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EDITED TRANSCRIPT

EMN.N - Eastman Chemical Co at JPMorgan Industrials Conference

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CORPORATE PARTICIPANTS

William Thomas McLain *Eastman Chemical Company - CFO & Senior VP*

CONFERENCE CALL PARTICIPANTS

Jeffrey John Zekauskas *JPMorgan Chase & Co, Research Division - Senior Analyst*

PRESENTATION

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Hi, good morning. My name is Jeff Zekauskas, and I cover chemicals for JPMorgan. And this morning, it's my pleasure to introduce the management of Eastman Chemical and welcome them to our 2022 Industrials Conference.

Representing the company is Willie McLain. And Willie is the Chief Financial Officer of Eastman, and he's been in that role since February 2020. As you know, Eastman has purchased assets, sold assets, reformulated their balance sheet, and Willie has been right in the middle of all of that. The form of our presentation today will be a fireside chat.

QUESTIONS AND ANSWERS

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Willie, we'd like to welcome you to the conference. Has Eastman changed over the past 5 years? Is it a different company from what it was? Or is there great continuity from what Eastman was like?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

Well, first of all, thanks, Jeff, and glad to be here in person today. It was back in December when we had our Innovation Day, which is where we highlighted, I'll call it, many of the things that we've been undertaking to transform Eastman to a sustainably driven materials company.

And as Jeff has highlighted, part of that comes through portfolio transformation. Obviously, earlier this year, we've announced where we've divested our tire business as well as in the process of divesting our adhesives business. So still driven by returns and return on investments.

We also highlighted that we've been focused on an innovation-driven growth model. That model centers around technologies, also taking those technologies and being very close to our customers and our customers' end markets and then transforming those into value-driven applications and understanding what makes our customers successful so that we can be successful.

And as you think about playing that forward, doing it in a macro trend way. So as you think about sustainable-driven macro trends, that has been core to who Eastman has been for over a decade. If you think about transforming and creating Tritan and taking Tritan to replace BPA products in the supply chain.

Now we're taking sustainability to another level as we think about taking our technology and providing solutions such that waste can be turned into a feedstock. And this is materials to materials as we think about this.

At Innovation Day, we highlighted our project in Kingsport, Tennessee, which is focused on building a 100,000 metric ton plant, where we can take feedstocks that would go to waste or incineration and convert those into raw materials that allow us to have renewable products on the shelf in a truly circular fashion.

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And it's not only important that it's circular, but it's also from an environmental standpoint, reduces the greenhouse footprint. And that's a key criteria for us as anything that we do in innovation must be sustainable and improve upon the footprint that exists today through traditional technologies.

So I would say we're very different as you think about our history, where we've divested underperforming assets like PET, like tires, like adhesives, acquired Solutia and optimized the portfolio where we can differentiate and create values uniquely that also make our customers successful, driven by returns as we think about the CFO and the focus on cash at Eastman and high returns.

And we think those investments in the circular economy are now ripe because society, which includes each of you in the room, is dictating improved solutions. And Eastman is capturing on that. So I think that's very different than the traditional Eastman and the historical valuations that we've had in the past or we're going in the future.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

So I think that the technology that Eastman highlights is something called molecular recycling. And Eastman is a company with a very long history of -- in that -- in the old days, it was part of Eastman Kodak. Can you talk about the history of the molecular recycling technology? Is this something which is very new to you? Or has it been done at any scale in the history of the company?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

Thanks for the question because we are rich in technology. And I would say Kodak in its prime was about innovation. What I would say is you can never stop innovating. If you stand still, you will lose ground. And ultimately, that's how we're playing this forward.

We have celebrated our 100-year anniversary in 2020. We have actually been, I'll call it, in the -- operated at 40,000 metric ton facility for over 30 years. So we have practiced materials-to-material recycling on a commercial scale. This is not a lab scale. It's not a pilot plant scale. So scaling up from 40,000 met tons and the modular aspects of what we're doing enable us to be successful.

It's not only that, we've actually been in polyesters for 70 years. We've been in specialty polyesters for the last 50 years. And if you think about the differentiation and the scale that you've seen in the performance of our Advanced Materials segment, prior to COVID and now it's returned to that, we had a decade of year-over-year improvement.

