Acquisition of OCI Global Methanol Business by Methanex Corp Call *(Corrected version)*

Event Details

Date: 2024-09-09
Company: Methanex Corp.
Ticker: MX-CA

Company Participants

Sarah Herriott - Methanex Corp., Director-Investor Relations
Rich Sumner - Methanex Corp., President, Chief Executive Officer & Director
Dean Richardson - Methanex Corp., Chief Financial Officer & Senior Vice President-Finance

Other Participants

Steven Hansen - Analyst
Ben Isaacson - Analyst
Joshua Spector - Analyst
Evan McCaul - Analyst
Laurence Alexander - Analyst
Roger Spitz - Analyst
Michael Leithead - Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning. My name is Sarah, and I will be your conference operator today. At this time, I would like to welcome everyone to the Methanex to Acquire OCI Global's Methanol Business Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. We do ask that you please limit yourself to one question and one follow-up question. Thank you.

I would now like to turn the conference call over to the Director of Investor Relations at Methanex, Ms. Sarah Herriott. Please go ahead, Ms. Herriott.

Sarah Herriott

Good morning, everyone. Welcome to our conference call. Our news release on the agreement to acquire OCI Global's international methanol business was disseminated yesterday and can be accessed from the News tab on our website at methanex.com. Information contained in these materials are presented orally either in prepared remarks or in response to questions, may contain forward-looking statements. Actual results could differ materially from those contemplated by the forward-looking statements. For more information, we direct you to our second quarter 2024 MD&A and to our 2023 annual management discussion and analysis and slide 20 of this presentation.

This presentation uses the terms adjusted EBITDA and free cash flow. These items are non-GAAP measures that do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. These measures represent the amounts that are attributable to Methanex Corporation and are calculated by excluding the impact of certain items associated with specific identified events. Refer to slides 21 and 22 of this presentation, as well as additional information, non-GAAP measures in the company's second quarter of 2024 and 2023 annual MD&A for reconciliation of certain instances. All currency amounts are stated in United States dollars unless otherwise specified. Any reference to the acquired business refers to Methanex's estimates based on due diligence conducted and figures are calculated in a manner that is consistent with how Methanex view this business.

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

Rich Sumner

Thank you, Sarah, and good morning, everyone. We appreciate you joining us today. I'm excited to be here to discuss this significant transaction for Methanex. I'm joined on the call today by our CFO, Dean Richardson, and other members of our executive leadership team. First, we'll step through a slide deck with our prepared remarks and then open the call up for your questions.

Now, starting with the transaction overview, I'm excited to announce that Methanex has signed a definitive agreement to acquire OCI's global methanol business for $2.05 billion. This is a business that we know well, and we're confident that the people and assets that come with this transaction will add significant strategic and economic value to our existing portfolio. As part of this transaction, we will be acquiring OCI's Beaumont, Texas methanol and ammonia complex, as well as OCI's 50% interest in the nearby Natgasoline plant. These two facilities benefit from access to North America's abundant and favorably priced supply of natural gas feedstock and together, they are expected to increase our global methanol production by over 20%.

We will be acquiring OCI's low-carbon business, HyFuels, which will support and enhance Methanex's capabilities in this area and a methanol operation in the Netherlands which is currently idle. The purchase price consideration is comprised of $1.15 billion in cash, 9.9 million common shares of Methanex worth approximately $450 million and $450 million in assumed debt and leases.

Pro forma for the transaction, OCI will become a shareholder in Methanex with approximately 13% ownership. The transaction represents an implied multiple of 7.5 times based on our expectation of adjusted EBITDA at $350 per tonne methanol price, including expected synergies. We have obtained a fully committed debt financing package from Royal Bank of Canada for $1.2 billion and have structured the transaction to maintain financial flexibility and BB credit metrics.

