THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

EMN.N - Q2 2020 Eastman Chemical Co Earnings Call

EVENT DATE/TIME: AUGUST 04, 2020 / 12:00PM GMT

OVERVIEW:

Co. reported 2Q20 results.

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

CORPORATE PARTICIPANTS

Gregory A. Riddle *Eastman Chemical Company - VP of IR & Communications*

Mark J. Costa *Eastman Chemical Company - Chairman & CEO*

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

CONFERENCE CALL PARTICIPANTS

Aleksey V. Yefremov *KeyBanc Capital Markets Inc., Research Division - Research Analyst*

Angel Octavio Castillo Malpica *Morgan Stanley, Research Division - Research Associate*

Benjamin Isaacson *Scotiabank Global Banking and Markets, Research Division - MD and Head of Commodity Research*

David L. Begleiter *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*

Frank Joseph Mitsch *Fermium Research, LLC - Senior MD*

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

John Ezekiel E. Roberts *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst, Chemicals*

Kevin William McCarthy *Vertical Research Partners, LLC - Partner*

Laurence Alexander *Jefferies LLC, Research Division - VP & Equity Research Analyst*

Matthew Porter DeYoe *BofA Merrill Lynch, Research Division - VP*

Michael Joseph Sison *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Patrick Duffy Fischer *Barclays Bank PLC, Research Division - Director & Senior Chemical Analyst*

Prashant N. Juvekar *Citigroup Inc., Research Division - Global Head of Chemicals & Agriculture Research and MD*

PRESENTATION

Operator

Good day, everyone, and welcome to the Eastman Chemical Second Quarter 2020 Conference Call. Today's conference is being recorded. This call is being broadcast live on the Eastman's website, which is www.eastman.com.

We will now turn the call over to Mr. Greg Riddle of Eastman Chemical Company, Investor Relations. Please go ahead, sir.

Gregory A. Riddle - *Eastman Chemical Company - VP of IR & Communications*

Thank you, Brian, and good morning, everyone, and thanks for joining us. On the call with me today are Mark Costa, Board Chair and CEO; Willie McLain, Senior Vice President and CFO; and Jake LaRoe, Manager, Investor Relations. In case you missed it yesterday after market close, in addition to our [second] (corrected by the company after the call) quarter 2020 financial results press release and SEC 8-K filing, we posted slides and related prepared remarks in the Investors section of our website, which is www.eastman.com. We've continued this practice from the first quarter, and I hope it continues to be helpful to you.

Before we begin, I'll cover 2 items. First, during this presentation, you will hear certain forward-looking statements concerning our plans and expectations. Actual events or results could differ materially. Certain factors related to future expectations are or will be detailed in the company's second quarter 2020 financial results news release, during this call, in the preceding slides and prepared remarks and in our filings with the Securities and Exchange Commission, including the Form 10-Q filed for first quarter 2020 and the Form 10-Q to be filed for second quarter 2020. Second, earnings referenced in this presentation excludes certain noncore and unusual items and use an adjusted effective tax rate using the forecasted

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

tax rate for the full year. Reconciliations to the most directly comparable GAAP financial measures and other associated disclosures, including a description of the excluded and adjusted items, are available in the second quarter financial results news release, which can be found on our website in the Investors section.

With that, I'll turn the call over to Mark.

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

Thanks, Greg. Before we turn it over to questions, I want to take a few minutes to make some comments. The first half of 2020 has been unprecedented, given the serious threat to health and safety, the reminders of racism and the need for positive change, the incredible amount of economic volatility and the lingering uncertainty that confronts us all. I'm grateful to the healthcare community, our first responders, along with government local leaders who are helping at this difficult time.

As importantly, I want to thank the women and men of Eastman and their families, who continue to come together in tremendous ways. They've gone above and beyond, working long hours, many times in challenging conditions. Most important, they have been diligent to keep people safe, continue to support our customers, and keep our businesses going.

