluctuate period to period. Our consistent track record and commitment of returning cash to shareholders is highlighted in the Board's decision to approve both a 16% increase in the quarterly dividend to \$0.145 per share, as well as an increase to our share buyback program for 3.810464 [ph] shares to 6,94,171 shares representing 10% of the public float the maximum allowed in a 12-month period under Canadian regulations.

This buyback program will expire in September of 2022. I would also like to highlight that earlier this month, we released our 2021 sustainability report where we outlined achievable and solution-focused environmental, social and governance commitments. We continue to deepen our understanding of the opportunities and the risks from the transition to a low-carbon economy and I believe that we're well positioned to continue to deliver long-term shareholder value as the world transitions.

Now, turning to the outlook for the second quarter. Based on our current posted prices for April and May, we expect Q2 to be another excellent quarter for EBITDA generation and earnings. Looking forward, the methanol market fundamentals are solid, our cash generation is strong, our G3 project is fully funded and we are well positioned to continue with our commitment to return excess cash to our shareholders.

We remain focused on progressing our Advantaged G3 project safely and on budget, operating our plants safely and reliably, securing long-term economic gas for our idled plants in Trinidad and New Zealand and delivering secure and reliable supply to our customers and delivering on our capital allocation priorities.

We will now be happy to answer any questions.

Questions And Answers

Operator

Thank you. (Operator Instructions). The first question is from Ben Isaacson from Scotiabank. Please go ahead.

Q - Ben Isaacson {BIO 6619206 <GO>}

Thank you very much and good morning and congratulations on the good numbers. John two questions for you. Number one, with respect to China and the lockdowns that we're seeing from COVID, are you seeing any pivots in methanol demand and in methanol production there, can you just frame what you're seeing in China right now.

A - John Floren {BIO 7546684 <GO>}

Yeah. As of today, we're not seeing any impact on demand, obviously a headwind and we're watching. Certainly the lock-downs aren't as severe as they were in the spring on of 2020, but it's something we're watching. On the supply side again, most of the plants are outside the lockdown areas so we're not seeing our customers or even our competitors having to shut down at this time. Having said that, if you look at pricing in China today is around 365 equivalent US dollars per ton that's below the cost curve that we see in China based on coal and natural gas. So if they were to shut down, it's probably more as a result of cost curve than COVID at this point Ben.

Q - Ben Isaacson {BIO 6619206 <GO>}

Thank you for that. And then just my follow up, if we leave the price for the moment. Can you talk about the value of methanol, we're seeing a lot of swings in commodities, oil at 100. We're also carrying about recession fears. So, what is the most secure right now in terms of downstream value from methanol and what's at risk?

A - John Floren {BIO 7546684 <GO>}

Well, I think the one that we always watch is the MTO and that's the one that -- on the affordability curve as we call it, the one that gets impacted first. Most of the chemical derivatives methanol is not a very large component of the cost of their product, but MTO is the one we watch it. We're being -- we're fortunate in a high-energy environment like we're seeing today that's also very good for olefins pricing because the naphtha crackers obviously are paying a lot more pronounced today than they would have been this time last year, so that lifted the cost curve quite nicely. So, the MTO producers are running like I said, 95% today. So unless you saw a huge correction in olefins prices, then that would mean energy prices falling quite a lot from where they are today. I think we're going to be fine on the demand side.

Q - Ben Isaacson {BIO 6619206 <GO>}

Thanks.

A - John Floren {BIO 7546684 <GO>}

Thanks, Ben.

Operator

Thank you. The next question is from Joel Jackson from BMO Capital Markets. Please go ahead.

Q - Joel Jackson {BIO 16250849 <GO>}

Hi, good morning John.

A - John Floren {BIO 7546684 <GO>}

Hey Joel.

Q - Joel Jackson {BIO 16250849 <GO>}

John I missed a bit of the last question. I hope I don't ask the same question, what do you think is setting the methanol price right now? Is it the cost curve is it affordability, seems like it's more of the cost curve and then what are you sort of seeing into April here in terms of the market, maybe a little more supply coming out for some of the different region maybe a little bit demand restrictions lockdowns things I've got in China GDP concerns. What do you think is going on the ground, kind of April right now?

A - John Floren {BIO 7546684 <GO>}

Yeah, I think there's a lot of negative sentiment out there Joel and I think that's driving some of what we're seeing in the short term. When we look at our supply-demand balances, demand is holding up has bounced back and traditional demand from Chinese New Year MTO is running well. High energy, makes the other energy applications very, very attractive for methanol. So we expect demand to continue to grow and we're watching it very closely.

Obviously, we have visibility throughout the globe through our network of supply chain and marketing teams and we're not seeing, like I said any impact on demand and I think we're expecting quite a few planned outages coming up here in the May-June period, which in our view are going to continue to have a favorable supply-demand balance, which will lead to strong pricing. Cost curve hasn't been setting the pricing if you look at the last two quarters, we've been well above the cost curve, it's been really supply issues that's led to the higher pricing of the cost curve and we'll continue to watch it.

But, when we look at all the puts and takes, we think conditions are still pretty tight and inventories are pretty low throughout the system. So, we'll continue to follow it. The one caveat and I said it in my opening remarks, we are expecting a bit more supply from Iran as they come out of their winter and we're seeing that as we speak, but we are also seeing, like I said, other planned and unplanned outages.