The transaction is subject to certain regulatory approvals and other closing conditions, including OCI shareholder approval. There is a closing condition related to the Natgasoline portion of the transaction which I will discuss in more detail later in the presentation. We expect the transaction to close in the first half of 2025.

This transaction has strong rationale that aligns with our strategic pillars of low-cost leadership and operational excellence. The acquired assets are expected to add 30% to adjusted EBITDA and 20% to 30% to free cash flow and add scale and stability to our company due to their location in the United States with access to secure feedstock that places the assets in the bottom half of the industry cost curve.

The transaction metrics are strong with the acquisition cost per tonne being less than brownfield replacement cost on a reinvestment basis without the capital construction risk and timeline, with these assets bringing immediate strength to our cash flow position.

We've conducted extensive due diligence over this transaction and are very impressed with the investments that have been made in the methanol assets over time and with OCI's talented and experienced team and their shared values of safety and operational excellence.

We're very excited to bring our teams together on closing and expect that our shared knowledge and experience will drive improved operations which will enhance our global portfolio. We continue to strongly believe in maintaining financial flexibility and have structured this transaction with a focus on liquidity and maintaining strong credit metrics. We have a financing plan in place and are committed to de-levering to return our target leverage within 18 months from a closing at $350 methanol price.

Finally, the transaction brings to Methanex some low-risk diversification with the ammonia business, which is complementary to methanol, both in operations and as a low-carbon-fuel alternative. The HyFuels business provides an opportunity to enhance our skills and capabilities in the low-carbon methanol markets and developments of supply alternatives, leveraging their experience in this space.

Now, looking at some key operating and financial metrics. From a financial perspective, at a run rate of $350 per tonne methanol pricing and with an expected $30 million of annual synergies, we expect an uplift of $275 million in annualized adjusted EBITDA and $150 million in annualized free cash flow after de-levering, bringing us to a pro forma run rate of over $1.1 billion in adjusted EBITDA and $600 million in free cash flow.

This adjusted EBITDA run rate is underpinned by an increased North American asset position that supports our de-levering plan and is expected to increase long-term shareholder returns. This will position us well in the future to support value-adding initiatives and return excess cash to shareholders.

Now, taking a step back from the transaction to the overall outlook for the methanol industry. Third-party industry projections are for demand to outpace planned supply expansions and pricing to increase in the coming years.

On the demand side, demand is forecasted to grow at approximately 3.5% annually or over 17 million tonnes over the next five years. There is further upside to these demand numbers since these projections do not include demand potential for methanol as grey fuel (00:14:35).

On the supply side, we are expecting limited new capacity additions over the next five years and in addition, we're seeing current supply in a number of jurisdictions constrained by feedstock restrictions. The graph shows that significantly higher operating rates are forecasted to be required to meet industry demand, underpinning tight methanol markets and improved pricing.

This next slide shows a bit more detail about the asset. OCI Beaumont will be wholly owned by Methanex. This site has an annual production capacity of 910,000 tonnes of methanol and 340,000 tonnes of ammonia. Since 2011, OCI invested over $800 million into a full site refurbishment and debottlenecking.

The other Texas facility, also in Beaumont and operated by Natgasoline, is a joint venture in which Methanex will own a 50% interest. The Natgasoline plant has an annual capacity of 1.7 million tonnes of methanol, of which Methanex shares would be 850,000 tonnes.

This is one of the largest and newest methanol facilities globally.

Natgasoline is based on the same technology as our Atlas plant in Trinidad, and we have 20 years of experience operating this technology. The currently idled BioMCN plant in the Netherlands has an annual capacity to produce 1 million tonnes of methanol but is not currently in production due to unfavorable pricing for natural gas feedstock.

With this transaction, our business will have over 6.5 million tonnes of production capacity in North America. This provides a stable source of gas in a favorable location. Current gas prices are in the low $2 in mmbtu range with an attractive forward curve that provides our business with favorable position well within the bottom half of the industry cost curve. In addition, we believe there's opportunities to further integrate our operations and supply chain and leverage best-in-class processes to the benefit of the business.