While COVID-19 has caused us to shift some priorities this year, we're renewing our commitment to drive a more inclusive and diverse workforce, which is a core value of Eastman and critical to our growth strategy and ability to innovate. During the quarter, we took steps to strengthen our efforts to build more inclusive teams by increasing our efforts to mitigate the impact of unconscious bias and expanding resources to equip employees for their role in driving a more inclusive culture. We're making progress and have much more work to do to ensure every team can show up and contribute fully at work and in their communities.

As we look at our first half performance, we believe that we have performed relatively well with our focus on free cash flow. Sales revenue for the quarter and for the first half of the year, when compared to peer results, demonstrated resilience, which is a function of our innovation-driven growth model as well as the diversity of our end markets and a testament to the great work of Eastman employees as they navigate this challenging and unprecedented environment. We also made great progress in our $150 million of cost reductions in the quarter and are on track to hit our full year target.

With our focus on free cash flow, we also manage our inventory aggressively to respond to the fall in demand and go beyond that to generate even more cash, delivering our best free cash flow for the first half.

Turning now to our expectations for 2020. In the second quarter, the cost from the lower capacity utilization was $120 million sequentially. We expect this will decline by about half in the third quarter and be partially offset by increasing maintenance spending and a moderation of the impact from cost reduction actions as we ramp back up. Advanced Materials will have the biggest impact from the improvement and capacity utilization at between $30 million and $35 million for the quarter. AFP will see some benefit, and CI will face a net headwind as higher maintenance shutdowns will be more than the utilization tailwind.

The third quarter is off to a strong start as we benefit from volume recovery and start to realize the benefits of inventory management actions we took in the second quarter. As a result, we expect a substantial sequential increase in earnings. Most importantly, we are maintaining our focus on cash generation, which is our priority for the year.

Building on a very strong start in the first half of the year, we are on track to generate over $1 billion of free cash flow for the year. Given the continued uncertainty related to COVID-19, we are not providing 2020 guidance.

While the actions we're taking today are making a significant difference, we remain focused on our innovation strategy and are continuing to invest in our growth and our commercial capabilities. At the same time, we will be driving an operational transformation program to structurally remove costs by greater than $200 million by the end of 2022, with a significant impact in '21. Altogether, with the actions we've taken in 2020, we are well

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

positioned to benefit from the return of economic growth as we look at the future in '21 and beyond, as we lead from a position of strength with our innovation-driven growth model. It's the heart of how we win.

Our strengths have never been clearer during this pandemic: our portfolio transformation to specialty businesses; the outstanding innovation capability we've built, along with our decisive operational execution capability, generating excellent free cash flow as a top financial priority; our balance sheet is strong; and we have significant sources of liquidity.

With that, I'll turn it back to Greg.

Gregory A. Riddle - *Eastman Chemical Company - VP of IR & Communications*

Okay. Thanks, Mark. And Brian, we're now ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We now take our first question from Vincent Andrews from Morgan Stanley.

Angel Octavio Castillo Malpica - *Morgan Stanley, Research Division - Research Associate*

This is Angel Castillo on for Vincent. So just had a quick question regarding your carbon renewal technology. It sounds like you're getting good customer receptiveness. So I was wondering if you could give us a little bit more color in regards to the economics, whether what premiums you're getting versus nonrecycled product.

And then as we think about the product moving toward that $200 million, $300 million type number that you mentioned, could you give us a sense of what checkpoints you're thinking about and what the time line of that might be and maybe when we move from a pilot plant to a full-scale rollout?

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

Sure. Great set of questions, and one of the most exciting growth platforms we have at Eastman that we've been working on for the last, I guess, 18 months now.

As all of you know, attention to carbon footprint, circular economy, the plastic waste problem we have in landfills, the ocean is a critical issue that we, as an industry, need to solve. And it's also just a huge waste of carbon, letting that all go into the environment as opposed to recycling it. And what's exciting about Eastman is we are leading, I think, with commercial scale investments to close that loop and create a circular economy that is both economic and great for the environment.