And that's through innovation, connecting to our customers and driving those application outcomes and then 100 years of building plants and operating them safely. So that's the tradition and how we're uniquely advantaged as we think about material-to-material recycling in the space.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

So the technology in a sense is not new to Eastman, and it was practiced in the old days with Kodak, I think, with x-ray film. Is that correct?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

Correct.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Yes, exactly right. That is -- it was a way of taking old x-ray film and then creating new polymer from it, yes?

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William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

Very much so, yes. And if you think about what we've been able to do, yield is obviously always a question within the space. And we've practiced it long enough that we have, I'll call it, 93% or above yield as we take polyester in and create DMT and ethylene glycol as an output of that process.

So as you think about that, we've not only practiced to make it successful, but the yields that we've already demonstrated ultimately will make sure that this is a strong investment for Eastman, but also for society in those key brands. Ultimately, brands and society are what's dictating this technologies right now. We have looked at these projects in the past. And ultimately, it takes economics to be successful in value creation and cash flow.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

So you're building your first facility now in Kingsport. Why did you choose Kingsport as the first site for your -- sometimes it's called methanolysis, sometimes it's called molecular recycling. Why Kingsport?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

I think for those that don't know Eastman well, what I would highlight is Kingsport is our largest manufacturing site operations. It also has 3 of our key streams. So our acetyl stream, our polymer stream as well as what we call our cellulosics, where we bring that all together.

Within that, we have a scale to make this successful. So -- and also we can leverage, I'll call it, the integration of that site, which is so key in its long heritage. If you think about utilities and infrastructure, that already exists at our Kingsport site.

So one, speed to market was key because of the success with the trials that we've been doing with our interim processes that we're using. We needed to do it quickly. We need to do it at scale. And also, we can take advantage of the molecular recycling with the polymer side along with the carbon renewal through our acetyl stream.

So most of the waste product that we'll be bringing in as feedstock can go through the molecular recycling for polymers. And anything that's left over for the most part except PVC can go over to our acetyl stream.

So we can take advantage, prove it at scale faster and also meet the needs of our customers and the time horizons and the commitments that they have for 2025. So that's the key to the success. And it will enable the second and third projects that we've talked about. The one that's been announced earlier in January is our project in France.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Yes. So in Kingsport, my understanding is you'll expand your Tritan copolyester capacity.

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

That's correct.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

And some of that will be involved with this new molecular recycling technology that you have. So the -- what happens to these, call them recycled molecules? Are they in products that are 100% of this nature, are they a small percentage? Or how does Eastman think about extracting or accruing the most value from what you're doing right?

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William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

So one, it's understanding the applications and the customer needs and desires, but it will be a range of options. So if you think about, let's say, benchmarking around 50% of our product is recycled as a starting point, with the capacity that we're bringing online, effectively, you could bring on 150 million to 200 million tons of capacity for the derivatives like Tritan as an example.

So we actually see bringing the renewable in the circular process to bear will actually accelerate the fill out of our polymer lines. And that's highlighting the need to make investments in Tritan at this time to ultimately match the demand that we see for our specialties, both here in the U.S. but also importantly around the world as we think about the project in France and beyond.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

And in the project in Kingsport, I think that you're in the process of completing the facility and the expansion of Tritan. Does all this get done by the end of the year? And if it does get done by the end of the year, what's the level of output in 2023? Does it take a while to ramp up? Or does it ramp up very quickly? How do you assess that?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

Yes. So how we assess it is, obviously, the days that we put out there is around mechanical completion. So that's the physical construction of the facility, both for first methanolysis, and then it will be followed by our Tritan lines. The Tritan lines, I would expect in 2023.

There will be a, I'll call it, a start-up phase. I typically think of that as across the first couple of quarters as we think about that midyear timeline of having everything fully operational for commercial scale.