This slide compares the acquisition of these assets to brownfield and greenfield replacement costs, and we estimate this transaction to be lower by 10% to 30%. In addition, this acquisition will provide immediate free cash flow and doesn't come with the capital construction risk or timeframe of a newbuild. OCI has significantly invested in its methanol assets and people with approximately $2 billion spent on capital investment since 2011 and has improved the operating performance of the assets since initial startup. We believe we can further leverage our combined experience to continue to improve the performance of the assets over time.

Now, looking at the diversification opportunity. The Beaumont plant has a 340,000-tonne ammonia line that will provide a new revenue stream for Methanex in an adjacent, highly integrated and complementary segments. In addition to financial returns, we think this modest ammonia diversification will introduce a new capability to Methanex and has potential to open up new markets as a low-carbon fuel alternative for power generation or as a marine fuel.

We will also be acquiring HyFuels, which is OCI's low-carbon methanol business, which produces and sells industry-leading volumes of low-carbon fuel alternatives. HyFuels brings with it regulatory and marketing experience and low-carbon supply capabilities. We expect this will be complementary to our existing low-carbon solutions function and help us realize further potential in this developing space.

I'll now turn to our CFO, Dean Richardson, to speak to the financial aspects of the transaction.

Dean Richardson

Thanks, Rich, and good morning. Methanex has a long track record of focusing on financial flexibility as a cornerstone of our strategy to ensure we maintain the business through periods of stress and aim for value-creating growth opportunities and ultimately return excess cash to shareholders.

We remain committed to this strategy and have structured the financing for this transaction to meet these objectives. We target investment-grade quality metrics, including leverage of 2.5 times to 3 times at a $350 methanol price.

We calculate these figures using our equity share of debt, including leases, and our calculation of adjusted EBITDA. We have a fully committed bridge facility of $1.2 billion and a robust financing plan in place. We plan to use a combination of bank term loan A debt and bonds to balance permanent and flexible financing.

At a $350 methanol price, we forecast we will return to below 3 times debt to adjusted EBITDA within 18 months from closing. Combined with our existing business, including G3, the addition of these assets provides stable production which is expected to add to our cash flows and improve bottom of the cycle (00:19:51).

Turning now to the maturity profile and liquidity. We have stress tested our financing plan under a number of scenarios, including through our trough methanol price cycle. We are planning an approximate 50/50 split between flexible term loan A and permanent bond financing.

The term loan A is expected to have a three- to four-year maturity with the bond extending beyond our current maturities. We plan to continue to hold the minimum cash balance of approximately $300 million and we'll be increasing our undrawn credit facility to $600 million upon closing. We are committed to maintaining financial flexibility and have structured the transaction for BB or equivalent credit metrics pro forma for the transaction.

Now, turning to capital allocation. Our first priority is to maintain our business through maintenance capital at our plants to enhance reliability and maintain a low-cost structure, servicing debt and maintaining strong liquidity through methanol price cycles. Next, we look to pursue value-accretive opportunities to improve our business and enhance cash flow capability.

We take a balanced approach to capital allocation and remain committed to distributing excess cash to shareholders through a sustainable regular dividend and flexible share repurchases. Since 2018, we have deployed $1.3 billion to build the G3 project while at the same time, returned over $1 billion to shareholders through regular dividend and share repurchases.

Overall, this transaction is consistent with our capital allocation priorities, maintain the business, grow the business with value-creating opportunities and return excess cash to shareholders.

I'll now turn the call back to Rich.

Rich Sumner

Thanks, Dean. We're excited by the cash flow potential of the combined business. On slide 6, we forecast at a $350 per tonne methanol price and using $3.50 mmbtu gas, we have the capability of generating $600 million in annualized free cash flow once we are through the de-levering period. And we would deploy this using our consistent capital allocation philosophy.