So one of those 2 technologies, as you noted, is the carbon renewal technology, where we're repurposing our gasifier to reforming waste plastic. And so we take it in on the front end, instead of the coal, and we can completely clean up that waste plastic to its molecular elements and rebuild acetyls and cellulosic products. So we went commercial on that quite some time ago and are scaling up for their customers, both in textiles, with our new Naia products that have already 50% bio content from sustainably grown forest. Now the other half will be based on recycled plastics. So it's -- and these products are biodegradable as microfibers in the ocean. So it's the hat trick of all offers in textiles, when you're half bio, half recycled content, and you don't have to worry about the micro fibers. So we get -- we have tremendous interest in a number of customers who are adopting this. One of the biggest wins we've had recently was with H&M who have put that in their conscious collection, and we're seeing a number of other companies adopt.

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Now obviously, in the COVID environment where the textile market is severely down, it's hard to see a lot of that benefit. But we can still see it in women's wear, which is our target growth market where we're only down about 15% when the underlying market is down 30%. So we're seeing good substitution growth even in a very challenged market, where people are still adopting sustainable solutions at a premium compared to other alternatives in the marketplace. So we're getting both a price premium as well as accelerated growth. And we would expect as the textile market recovers, that would accelerate.

Same is true with a variety of cellulosic plastic offerings we have on the specialty plastic side. Ophthalmics, we've had a number of customers now adopt to recycle their cellulosic waste for sunglasses, eyeglasses. We're the dominant player in that marketplace with a very strong leadership position, and we're going to be taking back their product actually and circulating it back into a true circular solution for sunglasses and eyeglasses. So we've had a number of wins there. And that's only 1 of 2 technologies.

The other one is our polyester technology, where we can recycle polyester and then zip it back into its intermediates and then return that back to market. And what's great about both of these technologies is that they're truly circular where we can close the loop into the same level of application or even a better application. We're not down cycling products, which is what happens to a lot of waste.

And what's great about molecular recycling is the product is identical, so there's no trade-off in performance. The performance is identical to the fossil-fuel-based product. The quality is identical. There are no safety concerns because we're breaking it down to the molecular and clean it all up before we make the new polymer. And it's infinite like aluminum, so we can continue to recycle the product forever. There is no limitations. Mechanical recycling starts to break down over time. So there's only so many times you can do that. So it truly is a solution, and we believe that, as we've said, there's $200 million to $300 million at least of incremental revenue associated with this in both share gains and price premiums that we can get from the marketplace. Provides a very attractive return on investment.

Angel Octavio Castillo Malpica - *Morgan Stanley, Research Division - Research Associate*

That's very helpful. And then just in terms of the portfolio optimization. So you're doing some savings, cost savings initiatives. I think on your last earnings call, you had mentioned that perhaps in this environment it's a little bit hard to look at monetizing some of the maybe 1/3 of AFP that's struggling a little bit more. I was wondering if you could give us an update on how you're viewing this strategically and if there's opportunities to do some of that as well on top of the cost reductions.

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

So yes. This is Willie speaking. So on the 1/3 of AFP first. So let me just reiterate that we're taking action now, actions to improve the business, including progress on our innovation as well as the restructuring of our footprint. You'll see that we announced the closure of an asset in Asia. And we continue to work through other actions and choices that we have to improve the near-term business performance.

We're pursuing all options, which includes partnerships to improve the overall business performance and reduce our exposure. In addition to that, we would be looking at, call it, also divestitures over time. So we're looking at all fronts, and we're taking actions now to improve that performance.

As you can imagine, in this environment, it is a more difficult environment. But I would say that we've gotten through, I'll call it, the first phase of COVID. There has been renewed engagement and interest on multiple fronts, and we're pleased with those engagements.

On the $150 million of cost savings, to pivot there, what I would highlight, again, is we're on track to achieve that in Q2. We were a little ahead and on you would expect Q4 to be the lowest quarter and Q3 to be about on average. But again, on track to achieve that. And as we highlighted, we're looking to also structurally make structural changes of which we think roughly 1/3 will be structural from that. And our objective right now is to ensure that as the discretionary spend comes back in 2021, that we have structural actions that at least offset that as we move forward.

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Operator

Moving on to our next question from Ben Isaacson from Scotiabank.