Then again, what we're doing is we have demand right now that's pent up that we can serve. And we expect to sell that out, I'll call it, faster than a traditional chemical plant, more in line with the success that we've had around our Tritan facilities. We've done 3 phases of Tritan. And with each phase, actually, the momentum and the success rate of fill outs has been faster with the success of capacity addition.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

So my memory is that you're investing about $425 million and that you think you'll get a 15% after-tax return. So when I do the numbers, I get about $100 million in EBITDA. Now maybe you'll achieve more. But order of magnitude, is that the sort of thing you're thinking of for this project?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

$100 million, $125 million.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

And it would be split -- you get that $125 million more in maybe 2024, and you've got, I don't know, half or something like that or some percentage of that in '23?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

We're not going to give the specific fill-out timelines. But yes, I would say 2024, it will be...

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Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

We're just talking rough numbers. I'm not trying to crowbar anything specific.

And your second plant is in France. How did this plant arise? Was the idea brought to you by an investment banker? Or did Mark find it? Or how did the project come about?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

I guess the thing that I would highlight again, first and foremost, I think you've seen all the brands that we've been dealing with. And there's brands that have been creating demand for this. So we were looking broadly across Europe.

But as you think about France and why France, one, they've done a great job of recognizing the speed at which change needs to occur and being a mover and being very supportive across the country if you think about the infrastructure that they've put in place to one, handle the waste. Also important is the renewable energy as you think about the different forms of renewable energy and the investments that they've made there.

And also, they're looking to accelerate through supporting projects like the project that we're working on. So that combination, along with the broader infrastructure in Europe for feedstocks so that we have optionality for both feedstocks from France but the broader EU.

And on a scale basis in France alone, there's 600,000 metric tons of feedstock. Most of that today is going to waste and incineration. Also, the EU has about 10x of that. So feedstock has been a question in the U.S. Here, it's more of what's -- as you think about what's the business model that we will undertake and unfold.

You've got some key brands. We've highlighted LVMH and others that have come along. And they're supporting that, and they want assets in country to support their brands to go globally. So many of the momentums that you need for a successful project are ripe for execution and again, execution on a timeline that is more accelerated.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

I always get a little bit muddled as to how much capital this project require. Is it $1 billion or $700 million or maybe at $700 million in the beginning and $300 million later? Can you help us at all with this?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

Yes. So one, I'll first highlight the press release that we gave for the project. So we said this could be up to $1 billion over the long term. And the long term is we're also looking to grow our specialty footprint in Europe for products like our copolyesters.

Also, we'll be investing in research centers, which will also drive future innovation and future needs or the combination of supplying the packaging market but also importantly for those brands as growing in the more specialty areas.

As we talked about at Innovation Day, a base project is in $600 million to $800 million. For this as a starting point, I would say, $800 million is the initial phase and sizing of this project and would expect it to grow over time as we, again, continue to focus on the mix upgrades for the specialty markets versus a focus here, which we do want to serve is that packaging end market as it looks to create a circular economy as well.

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Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

So by the packaging market and the specialty market, specialty means things like Tritan, and the packaging market means PET for packaging applications. So there's a specialty in a commodity dimension.

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

Yes. And as we think about the PET side, we've talked about our business model, and that business model being that there is an issue with plastic waste. And the way to solve that is we have a solution.

We can help brands, we can help producers meet their sustainability commitments. But we're going to do that in a manner that produces a return on the assets. We're not going to be volatile to the either the input side or the capital as we think about inflation in the capital market.

This is something that we view the economics are very attractive as you think about potential extended producer responsibility as well as you think about recycled PET disconnecting from PET connected to feedstock.

So in many ways, our model that we're working on with certain brands could actually produce a more stable than being exposed to that disconnect between recycled and feedstock in the long term.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

What is the split? Or is it too early really to know the split between specialty and packaging at a facility in France? That hasn't been built, right, or the site hasn't been found?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

I appreciate that. To your point, we outlined milestones that we still have, including site selection, I'll call it, the end product mix. But you can think about on the front end, more packaging progressing its way towards more specialty and as we initially start the project in France.