This next slide talks a little bit about our organizations. We have a clear path for manufacturing integration with common methanol plant technology, allowing for sharing of operational excellence to improve operation. Overall, we expect $30 million of annual synergies from logistics optimization and SG&A improvement and expect to achieve these by year two. We will be pursuing additional value by combining our operating expertise to improve methanol production and capital deployment as we integrate the plants into our global operations.

Moving on now to next steps. Regarding the Natgasoline joint venture, there is currently a legal proceeding in the court system between OCI and its joint venture partner over certain shareholder rights. While it is the intention of us and OCI to close on the entire transaction, if the legal proceeding is not settled before closing in favor of OCI, this portion of the transaction can be carved out.

If this were to occur, Methanex would have the option to acquire this asset up to a specified later date. Approximately 40% of the gross transaction and operating metrics relate to Natgasoline with the substantially all assumed debt from the transaction attributable to Natgasoline.

Regarding closing, the transaction has been unanimously approved by the boards of directors of both companies and is subject to the receipt of certain regulatory approvals and other closing conditions, including OCI shareholder approval. We expect the transaction to close in the first half of 2025.

In summary, we believe this transaction is very well aligned to our strategic pillars of low-cost leadership and operational excellence. This was an attractively timed opportunity for growth with the acquisition pricing well below replacement cost, with no construction risk and immediate cash flows and at a point, where there's a positive view of forward industry fundamentals.

These North American assets are positioned well within the bottom half of the industry cost curve and provide strength and stability to our global asset portfolio and to our run rate earnings and cash flow capability with further improvements available through integration. We are very much looking forward to working with OCI after closing to integrate our operations and teams and are confident the transaction will significantly improve our business and create long-term value for Methanex shareholders.

We will now be pleased to answer questions.

QUESTION AND ANSWER SECTION

Operator

Thank you. Your first question comes from the line of Steve Hansen with Raymond James. Your line is open.

Analyst: Steven Hansen

Question – Steven Hansen: Yes. Good morning, guys. Thanks for the time. Rich, what is your confidence that this legal matter can be resolved with the current JV partners? It strikes me that it's a piece of risk that's material in the context of the transaction value, roughly 40% of the gross transaction value, I believe. How should we be thinking about that risk and whether the position is as attractive if it does not go ahead? Thanks.

Answer – Rich Sumner: Yeah. Thanks, Steve. I think for us, what our intent, as we said here, is that we will close on the full transaction. The legal proceeding has commenced and obviously, we'll be following that closely. But our intent would be that we would close on the full transaction perimeter, and we think that we would see a favorable outcome for OCI in that matter. In the event it doesn't happen, we have the ability to carve out the transaction. And when you look at the metrics with OCIB as a business, we like OCIB as the Beaumont facilities, but clearly our intent is to have the full perimeter.

And I would mention that the synergies that we see we think they're substantially intact with OCIB, the Beaumont assets, but we also really look forward to the ownership in Natgasoline. And that technology is one that we've been operating for many, many years and we think that we can add value to that asset. So, our intent would be the whole deal and the whole transaction, but this is something that has to be settled out before we close.

Question – Steven Hansen: Okay. That's helpful. And just one follow-up on the operating performance of those assets historically. This is just going by lot of the trade (00:26:58) publications, but it feels like there has been some ups and downs in those facilities over time. How do you feel about the opportunity to improve that operating performance set, whether it's OCIB or Natgasoline?

Answer – Rich Sumner: Yeah. I'll talk to both of them. We've done extensive due diligence and OCI has put a lot of investment into these assets. The OCI Beaumont site was started up in 2011. They spent over $800 million in multiple site refurbishment and debottlenecking of that site at the steam reforming plant, and I think the reliability has increased over time.