Benjamin Isaacson - *Scotiabank Global Banking and Markets, Research Division - MD and Head of Commodity Research*

I noticed that your sales by customer location was down about 20% in the U.S., 20% in Europe but only around 9% in Asia. So could you split that between China and the rest of Asia? Remind us what your China exposure is. And are you working on any risk mitigants with respect to potentially a worsening U.S.-China trade?

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

Yes. Just to give a little bit of color around our Asia Pacific exposure. What we've previously said is roughly half of that exposure is in China, half of it's outside of China. As you think about also the way COVID impacted around the world, the impact of COVID was much more impactful in Q1 in Asia. As the economy returned, you saw that pick up. And basically, I think what you're seeing in the revenue is how it impacted Europe and North America, more so in Q2.

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

Yes. And as you think about the trade war question, sometimes we forget we're just in Phase 2. We started with a trade war in '19 and a pandemic, just to make it more interesting, this year on top of it. And we're already living with a certain amount of trade war that didn't exactly get completely abated. It got stabilized, I would say, in the beginning of this year, but it didn't go away. So that's still there. And I think we've done a good job of managing our way through it last year, and we certainly were seeing strong improvement in our results once it's stabilized in the January and February part of this year.

But we have a diversity of end markets. We've shown we can be stable with our end markets as well as our regions. There's a lot of upside in North America and Europe in a pandemic recovery in front of us. That would certainly mitigate some risk to China as we sort of move forward. So I think we've got a good diverse position on not just geographies but in markets. And I've already demonstrated we can manage our way through a trade war.

Operator

We'll take our next question from Kevin McCarthy from Vertical Research Partners.

Kevin William McCarthy - *Vertical Research Partners, LLC - Partner*

Can you speak to the inventory reductions in the second quarter as well as where you ended the quarter and what that might mean for your operating rates moving forward?

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

Thanks, Kevin. This is Willie. We've made very strong progress on working capital and specifically, inventory in the quarter. I think sequentially, you saw inventory down roughly 15%. And again, applaud all of our business teams and operations and supply chain for executing on that very effectively. We would expect only, I'll call it, very modest additional inventory reductions throughout the year. So you can expect, I'll call it, the utilization rates to pick up quite substantially here in Q3 as we bring our auto plants back on board and the -- definitely in the transportation end markets. And I'd also reference that as you look at that on a year-over-year basis, we were building inventory. So it's in that 20% to 25% level year-over-year of inventory reductions.

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

So great progress. Still more to do as we think about our receivables and payables as those, I'll call it, get back to more normal levels in the back half of the year. But effectively improving overall.

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

Yes. The other thing I'd note is, as you think about utilization, the upside of utilization headwinds this year is in 2021. So we've generated a lot of cash this year. We're really proud of how much progress we made, and incredible actions by our teams on how well they did it. And it wasn't just falling demand, right? We went way beyond that and pulling inventory down to generate cash, which created a good portion of that headwind. So as we said, $140 million year-over-year headwind in utilization in the second quarter. Half of that was doing that inventory management beyond just following demand. So if you look at next year, if you just assume volumes next year are equal to this year, that half of that $140 million is an earnings tailwind next year relative to this year. So not only are we holding costs flat with our structural actions into next year on the fixed cost, this utilization set of actions we took in the second quarter and, to some degree, continuing in the third quarter, will create a pretty substantial earnings tailwind for next year as long as volumes are equal to this year. And then once volumes get better than that, obviously, you get even more tailwind because the incremental margins become quite significant for all the volume and mix growth beyond that.

So I think the utilization really sets us. It was great for cash this year as our priority. We've been very clear that's our priority as opposed to worrying about how the earnings look from an accounting point of view, especially with the period charges in the second quarter, but really sets us up for recovery next year.

Kevin William McCarthy - *Vertical Research Partners, LLC - Partner*

I see. And then secondly, I wanted to ask you to elaborate on restructuring. It looks like you foresee $200 million or more savings to the end of '22, fairly large number there. Where will that be coming from in terms of your businesses and regions? Perhaps you could talk about how much is headcount versus asset rationalization and other sources of savings.