Q - Joel Jackson {BIO 16250849 <GO>}

Okay. And then, if I recall, I think you said you kind of have a really -- the next really good view on where costs are going for G3. I think June or sometime this summer. So when you're going to have a real good handle on the remaining cost of G3, if you have any material inflation. Maybe you can give an update on how much of the remaining costs are fixed versus variable. What are the biggest deltas for cost good or bad that could happen as you finished the last I guess six quarters of that project?

A - John Floren {BIO 7546684 <GO>}

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Yeah, really the only cost that we're facing going forward is labor. All the equipments on site, the engineering is done. We've actually completed most of the civil works. We're starting to come out of ground. We've got a video that we just produced that we'll through up on our website for you to see. And if you come to our Investor Day in June, you'll be able to see it firsthand and the progress we've made. So, it's really around labor and as of today, we're quite a bit through the construction of the civil, like I said and the labor rates that we forecasted and the productivity numbers we forecasted are bang on.

So, we're not having to compete with labor in the area. There is not any other large projects being constructed during this time, we've got a wonderful site there. It's a safe side, we've got parking for everybody, it's easier to get in and out so it's a preferred site for people to work at. So as of today, we are not seeing any pressure on labor or productivity and that's the one thing that we'll continue to monitor. I'll remind you on this project, we have quite a bit larger (inaudible) than we did on G1 and G2. So we're much more involved in the scheduling and the workflows, et cetera than we were in the previous projects and that really helps in productivity. You got about 1100 people on site today, so coordinating all that activity is really important to make sure your productivity doesn't fall off.

Q - Joel Jackson {BIO 16250849 <GO>}

Just if do one follow-up on that. So, is the way to think about it that and you've talked about this before that when you estimated the budget a long time ago, you put in so much contingencies (inaudible) inflation it's not worse than your contingencies, is that fair?

A - John Floren {BIO 7546684 <GO>}

Yeah, we haven't barely touched a contingency. It's a very large contingency based on, let's say compared to previous projects we've had. So I think we'd have to see rates and productivity increase significantly on rates or to decrease significantly before we use up all that contingency and even if we did use up all the contingency we'd still be in line with the guidance that we've given you for completing the project. So, I feel really good at where we are in the project and first priority is always safety and if you have a safe site then you've got a high quality project and a good productive site and that's our focus.

Q - Joel Jackson {BIO 16250849 <GO>}

Thanks a lot.

A - John Floren {BIO 7546684 <GO>}

Thanks, Joel.

Operator

Thank you. The next question is from Nelson Ng from RBC Capital Markets. Please go ahead.

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Q - Nelson Ng {BIO 16615616 <GO>}

Great, thanks and congrats on a strong quarter.

A - John Floren {BIO 7546684 <GO>}

Thank you.

Q - Nelson Ng {BIO 16615616 <GO>}

First question is on Egypt. So the 20-day outage, should we think of that as a full turn around so that would be one of the two to three turnarounds that we expect each year?

A - John Floren {BIO 7546684 <GO>}

I think I would think of it as a partial turnaround Nelson, there were some things that we had to take the plant off to address from a safety perspective, we couldn't they continue on so we address those. When you plan a turn around, you plan a bunch of deeply and final bunch of catalysts and equipment and that's years in the making. So you should think of that as -- we did a lot of -- some of the work that we would do in a normal turnaround during that outage, so if we did have a turnaround there at some time in the near future, some of the work would have already been done.

Q - Nelson Ng {BIO 16615616 <GO>}

Okay, thanks for that. And then just on that topic, you mentioned that you expect multiple plants to be shut down for turnarounds in the sector. Can you mention any particular regions that are going to get hit harder on the supply side?

A - John Floren {BIO 7546684 <GO>}

Yeah, maybe I'll ask Rich Sumner, our VP of Marketing -- like Senior VP Marketing Logistics to answer that.

A - Rich Sumner {BIO 16928964 <GO>}

Yes. So the plants that we see I think the turnaround we know that in Russia there is a few plants there that would be regularly scheduled in Europe, plants in Norway, we know in Trinidad, there is already a plant down and then in Southeast Asia, Malaysia and Brunei both had planned turnarounds and as of today as well we know that there are some ongoing issues in Iran happening today as well.

Q - Nelson Ng {BIO 16615616 <GO>}

Thanks. And then just moving on to the dividend so the dividend increase. Can you talk about what you see long-term for the dividends? Like, can you see it getting back up to the pre-pandemic levels in 2019 or should we expect that to be much further on the horizon?

A - John Floren {BIO 7546684 <GO>}

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Well, I think we've mentioned previous times that we've seen a lot of volatility in the last 10 years, we've seen prices ranging from \$200 to \$500. So it's really been volatile for a number of black swan events that happened and you know them, as well as I do. So I think after the last when the COVID lock-downs -- we kind of came to the conclusion that having flexibility and how we returned money to shareholders has got a lot of value. So I think there is room to continue to increase our dividend, as we bring on G3 and the pricing continues to be strong and we'll look at that, but I think our preferred -- at this point in time is to use a share buyback and the flexibility it allows to return cash to shareholders. So, getting back to pre-pandemic levels of the dividend, I don't see that in the near term.

Q - Nelson Ng {BIO 16615616 <GO>}

Okay, got it, thanks. I'll leave it there.

Operator

Thank you. The next question is from Jacob Bout from CIBC. Please go ahead.