When it comes to Natgasoline, I think it's gone through a number of equipment and design issues, but they've really spent a lot of time addressing the key issues in that plant. And we think that our combined experience can really improve the operations there. So, when we model the assets, we certainly gave credit for a lot of the investments they've done, but we believe where we've modeled the operating rates is below where we would target our US assets. And if we look at even a sort of a 5% improvement, which is at least where we'd be versus our targets, that's another 100,000 tonnes or $15 million in annualized EBITDA at the numbers we provided you.

So, certainly we would expect to achieve those. We haven't put any of those synergies into our numbers because we have focused on the things that we can do in the next few years, but we would be certainly in the medium to long term, looking to combine our experience and improve the assets.

Operator

Your next question comes from the line of Ben Isaacson with Scotiabank. Your line is open.

Analyst: Ben Isaacson

Question – Ben Isaacson: Thank you very much and good morning. Two questions. First one is on the regulatory environment. So, I think what you said that there's going to be 6.5 million tonnes of Methanex capacity in the US. If you strip out exports, how much of domestic consumption does that meet? And is there a risk that this transaction does not close due to anti-trust concerns? Thanks.

Answer – Rich Sumner: Thanks Ben. We have done – we have obviously looked at and reviewed this from a regulatory perspective. We think the methanol market is a 95 million-tonne market. It's a diversified market with plants all over the world and a lot of marketers. It's highly competitive. We don't see that this is going to be an issue for us to clear regulatory approval. I think when we look at (00:29:49) US, these are assets that serve all global markets, right?

So, this is certainly a very diversified market that's grown substantially over time. When you look at where we are today, almost 100 million tonne market is quite a bit bigger than that was – has been in the past. So, we're very confident in the regulatory position that we'll receive approvals. We'll have to file in the US, Europe and the UK, and we've estimated that that would clear sometime in the beginning of 2025.

Question – Ben Isaacson: Thank you. And my follow-up is on the ammonia piece. What's changed, Rich? I mean, if we go back and think, the company really hasn't been interested in ammonia for a very, very long time. And so, now you're adding this ammonia piece. Is this something that you want to build on? And where does this ammonia go? Is it going into the fertilizer market or is it industrial and how do you market this product? Thanks.

Answer – Rich Sumner: Yeah. I'll start with ammonia as a diversification opportunity. Ammonia has a lot of complementary benefits to methanol. This is ammonia line, obviously, that is taken right off of the syngas (00:31:15) OCI Beaumont plant. We think ammonia, this isn't a big shift in strategy. We think this is a low-risk way to build some capability and it does have interesting complementary skills as it relates to operations, but also from marketing with ammonia as a potential alternative low-carbon fuel, both in power generation as well as in marine fuel.

So, we think that this is a real opportunity for us to test it. To answer your question where is the product going, it's mainly to industrial. It's interesting that this ammonia facility is right next door to the clean ammonia project that OCI just sold to Woodside Energy, and that there will be a lot of investments in infrastructure around carbon capture and sequestration. We also think there's opportunities around blue hydrogen and other utilities that provide some optionality for future investments there. So, yeah, we're interested in exploring it. We think this is a low-risk way to do that and it's an interesting part of the transaction for us.

Operator

Your next question comes from the line of Josh Spector with UBS. Your line is open.

Analyst: Joshua Spector

Question – Joshua Spector: Yeah. Hi. Good morning. I guess, Rich, just at a high level, I guess in the context that Methanex overall has gotten a pretty good degree of push back for the last few years for building G3, that was at $800 a tonne cost. You're acquiring this for a higher value and your shares trade meaningfully lower than both of those numbers. I guess how do you decide that this is the right thing to do with shareholder cash to acquire these assets versus buybacks or something different?

Answer – Rich Sumner: Yeah. Thanks Josh. So, I think maybe first start with this acquisition versus a brownfield project. I think the primary difference here is that we acquire these assets with immediate cash flows. There's no construction risk or timeframe. So, we do think that's a big push back as it relates to new builds is the risk you carry with those projects.