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

Yes, Kevin, let me start out here. As you think about the actions that we're taking, first and foremost, we look to optimize our asset footprint, specifically in the 1/3 as well as the Singapore announcement that we've previously announced. So you can see that number being at least $50 million or greater. Additionally, as we had highlighted earlier this year, we were talking about continuing to improve our site utilization. So as you think about leveraging our integrated facilities, we've highlighted with air products and other assets along the Gulf Coast, the benefits that we'll achieve in earnings there. And then additionally, we're looking at how do we use digital solutions as well as transform how we do maintenance on our sites and optimize our networks around the globe in a post-trade war, post-COVID environment. And those will be additional monies on top of that.

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

Yes. There's quite a bit of value around network optimization. And we've done a lot of acquisitions over the years, as you guys know, building up our specialty portfolio. So as you look at those plants, warehouses, networks of how we do everything, there's opportunities to optimize all of that. And there's headcount reduction as well. So as we optimize our business operating model and our investments about making us more effective and nimble, agile in our commercial operations, all the way through how we improve our effectiveness of operations, especially a lot of lessons learned here in the last 4 months, we see a real opportunity to sort of streamline the organization and take costs out there.

So there's a lot of different levers of it. It's all line of sight. There's very detailed programs to that total number, Kevin, on how we get there. It's no one silver bullet, but a lot of heavy lifting by people across the entire organization to make it happen. But it's a great year to sort of step back and say how do we complete the transformation to a specialty company, both on the commercial capability and innovation investments, which we're

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

continuing to do, but also on how we become very cost-competitive to create value for our shareholders and stay competitive against the people we face in the marketplace. So a lot of great work there, but very clear set of action plans.

Operator

We'll now take our next question from Matthew DeYoe from Bank of America.

Matthew Porter DeYoe - *BofA Merrill Lynch, Research Division - VP*

So one of your competitors had talked about the fact that the outperformance -- that they outperformed autos in 2Q given the position on the supply chain and the fact that insulated them from the sell-off initially. However, that would represent a lag both in operating rates and demand pull-through as transportation rebounded. Are you seeing a similar implications on your businesses, particularly as it relates to those on OEM? Or do you see orders already kind of coming through your system?

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

I think the answers are a little bit different between AM and AFP, so I'm going to sort of give it to you on both fronts.

So in Advanced Materials, the supply chain there is very short. So we feel the changes in OEM behavior at production or sales level when it comes to performance films business because that's at the point-of-sale as opposed to production pretty quickly. So that's why you saw Advanced Materials take the bigger impact from COVID in the first quarter where the earnings weren't nearly as good as the recovery of earnings you saw sequentially from 4Q to 1Q in AFP. So we felt it quickly. We acted quickly, and that's also why you saw us take down a lot more operating facilities in Advanced Materials, and that demand came off in March through April, May. And we have more stand-alone facilities. These are -- shut those facilities down in AM. So very quick impact, and we already saw a very quick recovery in those businesses as we got to June. And hence, the much stronger forecast for earnings recovery and utilization benefit for Advanced Materials in the third quarter. So that played out much faster than what we're seeing in advance -- I mean Additives & Functional Products, where supply chain is much longer. So we didn't feel the impact really in the first quarter, hence, a strong earnings performance and stronger, as a result, bigger sequential drop when it finally caught up to us in the second quarter in AFP. Coatings just has a longer supply chain, same with aviation. And so we felt that and -- through the second quarter, and it's not going to come back quite as fast in the third quarter on the AFP side.

I would also note, there's a couple of other differences. One, aviation is obviously not coming back as fast when it comes to transportation, as we call it. And about half of our automotive coatings is refinish as opposed to OEM. So AFP also doesn't see that sort of snapback in OEM production as much as AM because the refinish, obviously, is, based on our customers' comments, is going to take a little longer to recover. We do see traffic improving, and we expect a good solid recovery there, but it's not going to be as fast.

Matthew Porter DeYoe - *BofA Merrill Lynch, Research Division - VP*

Okay. And so the $200 million number is pretty chunky. And in that light, I guess, absent an acquisition, is it reasonable to think you can get back to that mid-$600 million EBIT range for A&FP by 2023? And if not, what is a reasonable assumption for mid-cycle kind of earnings in that business?