Q - Jacob Bout {BIO 4826791 <GO>}

Good morning. I have another question here on G3. So, we talked a bit about inflation, supply chain and procurement is that having any issues or foresee any issues for the start of Q3?

A - John Floren {BIO 7546684 <GO>}

Yeah, like I said, we've got all the major equipment on site. So the biggest issues would have been major pieces of equipment and getting them made and because they take a lot of parts and stuff from other people as well, but having those on site gives us a lot of comfort typically with the small things like nuts and bolts this and that we would have a few weeks, supply chain.

But, what our team has done down there is they anticipated potential issues in supply chain and ordering those types of equipment or small parts way in advance. So we've seen the odd thing here or there, but really hasn't delayed the project or been a huge impact on like I said the productivity or the completion at this time. So, I know the team's on top of it and it's one of their key risk factors they're managing and we certainly haven't seen any significant impact on the project because of supply chain issues at this time.

Q - Jacob Bout {BIO 4826791 <GO>}

Okay. And then maybe a bigger picture type question. Just as you think about the fallout of the Russia, Ukraine war what do you think of the long-term implication is for the methanol industry? Do you think there is going to be more of a focus on stable methanol supply, industry moving away from Russian gas based methanol supply and what do you think is the opportunity here for Methanex?

A - John Floren {BIO 7546684 <GO>}

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I guess, it depends on how significant the war continues and what happens after it gets wound up and what happens with the energy complex as a result, it seems to me Europe has said on moving away from Russian energy so that means that they're going to have to be replaced from elsewhere, which is going to, in my view lead to higher prices and if there's higher gas prices in Europe that's going to mean less production of methanol, certainly the Norwegians might decide to maybe send gas instead of making methanol, that could be an option for them as well.

Russia itself continues to make methanol and they consume methanol in the country and they export about 1.5 million tons to 1.8 million tons almost from day one of the war. Our customers told us they did not want to get Russian material, and I think that's pretty much across the board in the European customers. So they are looking to get product from other places which are displacing supply chains, which is leading to higher cost. So, you do not like to see these disruptions and wars but we're certainly not benefiting to the same extent that some of the agricultural businesses are but certainly it's been something that's been disruptive for our customers and I think they are going to be reluctant to sign up for Russian material in the near term. So, I think that will mean companies like us will be in more favor for contracts as we go through the process this year.

Q - Jacob Bout {BIO 4826791 <GO>}

I'll leave it there. Thank you John.

A - John Floren {BIO 7546684 <GO>}

Thank Jacob.

Operator

Thank you. The next question is from Steve Hansen from Raymond James. Please go ahead.

Q - Steve Hansen {BIO 15756282 <GO>}

Good morning guys. Thanks. John, quick question on gas prices, we have seen pretty extraordinary moves in the domestic gas market through spring this year. I think we are \$7 at the hub now. I know you are extremely well positioned domestically with your various contracts in place, but you do have multi exposure as it stands. Do you want to maybe just give us an update on your gas thinking here today?

A - John Floren {BIO 7546684 <GO>}

Yes. So, we're continuing to want to hedge gas out in front of G3 and for our expiring hedges and contracts for G1 and G2 and we have done that in the last six months and certainly right now the price is a little out of where our range where we would like to gas, but we're looking at it every day, but right now 65% of our needs in North America are either fix-priced or hedged at relatively really low prices compared to what we are seeing in AECO and Henry Hub. So I think we have done this since we started G1 and G2 and we are on the other side of that hedge for some time and here we are with \$7 to \$8 gas so

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we're really well positioned versus our competitors who we don't believe have as much of their gas at all for any length of time.

So, I always thought that was a natural hedge for us as well because they are going to be much higher on the cost curve than we are because they are not hedged on gas. So I think we're extremely well positioned and we chose that rate of 65% because if things get really out of whack on gas and we get above the cost curve, then we can lower operating rates to those levels, but we don't anticipate getting there. When we look at the gas market fundamentals in North America, we still have that kind of \$4 range in our mind, lots of gas in that range and it doesn't mean we won't see times like we're seeing today outside that range and we'll probably see lower than for as well the commodity and it doesn't take much.

Having said that too, there has been a lot of exploration and development in the last two or three years because of COVID and now because of the ESG issues. So, what happens when there is no development exploration? There's less supply, which leads to higher prices. But we'll see how things go forward, but certainly at today's prices anybody that's got reserves would want to be developing and selling them.

Q - Steve Hansen {BIO 15756282 <GO>}

Okay, that's helpful. And then just one follow-up if I may on New Zealand, the gas supply there continues to be challenged, we know that we've seen through the history there recently, how long do you think it will take to get some better visibility on your feedstock needs there or do you think we're talking a year from now, two years from now? I know there has been talks about development exercises in the offshore there but the government has also got a pretty hard tilt on how they view that sort of broader complex. So, just where are we at in that broader development from your perspective and obviously your assets that are sitting there? Thanks.

A - John Floren {BIO 7546684 <GO>}

Yeah, there's a lots of drilling going on as we speak. So, there has been success and there is more fields -- the bulk of (inaudible) that had the upset is being drilled and we'll know in the next quarter, I would say what the results are. So, I think high energy prices again are really good for us because the suppliers, which are all private in New Zealand that have reserves will want to develop. They're getting a great price for their gas at current methanol prices and obviously the liquids that they're getting with the gas, there is very, very rich in liquids and at \$100 oil, they're are getting a lot of money for the liquid.