As it relates to how you determine is this the right thing to do relative to use of capital. I think when we look at our market valuation and we look at the market valuation of our company at, say, at $45 to $50 share price, we would say that that's probably a 6.5 to 7 multiple based at $350 methanol price for today's price.

And when we look at the makeup of that valuation, we think that that's across the whole portfolio. But when you look at the individual parts of that, we would say our US assets are attracting the highest value and the highest multiple. And we're on track – we are acquiring this at a very comparable value multiple to what we think our US assets are trading in our current market valuation. So, we think that that's a good relative value for shareholders. And if you're buying back shares, you're effectively buying back that same value but not improving the business long term.

We think there's a lot of improvements we can get from these assets today as well as into the future as we combine our operating experience and really leverage these assets. So, yeah, hopefully that answers the question.

Question – Joshua Spector: Yeah. No, it's a helpful way to think about it. And I guess just as a follow-up on a downside scenario, maybe it's for Dean or whoever can answer is, so you guys published your methanol pricing scenarios for Methanex. If you have $300 a tonne methanol, you'd have maybe $500 million in EBITDA you've indicated. I imagine for these acquired assets similar math, maybe it's a couple hundred instead of $275 million. So, where I'm going is you end up quickly getting to 5.5 to maybe 6 times EBITDA if we retested that $300 methanol scenario. I guess what gives you comfort with that degree of leverage, how can you manage that and get free cash flow to de-lever in that scenario? And is there anything you could see covenant-wise maybe developing around that that's something we should be watching out for?

Answer – Rich Sumner: I'll let Dean answer that.

Answer – Dean Richardson: Yeah, sure. Thanks, Josh. And you're right, there are various scenarios that we look at. To us, leverage is one that we have talked about today, but our financial strategy includes – mainly a low-cost structure would be our number one pillar, making sure that at a trough, methanol price below $300, we're actually able to sustain cash flow positive operations. That's our number one focus and then we look to liquidity and having ample liquidity. So, you're right, while our leverage does get elevated during those periods, that's not where we see a structural spot in the industry. And so, we focus on multiple pillars to get through that, and low cost is definitely number one that we look at.

Operator

Your next question comes from the line of Evan McCaul with BMO Capital Markets. Your line is open.

Analyst: Evan McCaul

Question – Evan McCaul: Hi there. Evan here on for Joel Jackson. The Natgasoline assets end up being excluded from the transaction. How are the consideration paid to OCI adjust? So, for example, will the 9.9 million shares still be issued? And therefore, what Methanex paid (00:36:54) contribute less cash to the deal?

Answer – Rich Sumner: I think you can think of it as fairly proportionate. So, in the event, and again, this is not the intent of the deal. But in the event that this were to be carved out on closing, then you can think of the proceeds being basically proportionate to the 60/40 split that we're providing.

Answer – Dean Richardson: The only other point I would make on that, Evan, is that substantially all of the debt assumed in the transaction relates to Natgasoline. So, that is a factor as well. But from an overall consideration on the growth side of thing (00:37:38) 60/40 split. So, would affect what financing we would need to bring to the table.

Question – Evan McCaul: Okay. Thanks. Thanks for that. And just another question here. Could you please confirm the lock-up period for OCI and why wasn't it made a little bit longer?

Answer – Rich Sumner: The lock-up period, I mean, right now, we would say that there are certain rules in Canada and the US where there will be some restrictions on selling shares, and then we provided standard, call it, customary lock-up and standstill provisions within the agreement. So, yeah, no, it's all pretty customary in what you would expect from a transaction like this.

Operator

Your next question comes from the line of Laurence Alexander with Jefferies. Your line is open.

Analyst: Laurence Alexander

Question – Laurence Alexander: Can you hear me? Hello?

Answer – Rich Sumner: Yes. Now, we can.

Question – Laurence Alexander: Sorry about that. I was wondering about the plant in the Netherlands. I know it's idled now. I was wondering how much it costs to kind of just maintain its idle status and if it's something you would consider potentially decommissioning or selling if things don't improve in that region.