There's other projects that we highlighted, a third project specifically that could be in North America that would be more packaging PET-oriented. And that would be, again, a different model with fewer customers involved.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Do you expect the returns in France to be as high as the returns in Kingsport?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

Now I think what we've highlighted the Kingsport plant one, benefits from the scale that we have at the site. Two, it also has the benefit of fully going into specialty assets that exist and/or we're currently building.

So you can expect the returns to be greater than 15% ROIC in Kingsport. What we're modeling and what we see right now is greater than 12% as you look at ROIC for the project in France and the packaging project.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

So Eastman is getting back into the PET business but in a circular fashion.

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William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

I would say...

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Is that right?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

We have a circular business model that provides a solution for a circular environment. We're not getting back into the PET business. I'm happy to say that I was part of divesting that back in 2010 and 2011. And we've never looked back.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

So when you make the PET or the packaging material, there will be elements of that, that will go into PET and then the customers can say, this has a recycled content? Or would it be sold in a pure form of pure molecularly recycled form?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

Yes. So the way I would frame it is, ultimately, they're buying the circular nature or the credit that comes with those products. If you think about the DMT or the EG that's produced from our methanolysis project, then they're identical to that of the product produced from feedstock. So there's no differentiation.

So that's the great thing with customer also being able to not have to recertify and accelerate the adoption into their markets and market spaces for those that are willing to pay for that. And we see increasing demand.

Again, a focus on ours has been how do we find those that are willing to move faster, and we've ceded that market. And ultimately, we've done substantial -- our customers have done substantial price testing, right?

You can find Eastman Renew, Tritan Renew products that are on the shelves today. And the brands, in some cases, for renewable products are charging premiums of 25%. Again, demand is what's creating this in that macro trend. And we're excited to be the solution provider that creates value for society, our customers and importantly, also our employees and shareholders.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

So when you build this plant, when might it be completed? Or is it too difficult to determine that yet?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

I think there are time horizons, and we would think in the 2025 time horizon is when a plant like this could be completed.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

So if it's completed in '25, half of it is ramped in '26, it's fully ramped in '27 order of magnitude. Is that right?

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William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

I think that's a reasonable decent horizon for this project.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

And when I do the math, I get, I don't know, a minimum of $135 million in EBITDA. Is that what you get for this?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

I would actually get a little higher than that. But again...

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

I always get lower numbers than I should. So...

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

But again, we see that with a project of this scale, $800 million growing to $1 billion in France. You think about ultimately, the return level being greater than 12%, so whether it's in the 13% to 15% range.

This is going to lead to across 3 projects, $450 million of EBITDA. And to your point, I look at investing $2 billion to generate $450 million of EBITDA as a wise investment that has lots of options and pathways of being successful.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

And you want to build a third plant. Is the third plant in the United States? Or is it offshore? And why do you want to build a third plant? Is that your customers have come to you and said, there's really demand for this product, and you think that you can sell it? Or do you have a different idea?

And what do you need to determine in order to get to the point where you can say, "Oh, we want to make this kind of investment."

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

So on the third project, it would be in North America. We, again, are looking at multiple locations. The key is, yes, there is demand. Customers and brands are coming to us for solutions.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

I'm sorry, these are multiple locations in Tennessee or multiple locations in the United States?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

In the U.S.

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Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

In the U.S. Okay. Yes.

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

So as you think about this, this is demand-driven, and brands are coming to us as they look to be on track to hit their milestones and commitments. I would expect -- the key thing as we look forward is the commercial arrangements have to be in line with what we've outlined as you think about a third project leaning more towards the packaging and PET potentially.

So when we bring that forward, there will be clear timelines, clear contract solutions as we move forward.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

So when you talk about the financial returns, I take it that, that means over a cycle because in the business climate, some years, there are recessions and volumes decrease. And different things change with utilization rates, whereas in more prosperous times when utilization rates are high, the returns are higher. Is that fair as far as your project goes that this is a return over a longer period of time?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

So I would highlight 2 differences, right? So as you think about Eastman and where we're investing our capital into the specialty businesses and specialty returns, yes, we're willing to take that risk. As it comes to the business model for a circular solution for PET and packaging customers, we're not taking that risk on.