So, I think New Zealand as a country had been running a lot of coal-fired electricity generation as well and certainly, that's not good for their directions on going to zero carbon. So, we've always said, to go from where we are to zero overnight it's physically impossible but you can make steps along the way like using natural gas. So, I think these high energy prices and what's going on in the world with the wars and displacements have got governments thinking a little differently about some of their aspirations in the short term and keeping the aspirations over the long term for low carbon economies.

Q - Steve Hansen {BIO 15756282 <GO>}

Okay, great. Looking forward to see Geismar in a couple of months. Thanks.

A - John Floren {BIO 7546684 <GO>}

Great.

Operator

Thank you. The next question is from Mike Leithead from Barclays. Please go ahead.

Q - Michael Leithead {BIO 20087755 <GO>}

Great, thanks. Good morning, John. Just maybe one question for me on -- good morning. Just one question from me today is on the cash and I don't say it's a very high class problem to have but back of the envelope, you have about a \$1.1 billion cash today about \$675 million of that earmarked for G3 you're generating about \$300 million or so of operating cash into the last eight quarters, and just when you think about potential uses, maintenance CapEx isn't that much, your new dividend is I don't know \$50 million-ish a year and you can only buy back, call it another 100 million, 150 million or so shares through September under the current bid. So if your projecting conditions are expecting the stay strong near-term just how are you thinking about deploying the excess cash or keeping on the balance sheet and would you consider a special dividend in the interim? Thanks.

A - John Floren {BIO 7546684 <GO>}

Yeah. So we're looking at all those options and including retiring debt, so we have debt that's coming due in 2024 and we could do a may call on that and retire that as well. So where we said we wanted to delever from where we were and we've done that by paying off the construction loan about just under \$200 million \$175 million last year. So we want to continue to delever, we want to have that 3:1 at 275 methanol to 300 methanol of EBITDA to debt.

So, I think by retiring those bonds we'll be well within that range of where we want to be. So, we do have that as another potential use of cash, so I think I'd be doing that before I'd be doing a special dividend, but let's see how things turn out here in the next quarter or so and September is not a heck of a long-time away and we've just announced another share buyback and we'll complete that based on the pricing that we're seeing today and then we'll roll into another NCIB in September, provided the conditions in the methanol market remain strong.

So I think we've got lots of options. I don't particularly like special dividends myself I think they caused tax problems for our shareholders and I think at where our stock price is on trailing EBITDA we're trading at three or four multiple. So I think the best use of cash today is by far to buyback our shares and that's what we'll be focused on.

Q - Michael Leithead {BIO 20087755 <GO>}

Great. And again as I said, high class problem to have. Have a good one. Thanks.

A - John Floren {BIO 7546684 <GO>}

Thank you.

Operator

Thank you. The next question is from Hassan Ahmed from Alembic Global Advisors. Please go ahead.

Q - Hassan Ahmed {BIO 7430123 <GO>}

Good morning John. John a question around European methanol capacity, if my numbers are correct it's roughly, call it 10% of global capacity. Just wondering with gas prices where they are right now, are you already seeing some curtailments there and if not, if the current sort of geopolitical conditions continue would you expect to see sort of curtailments shut downs and the like?

A - John Floren {BIO 7546684 <GO>}

I don't know how you can pay the European gas price today make methanol and create any cash. So, I think we have seen OCI shutdown last fall right and that was before the war when gas prices got I think \$6 or \$7 I can't remember exactly, but they were under water, certainly the Norwegians have the ability to onsell gas and not make methanol, but they have contracts they've got to honor.

So, I think that's more of a medium-term decision for them if they want to do that. There is a couple of refineries there that are making methanol in Germany and we have seen them take time as well and then obviously the impact on our customers of high energy prices too, does that impact their ability to compete and when we see shift demand for our products go to other regions. So, there is a lot of moving parts here, but you know if the LNG market today is at \$17, \$20 MMBTU and Europe is going to wean itself off of Russian gas, it's going to come from LNG and you just can't make methanol at that price unless you get \$1000 plus a ton for the products. So, I think unless something was to change with the directions of both Russia and Europe it's going to be tough for not only methanol but for ammonia, nitrogen and a lot of things that rely on natural gas.

Q - Hassan Ahmed {BIO 7430123 <GO>}

Makes sense. Thanks for that. And as a follow up, could you comment a little bit about what you are seeing in terms of inventory levels? I know maybe there are couple of moving parts, because you talked about higher sort of levels of turnaround happening so maybe that sort of bloats inventory levels a bit but sort of cutting through this noise where do you see inventory levels sitting right now?

A - John Floren {BIO 7546684 <GO>}

Yes. Our experience is when you are in so-called high prices and that is what people are calling the current situation for methanol pricing, people don't want to have a lot of

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inventory because they are anticipating the price to go down. So, I think people are running their supply chains as skinny as they can and that's been the case for probably the last 12 months, 18 months. We have quite a good visibility on the East Coast of China and those inventories are really low. So certainly we don't see an excess amount of inventory through the system.

Q - Hassan Ahmed {BIO 7430123 <GO>}

Very helpful. John. Thank you so much.

Operator

Thank you. The next question is from Roland Roche from Crown investments [ph]. Please go ahead.

Q - Unidentified Participant

Hey John, how are you?

A - John Floren {BIO 7546684 <GO>}

Good Roland, how are you?