Answer – Rich Sumner: Thanks, Laurence. We haven't made any decisions in that regard here yet. We don't – the annual cost today is pretty light because there's not – it's not operating today. We are going to look and watch and see what optionality we have with natural gas prices in Europe.

The other thing that OCI has done is explored a lot of alternative feedstock and other technologies for the site. So, we're going to come to learn and understand that better but we haven't made any decisions in regards to the longer term yet today. So, it does seem difficult to on a restart based on gas prices in Europe but it's something we're going to look at closer as we move closer to closing the transaction.

Question – Laurence Alexander: Great. Thank you very much.

Operator

Your next question comes from the line of Roger Spitz with Bank of America. Your line is open.

Analyst: Roger Spitz

Question – Roger Spitz: (00:39:55) deeper into the nature of the Proman lawsuit against OCI, for instance, because this consolidated energy have a ROFO or a ROFR. Is that the issue or is there some other, I mean, what's the suit about?

Answer – Rich Sumner: I don't think we'll get into the legal specifics here. This has to do with shareholder rights that are important for our transaction. We do expect that that will be played out in the courts and maybe more details provided, but it has to do with shareholder rights that are important. And again, I think this is an important one that will be cleared up that we think and favorably to allow us to move forward.

Question – Roger Spitz: Got it. Thank you very much.

Operator

Your next question comes from the line of Mike Leithead with Barclays. Your line is open.

Analyst: Michael Leithead

Question – Michael Leithead: Great. Thanks. Good morning, guys. Can you speak to what HyFuels brings to Methanex and how you're approaching integrating this? And I think OCI had previously talked about low CapEx ways to rapidly expand its low-carbon methanol capacity. Is that something of interest to you?

Answer – Rich Sumner: Absolutely. I mean, we think OCI has been at this for nine-plus years in the low-carbon methanol business. They are selling industry-leading volumes today. So, around 150,000 to 200,000 tonnes. This is mainly into the UK road transport market, but they are also selling into the marine sector.

Most of this volume today is off of renewable natural gas contracts. These contracts are likely difficult to replicate as we go forward because they are legacy gas contracts and pricing in the R&G markets is a lot higher and has gotten increasingly competitive, but there's a lot of work that's been done by OCI at their different sites around different feedstocks and technologies.

So, we think that this is really going to be about enhancing our capability in marketing and regulatory expertise as well as opening up different supply alternatives. And I did mention the ammonia line and the fact that there's a lot of opportunities that we can evaluate there, too. So, we're looking forward to really enhancing our low-carbon solution so that we can advance in this developing area.

Question – Michael Leithead: Great. Thank you. And then I just wanted to follow-up on the transaction financing. I guess your cost of debt is somewhere around 5% to 6% and your cost of equity is presumably a bit higher than that. So, can you speak to how you approach, including an equity piece to the transaction here at, say, $40 a share versus just paying an all cash and debt?

Answer – Rich Sumner: Well, I'll speak to. Dean, if you want to add in. When we looked at financing the transaction, our first priority is to maintain a conservative balance sheet. So, we looked very closely at what we felt comfortable with in terms of the free cash flows of the combined company and a de-levering plan that would maintain our conservative leveraging and get us back to where we want to be in a short timeframe. The equity component we think is a really attractive part of the deal where we are, on a relative value basis, acquiring assets at attractive time in the market and I think we have good alignment with OCI about the strength of the combined business and the attractiveness of the methanol industry going forward. So, I think it's a balanced approach we took and we're happy with where we landed from a financing perspective.

Operator

This concludes the question-and-answer session. I will now turn the call over to Rich Sumner for closing remarks.

Thank you for joining our conference call today and we look forward to speaking with you in November when we will report on our third quarter 2024 results.

Operator

This concludes today's conference call. We thank you for joining. You may now disconnect your lines.