So the demand risk we're looking at would be more oriented towards a return on investment model. And then ultimately, they need to plan their volume and commitment needs around a base that the circular is first priority.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Okay. And you said that you would spend $2 billion roughly. And because one of the facilities is coming on by the end of this year, it's really maybe more like $1.6 billion. And so maybe you would spend it over a, I don't know, a 4-year period. So maybe that's an additional $400 million a year in CapEx. So should we take your CapEx and add $400 million to it? And maybe we get some -- a range between maybe $1 billion and $1.2 billion or is that too much?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

Actually, in this case, Jeff, it's too much.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

It's too much.

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

Yes. So as you think about this year, we're spending roughly $200 to $250 as you think about the growth in our businesses. Approaching $400 is probably right. But we think being around 700 plus or minus a little bit over the next...

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Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

All in.

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

3 to 5 years.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

$700 with $400 million in roughly annual expenditures for this. So your maintenance is 300. Is that it?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

$300.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

And this is where all your growth capital is going pretty much.

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

Again, today.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Today.

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

As you think about capital allocation, we're putting it in both Tritan, which is the polyester downstream for the specialties as well as the methanolysis. This year, that number is going to be $200 million to $250 million of our CapEx at $700 million mark. So if you use your $400 million, you're in a band of, I'll call it, $600 million to $800 million, I believe, depending on the environment and the pace of projects.

And we would update that. And I hope, ultimately, if successful, we will be updating that such that the number does go higher. But based on what we see right now, $700 plus or minus is where we see it over the next several years.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Okay. Maybe what we can do now is turn to current business conditions.

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

Okay.

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Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

I guess, first, you had a plant outage in Kingsport. And there was a -- there's a range of time until that plant would come back up. What was it that went down? And how is that plant coming back up or that complex?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

Yes. Thanks for the question. And maybe just for those in the room and on the phone that don't know as closely, I'll give a little bit more detail. So at the end of January, January 31 at our Kingsport site, which I've highlighted earlier, is our largest manufacturing operations.

We had a steam pipe failure. As our safety protocols dictate, we actually brought the Kingsport site down completely as our safety protocols dictate. Also, unfortunately, in the incident, only minor injuries over 7 employees and contractors. As you bring down a large site like that, that's first priority.

So again, safely brought it down. Within a couple of weeks, we had the majority of the site back up and operating, the exception being our polymers area, which we had highlighted and we expected it would take us roughly 4 to 6 weeks to one, stabilize, repair and bring back up the operations.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

What do you mean by your polymers area? Can you be a little bit more specific?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

So specialty polymers, so primarily in our Advanced Materials segment and our specialty plastics. So you can think about our copolyesters as well as...

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

So Tritan, auto plastics, that's the...

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

Correct. Thank you for the clarification.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Sure, yes.

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

And as we think about where we are today, we see that it's going to take us a little bit longer. So it's probably going to be about 7 weeks overall before we're finalizing that.

Now the one thing that we did do is accelerate our spring turnaround in our specialty plastics and polymers business that was scheduled for about 4 weeks. And we are on track to successfully complete that while we're making the repairs.

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So focused first on safety; second, minimizing the impact to the customers and our supply chain and then the overall business financial impact. So that's where we're sitting here today.

So one, I want to thank the employees and the Eastman team and our contractors for quickly adapting to inspect, to repair and bring back up to stable operations. They've done a great job in a short period of time.

And for many of you, you know accelerating a turnaround is no small endeavor. So that's where we stand operationally and expect to be up and running normally within about a week at this point.

As you think about the financial impacts and implications of this, I estimate today that, that's probably between $100 million and $110 million of impact in Q1. As you think about that, most of that was from, call it, roughly half and half fixed cost because we're not producing, and you have the extra maintenance that we pulled into the quarter. And the other half is around timing related to pulling the turnaround forward as well as some lost sales in Q1 that we would expect to pick up much of that as we enter into Q2 and the second half of the year.

So all in, when you consider all of this, the range that we gave, we expect to come in towards the bottom end of the $2.05 to $2.25 range that we gave in early February. Now I would also like to give maybe a couple of comments around Q2 and the full year.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Q2 or Q1?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

Q1 and also bridging to Q2.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Okay.