Q - Unidentified Participant

All right. While look I have to tag on that one question and spare with me on the total return of capital issue, right. So you have obviously grossed it up to roughly 6 million shares or 10% share purchase you bought as of two days ago 3.8 million that leaves 2.2 million shares to be purchased. You've bought 1.9 million in the first quarter, you bought 0.5 million shares just in that first 26 days in April. You sitting on \$1.1 billion of cash, you wouldn't raise the dividend significantly so by my math by June, July you must have bought back the shares. I've got one technical question for you and Sarah why you can only start with the new purchase on May 2 and why you can't do it immediately. So long story short John what do you do if you bought the rest of the shares back by July, you're sitting on by our math \$1.4 billion of cash, I'm sure you cannot accelerate the CapEx with G3 because the pieces are coming in and you said, it takes into another six quarters so what do you do with the massive cash buildup?

A - John Floren {BIO 7546684 <GO>}

Yes. So the reason we couldn't start the second buyback until May 2, because of blackout, because of quarter-end, so that's the reason for that Roland so we both started up on May 2 and churn through it like we have been. I mentioned already, we have the ability to look at retiring the debt early if we do have that much excess cash through a make whole arrangement so that's something we could consider or we could look at what the market fundamentals, if they continue the way they are today that would probably be a good option for us.

Also, there is a substantial issuer bid that could be considered but at that -- for something like that, it would be more like a \$300 million kind of substantial issuer bid. So, we'd like

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to build the cash on the balance sheet, before we did that's if we had that, that could be another option for us and then it would only be another couple of months before we do another NCIB which is our preferred way to do buybacks. So, I think we do have options and if we are seeing prices, like we see today and cash generation like we see today and the continued great progress on G3 we'll look at all those options to return cash to shareholders.

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Q - Unidentified Participant

Okay. So allow me one more, so if you were done before or significantly ahead of the end of September could you launch another 10% or 5% what's the way you would do with these share purchase then?

A - John Floren {BIO 7546684 <GO>}

Yeah, for a normal course issuer bid we could only do 10% of the public float in a 12-month period. So, that means we couldn't do a normal course until this September period comes, but we could do a substantial issuer bid, but what I'd say there, the nice thing about normal course is you don't have to make a large commitment. You can just like take so many shares per day or so much money per day and if market conditions change then you can adjust.

On a substantial issuer bid, before and we want to have the cash on the balance sheet to do that and you'd have to do, like I said \$200 million or \$300 million but at current cash generation and if that continues for the next few quarters, we could consider that as well. So I think we have options and we're committed to getting to those that the leverage targets that I've already mentioned and returning all excess cash to shareholders. So we got lots of things, we could consider and we just hope that the current market and the current pricing continues then everybody will be benefitting.

Q - Unidentified Participant

Okay, thank you.

A - John Floren {BIO 7546684 <GO>}

Thanks Roland.

Operator

Thank you. The next question is from Laurence Alexander from Jefferies. Please go ahead.

Q - Laurence Alexander {BIO 21637617 <GO>}

Good morning. I have two questions, one is with the discussion earlier about customers wanting reliability of supply, would that have any impact -- would that help you narrow the discount between the posted prices and the realized prices or is the dynamic completely separate there? Sorry, go ahead.

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A - John Floren {BIO 7546684 <GO>}

Yeah, I think that's a good point. I mean, if customers have less choice then the power shifts a little bit to the suppliers, so we won't know until we get into renegotiation, but if they have less choice and there is less liquidity and Europe as example, then certainly the suppliers will have a bit more ability to think about maybe clawing back some of the discounts. So that is something that could happen, we'll just see how things evolve here with the Russian supply and the war. But, even if it gets all tomorrow, I think there's still going to be a reluctance of customers in Europe to be using Russian product, but we'll see how things evolve.

Q - Laurence Alexander {BIO 21637617 <GO>}

Okay, great. And secondly, can you give an update on your thinking about both green methanol and the order backlog for marine fuel, your fuel flexible ships in particular, are you seeing fleets becoming more comfortable with larger orders ordering several ships at a time or larger ships that will be more comfortable with the tech, with the transition? So can you just help with our thoughts on those?

A - John Floren {BIO 7546684 <GO>}

Sure, so what's on order or on the water today are 65 ocean-going vessels and there is more and more interest every day, it seems. If those 65 vessels that have the capability to run on methanol, ran on methanol 100% of the time, that would be 1.5 million tons of demand. So that's what's on the water, what's coming in the next couple of years. Obviously MAERSK has been very public about wanting green methanol to run their ships and we are obviously in discussion with MAERSK about supplying green methanol.

We have the ability to do this in Geismar plants where we're certified to make green methanol using renewable natural gas. The challenge is the economics. It's one thing they want to use green methanol, it's another thing to pay for green methanol and if you look at renewable natural gas or if you look at the other pathways to making green methanol you need around \$1,000 a time and the selling price to make it work.

So, we have that ability, we're in discussions with MAERSK and I know they're in discussions with a number of different parties and they're going to be facing those same economics, but our view has always been that the shipping industry converts the methanol they'll use natural gas based methanol, with the intention as the economics get better or the ability to afford green methanol, I guess through the system that they'll want to fully convert but they'll use it in combination as well.

I think what's going to happen is like if they get the methanol we're going to make in Geismar, three it's going to have our lowest carbon footprint of any of our plants and maybe customer will start saying I want the Geismar 3 molecules because they have 0.4 a ton of CO2 versus others that have 0.6 or Chinese coal has 5 times 0.4, so it's evolving. I think the willingness to pay is not there yet. I'll remind you, we were the early investors in CRI in Iceland to make methanol -- green methanol from CO2 off of power plant and hydrogen through electrolysis using cheap energy and it's a small pilot plant of 4,000 tons, then we can barely sell that out. So I think the market will develop, but it's kind of a

chicken and the egg now, but we have a team -- internal team that's looking at all the possible avenues to green methanol and when it makes sense for us to invest, you should expect us to invest.

Q - Laurence Alexander {BIO 21637617 <GO>}

And I guess also can you just -- one clarification, if I may, is you had the comment earlier that the kind of breakeven for someone making methanol in Europe at current LNG prices would be around 1,000, which is also around where you peg the green methanol kind of economics. As you look at kind of the European policy around carbon adjustments at the border and how they're talking about dealing with those, putting taxes on imports, is there -- should we be thinking about sort of the possibility that the green methanol in Europe gets pulled forward and that Methanex might participate in that, or how are you thinking about the moving pieces on the regulatory side?

A - John Floren {BIO 7546684 <GO>}

Yeah, those are all under discussion with how things end up with governments, I am not a good predictor of how government's behavior what they decide but certainly aware of all of those discussions. It's kind of before we make significant investments we want to have a place to sell the product where we can make a dollar right. We're not going to do -- make it for \$1,000 and sell it for \$500 then we're not going to have a company very long if we do those things. So we are certainly willing to make investments in the green methanol space, the challenge is there is no market for today that's willing to pay, so that may change and if that changes, we'll be making investments.

So, like I said, it's a bit of a chicken and the egg, but we're looking at all the different technologies out there that are thinking of doing green methanol and the other challenge with the technologies are not very scalable and they're not very reliable, especially the electrolyzers, so lots of issues with the technologies, but you'd have to have some certainty that if you're going to invest some millions of dollars in a plant that you can sell it and make a profit, so you'd have to have a contract signed for the off take of that plant that allows the economics to work. So certainly, up to now, we haven't been able to secure a contract that allows us even to make renewable methanol from natural gas in Geismar.

Q - Laurence Alexander {BIO 21637617 <GO>}

Okay, great. Thank you.

A - John Floren {BIO 7546684 <GO>}

Thank you.

Operator

Thank you. The next question is from Josh Spector from UBS. Please go ahead.

Q - Joshua Spector

Yeah hi, thanks for taking my question. Just coming back to the US gas hedging strategy. I'm just thinking in the context of Europe and everything that's been discussed earlier and if the US as part of the solution. In terms of exporting LNG over to Europe to solve that problem, does that change your thoughts around the hedging strategy in Methanex two, three years from now and to the extent coupling that with the excess cash comment, do you ever think about co-investing in some of the upstream supplier development as a way to get you offtake gas contract as a part of that, is that something you think about or no?

A - John Floren {BIO 7546684 <GO>}

Been there done that, it wasn't very successful so we're a methanol producer, we're not an exploration and development company. So I never say never, but highly unlikely under my watch, but the next deal might have a different view. So I never say never, but you can take that as no we don't -- we wouldn't invest upstream in oil and gas. As far as our hedging strategy, yes it will remain the same. We want to be hedged for about 65% of our requirements for G1 and G2 and slightly less for G3 so --- and then we include that as an add in the hedge profile because it's all one market in North America. So we're out there. We have a strategy in place, we're executing over the last 12 months for further hedges for G3 and for the ones that are expiring in G1 and G2 and when we get to the range that we think makes sense, we'll continue to do so. So there's really no change in our hedging strategy at this time.

Q - Joshua Spector

Okay, thanks. And just on the Mitsui partnerships that you guys now closed. I was just wondering if you could talk about some of the benefits to both parties in that transaction, I guess for you it's clear you unlock some cash. I assume you're thinking with their kind of scale they can maybe improve or go get some better operation that help reduce the cost of the entire fleet. But from their end I'm not exactly sure are there specific economics for them that drive methanol fuel adoption or anything else that's a reason for them to want to enter this with you that drives the fuel adoption benefit that you cited in the releases? Thanks.

A - John Floren {BIO 7546684 <GO>}

Yes, so the benefits for us are obviously, we unlock value for an asset that we didn't get any value for our Waterfront Shipping, which is a fantastic organization and will continue to be a stand-alone organization, we'll continue to be able to manage that and send the ships where we want, et cetera. What MLL got obviously is a great customer -- they now have a locked in customer for a long time, because they have an ownership position in Waterfront Shipping and Methanex contracts its shipping to Waterfront.

So they've got Methanex as a long-term customer so that really helps with their ideas around replacement ships et cetera. We've been partnering with them on methanol-based carriers for a long time anyway, so they've already been in that game and they understand that game and they've been a good partner and we also get a great shipping partner that's way larger than us in the shipping industry, and we do a lot of backhaul cargoes, a third of what we carry today is not methanol on a backhaul basis and certainly if you have an owner that has a lot more ships, it gives you a lot more options to think about doing more backhaul or other backhauls with their ships.

So, it's early days, but we're really excited about the potential there and I think it was a win-win deal for both companies and that's usually the ones that do the best in that survive the longest so we're very happy with it.