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

So as you think about Q1 broadly absent the event, I would say, strong demand has persisted. Also, we've been able to deliver on the innovation-driven growth to date in Q1. And importantly, we made some pretty strong commitments about spreads and the price increases and the pricing actions that we were taking in the back half, specifically in Q4 in our specialties. And those are on track with the guidance that we gave in January.

Pivoting that and bridging to Q2, we're going to be building on what we believe continue to be pretty strong fundamentals that we see in Q1. And also, if you think about the impact of the event, that's approximately $0.65.

So if you take the low end of our range, Q1, absent this event, was very strong. Ultimately, $2.70 to $2.75 is where we see it. And as you would expect in Q2, we have building upon the innovation growth and the traditional sequential improvement. Again, we see a strong start to the year and strong fundamentals underlying this.

And if you look at those into the second half of the year, we still feel solidly on track to the $9.50 to $10 range that we gave but also recognizing the uncertainties that come with the Ukraine war as well as COVID in China. In the near term, we haven't seen any major implications in our markets or supply chain and demand from either of those.

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Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

So the auto markets, I think maybe IHS cut its auto production forecast, but maybe their production forecast was too high to begin with, right? But it seems that the auto markets are weakening a little bit. Because your plants have been out and they're back orders, does that really affect you? Or is your outlook for Advanced Materials a little bit more challenged for this year in terms of demand?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

Sure. Great. So one, auto market, I do believe we were -- had a little more modest expectations than IHS to start the year. The great thing as we think about our OEM exposure, and that's primarily in our Advanced Materials business, as you think about Advanced Materials overall, we're roughly 30% in the transportation market.

Interlayers and our advanced interlayers, we're more exposed to the OEMs, and our films a little bit more to the aftermarket but broadly to new production. As we see it, the great thing in our interlayers business has been our innovation growth, our heads-up display, our acoustics, our solar.

So as you think about bringing those to markets where we're aligned with the automotive is they're trying to produce the most valuable car and truck that they need to optimize. And we're a key part of that solution as you think about also EVs and light-weighting and the security facets of that.

Our technologies, our products and the applications that we can deliver ultimately are driving success and have allowed us to grow and offset some of these headwinds that we're seeing.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

So when I take a step back and I look at the world today, I think, well, ammonia prices are higher, methanol prices are higher, paraxylene is probably jumping. And when you look at your sort of raw material inflation, is it running meaningfully higher than what you expected or not so much because of either hedging or inventories that you've built? How do you view that?

Or do you think you -- or it's running higher, but you think you can offset that with price?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

So to your point, I would say inflation is running higher. Obviously, we said Q4 is how we project it to run through the year at those types of levels. But we have taken pricing actions that could give us, I call it, a level of security and delivering our guidance above those levels modestly.

As I see it right now, ultimately, the inputs and energy and crude and some of the feedstocks are going higher. Our businesses are actively managing this almost as a continuation to what we had done in the second half of last year and the pricing. So we're delivering on our specialty pricing front and the $100 million of tailwind that we said we would have in Advanced Materials as a result of that.

And also, we're, I'll call it, being highly focused and increasing prices here for April 1, some in March, some in April. Demand has been strong and solid. And we're deferring and focused on pricing in this inflationary environment in the near term. So being successful, staying focused and also optimizing our mix as we also think about achieving those successful outcomes. And we think as we go into Q2, we will be able to keep up with inflation.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

And maybe a last question. You still have large share repurchase aspirations for 2022. Is that correct?

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William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

That's correct. So again, as we committed, we will put the proceeds to work. We expect and we are still on track to close our adhesives transaction here at the end of the quarter. And all in, we said $1 billion or greater share repurchases this year, and we've got another $400 million. We'll see how our bolt-on pipeline and opportunities come to bear. If we don't put proceeds to use there, we will definitely look at additional share repurchases.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Okay. Thank you very much for your presentation, Willie. I hope you come back next year, and we'll see how this molecular recycling plant does.

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

We look forward to highlighting our success and progress.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Okay. Good. Thank you very much for your attendance.

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