Q - Joshua Spector

Got it. Thank you.

Operator

Thank you. The next question is from Jason Crawshaw from Polaris Capital Management. Please go ahead.

Q - Jason Crawshaw {BIO 19233540 <GO>}

Great. Hey John. Good morning. Just maybe two quick questions here, just one on Russia. I mean, obviously I assume that tonnage is making its way into the market somehow. Any idea how much of that aside of discounts I mean have your marketing people kind of heard through the grapevine or can they sell that in market price I guess just out of curiosity, is the first question.

A - John Floren {BIO 7546684 <GO>}

Yeah. So we're seeing some of it not all of it is getting out, like I said, it's about 1.5 to 1.8 so we are seeing cargoes out of Finland more than normal let's say larger cargoes and they're making their way to mainly India and China. And right now, those markets are open for the Russians. They are the lowest priced markets in the world so de facto versus what they would have got in Europe, they're getting less, not to mention the freight penalty that they're absorbing because of the extra freight to get it from Russia all the way to India and China.

So their economics would be not as attractive as before they were -- no longer wanting to buy Russian in Europe, so yes, some of it's getting out, but like Rich mentioned earlier, this is usually the turnaround season for the Russian plants as they come out of their winter so there'd be less production at this time of the year into the summer anyway. So we are monitoring it we do have really great visibility because of the ports that we monitor where the product is coming out of, but we certainly wouldn't say all of that 1.5, 1.8 has been placed in other markets.

Q - Jason Crawshaw {BIO 19233540 <GO>}

Got it. That's great. Thank you. And then I guess the other question is, I mean, I think you mentioned on Geismar 3, I think the number you said at \$40 methanol, it might be at 3.5 EBITDA number, correct me if I'm wrong in that. But if that's the case what's the gas price assumption on that? Is that, I mean you referenced kind of \$4 gas as your kind of medium or long term assumption, is it also \$4 gas price assumption that gets us to that number or maybe just give me some color on the performance there?

A - John Floren {BIO 7546684 <GO>}

\$3.25 is the number for the gas based on that EBITDA generation. So if you have a higher gas in your model, you can do the conversion so that's based on \$3.25.

Q - Jason Crawshaw {BIO 19233540 <GO>}

So it's at \$3.25 gas okay. And then for the 65% hedged, just remind me kind of what's the duration of the hedge and when do those start to roll off and you have to hedge at higher prices?

A - John Floren {BIO 7546684 <GO>}

Yeah. So it's different like G1 was a 10-year fixed price contract G2 was rolling hedges for 10-years as well for 40%. So that's for the site, it was about 65% between the two and Medicine Hat is through 2031 on a fixed price for most of the gas there.

Q - Jason Crawshaw {BIO 19233540 <GO>}

Got it. So I mean it sounds like, I'm going to have to take my calendar out, but by and large, it doesn't sound like you're going to have a substantially unhedged position or less hedged position next year or the year out. I mean is that a fair assumption?

A - John Floren {BIO 7546684 <GO>}

That's a very good assumption. And like I said earlier, we've been putting further hedges in for G3, right, so we're not exposed beyond the spot component that we've been buying which is around 35% of our needs for the next few years.

Q - Jason Crawshaw {BIO 19233540 <GO>}

Got it. That's great. And then I guess the last question is, I mean you have commented that you think a fair amount of your competitors don't have the same hedge position right in the US I'm assuming. And so, I mean do you think the kind of the US methanol prices reflecting the reality of the current spot gas price or do you think if some of your peers have kind of shorter duration hedges as those roll off, maybe the US methanol price needs to reflect the gas price reality and who knows what the gas price is, but I mean I guess in your assessment, the current US methanol price is reflective of what do you think kind of the blended gas price -- gas cost price at the producers? I know it's sort of kind of a long-winded obscure question, but I mean, how do I think of that?

A - John Floren {BIO 7546684 <GO>}

Yeah, at today's methanol prices in the US, if you're paying \$7 \$8 for gas, you're still cash positive, so even if they are buying spot gas, but obviously the margins are really slim at those prices. So you'd have to have a view that these \$7 \$8 gas prices are shorter term in, but if you got a view their longer-term are higher then they're going to be under pressure, which will either lead to shutdowns or higher prices and if you have shutdowns, you're going to get higher prices so that's why we never wanted to be exposed, we always wanted to be able to run our plants with \$200 delivered cash cost to China through a hedging and fixed price contracts. Obviously when prices were \$2.50 it wasn't as attractive for us as it is today, but I think our strategy of having certainty and being able to

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run our plants and service our customers is proving out to be the right ones. So I'm really glad we're not 100% exposed in North America to spot gas today.

Q - Jason Crawshaw {BIO 19233540 <GO>}

Got it. That's great, thanks for the color and good luck. Appreciate it. Thank you.

A - John Floren {BIO 7546684 <GO>}

Thank you.

Operator

Thank you. We ask that you please limit yourself to one question and one follow-up. The next question is from Cherilyn Radbourne from TD Securities. Please go ahead.

Q - Cherilyn Radbourne {BIO 4836137 <GO>}

Thanks very much and good morning. Most of my questions have been answered but in terms of the discussion on green methanol was just hoping you could talk about how that influences your thinking about the next project beyond Geismar 3 in terms of location and so forth, if at all and whether there are things that you can do to lower the carbon intensity of your existing plant network?

A - John Floren {BIO 7546684 <GO>}

Yeah, so it does -- let's say, G3 is going to buy some time. We want to grow in line with the market. If you look at the market today, the demand is probably similar to just pre-COVID levels so we haven't seen any real significant demand growth in the last few years. So as G3 comes on and things normalize that will satisfy our growth needs for quite some time, as well our focus will be on getting our idle plant in New Zealand and Trinidad restarted, so that will technically be growth for us because they are idle today so that will be our focus.

As far as the green methanol, like I said earlier, it's small scale so I think the largest that you could do that we are aware of for a CRI type plan is 100,000 tons, so that's 18 Geismar 3s and the capital cost versus Geismar 3 will be substantially, substantially higher. So I think the other issue carbon intensity and emitting carbon and you are making 25 year investments, what is the world going to look like from a carbon tax point of view, et cetera. So, all of those things are going to go into our decision-making and certainly the locations that we would choose may be impacted by carbon tax regimes, but our view is probably the world will always end up being somewhat -- having the same carbon price, whether it's through import duties or whatever. So the other option, we have to really lower our carbon footprint is carbon capture and storage and we are looking at both Geismar and Medicine Hat where there are reservoirs available to do carbon capture and storage, obviously there is capital involved and operating cost, but we have a team looking at those this year and that would reduce our carbon footprint significantly, 80% 90%.

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So those are possibilities in North America. We don't have the same kind of structure in some of the other regions because there is not as plentiful reservoirs today, but we will look at it for North America, if it makes sense there, then we will think about expanding and our teams are looking at other things we can do to lower our carbon footprint and intensity but you know the chemistry is a chemistry for our existing clients, so there is only so much you can do with the biggest bang, we will make with the carbon capture and storage. We are also going to be testing out some new equipment. We think even G3 is down 0.4 a ton of CO2 per ton of methanol by changing some equipment and we think we can get it down and 0.2 for any new builds, but we got to prove out that equipment over the next coming years.

And then if you buy renewable energy in the area you can almost get to zero carbon footprint using natural gas so there is many pathways we are looking at here and obviously we are going to look at everything and consider everything and look at the economics and make decisions around what makes sense for the twenty years from now when we'll have to make some guesses around with the regime might look like.

Q - Cherilyn Radbourne {BIO 4836137 <GO>}

Great. And then since no one has asked about Titan, maybe you can just give us a quick update on the gas situation in Trinidad and the potential to restart that plant at some point?

A - John Floren {BIO 7546684 <GO>}

Yes. So right now the upstream and the government are negotiating, their contracts are coming up this year and until that negotiation gets finalized I would say it is unlikely you should expect us tighten for us to secure a gas contract to allow that to restart. But those contracts will be negotiated, this year and the government has told us they want to keep all the downstream alive and they just need to have their contracts renegotiated with the upstream and that's ongoing, so we continue to dialog with the government and our intent is to get gas at an economic price that allows us to operate Titan through the cycle and that's what we're focused on.

Q - Cherilyn Radbourne {BIO 4836137 <GO>}

Thank you for the time.

A - John Floren {BIO 7546684 <GO>}

Thank you.

Operator

Thank you. The last question will be from Matthew Blair from Tudor Pickering Holt. Please go ahead.

Q - Matthew Blair {BIO 16648009 <GO>}

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Hey, good morning John. When thinking about your Q2 outlook, do you think it's reasonable to assume that your sales of methanol will be up quarter-over-quarter just as we roll off some of the outages and planned maintenance from Q1. I think you also tend to have an inventory release in Q2 or do you think that would all be offset by probably lower production at Chile just due to seasonal factors?

A - John Floren {BIO 7546684 <GO>}

Yeah. So you're talking about our produced molecules. It's really hard to guess even this far end of the quarter because of the way the FIFO layers work around the world. So, if we do have less of our produced molecules in our sales. Traditionally, there is a product release from our produced inventory, I'd say going into this quarter if I look at the makeup of our inventory we have much higher produced inventory today than we normally would entering into a quarter.

So, I'm not sure how it's all going to work out and I don't really pay that close attention to it because I think more longer term and to me every molecule we produce today we're making \$200 a ton in EBITDA so that's what I focus on. How it went the quarter against it and how it flows that's above my pay grade. So I'm really focused on making sure we run the plants reliably and safely and get that product to our customers.

Q - Matthew Blair {BIO 16648009 <GO>}

Sounds good, I'll leave it there. Thanks.

A - John Floren {BIO 7546684 <GO>}

Thank you. Okay, thanks for all the questions. We are pleased to share our excellent financial results with you today. We've continued to demonstrate the strength of our business model and our competitive advantage of delivering secure and reliable meth supply to our customers. We believe that the long-term outlook for methanol is robust.

Methanol is an essential building block for hundreds of consumer and industrial products, as well as cleaner burning fuel that can help improve air quality by reducing emissions compared to traditional fuels such as diesel or coal. Our asset portfolio generates meaningful cash flow across a wide range of methanol prices. Our capital allocation priorities remain the same and we use cash that we generate to maintain our business, pursue value accretive growth opportunities and continue our strong track record of returning excess cash to shareholders. We will continue to execute on our strategy to deliver significant value to our shareholders.

Thank you for joining us today and we'll speak with you in July and thank you for the interest in our company.

Operator

Thank you. The conference has now ended. Please disconnect your lines at this time and we thank you for your participation.

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