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

Well, I think that as you look at AFP and earnings, first of all, we're not going to be giving forecast out to 2023 so -- but what I can say is that it's a great business, and the vast majority of the impact that this business has faced since 2018, which is where I think about where earnings were in a stable environment before the trade war started, compounded by a pandemic. The vast majority of our hit between now and then was volume mix, right, less auto demand, B&C demand, a variety of different places where we realized some impact on demand. And all that demand will come back with the market. And you got to remember that mix is a huge part of the story in both AM and AFP. So when that volume dropped in those

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

-- in transportation or B&C or in consumer durables, that's the highest margins we have relative to company average. So big impact on the way down last year, this year. And big impact on the mirror image of it recovering. It's not just about volume recovery. That mix is a huge impact in driving value and earnings and cash. So we expect that all to come back.

The other part, of course, is we're taking aggressive action on the cost side, right? So if we take $150 million out this year, make that structural into '21 and even add on another $100 million, that means we've taken out $150 million relative to 2018, '19. That offset some of the spread and competitive pressure, more than offset the spread and competitive pressure that we've seen in tires and adhesives. So there's no reason for the earnings not to be able to come back for the company to a pretty substantial level and get back. When volumes come back, we should get back to earnings being better than '19 or '18 when the volumes get back to that level.

Matthew Porter DeYoe - *BofA Merrill Lynch, Research Division - VP*

Okay. So message being just structural cost cuts plus volume recovery equals pressure on adhesives, animal nutrition, businesses like that, maybe, give or take, plus volume growth from there?

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

Yes. We still leave out the mix part. A lot of the margin comes back with that mix, not just the volume. That's -- we were trying to be very clear about that back to the Innovation day in 2018 to give you guys some sense of the significance of mix, and it's a big part of our story and growth. Of course, it cuts the other way when you have demand to come off.

Operator

We'll now take our next question from Duffy Fischer from Barclays.

Patrick Duffy Fischer - *Barclays Bank PLC, Research Division - Director & Senior Chemical Analyst*

Could you just help -- because there's been a couple of cost takeout programs, some temporary, some permanent. If we just use Q2 as the base, how much comes out the rest of this year? And how much of that's permanent versus temporary? Then how should we think about the sequencing in '21 and '22?

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

So Duffy, as we think about this year, there's an additional $100 million of which we'll take out. And I'll say, let's think about roughly half of that being more discretionary and half of it being structural as we make momentum on the structural aspects here in the second half.

As we pivot into next year, I think I highlighted earlier that we're making decisions and taking actions this year that will build roughly $50 million more of structural as we look at our asset footprint. And I'll build that connection to what Mark highlighted, and we expect network optimization to be a major driver of structural changes also in 2021. So that would basically, in that sense, keep you cost neutral year-over-year as the discretionary goes away, and we replace it with structural. Then on top of that, we see a pathway to an additional $50 million to $100 million in '21 and '22 to grow the additional increases and deliver to the bottom line.

Patrick Duffy Fischer - *Barclays Bank PLC, Research Division - Director & Senior Chemical Analyst*

Okay. And then if we look at your outlook, the $120 million, half of that back $60 million offset by $10 million, that would walk to an improvement of $50 million from Q2 to Q3. Is that the baseline that then we should think about making adjustments for kind of the pricing trends and these cost

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

takeouts? Or that's your best view on kind of all in, incorporating everything, but just a way to get us to that $50 million number? How can you parse those 2?

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

Yes. So the first step I would take is, to your point, the removal of the inventory and the impact of that in Q2, partially offset by, I'll call it, the reduced maintenance and the slightly lower cost actions. That gets us, I'll call it, to that 30 to 40 range as we think about structural cost and operational improvement. And then on top of that would be, I'll call it, the variable margin improvement for volume growth that we have sequentially.

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

And we're encouraged, right? So we're seeing a good build in volume, right? So we saw 8% increase in July -- I mean, June, compounded by another 4% in July. Order book so far, it's early August. But the orders being similar to July and August is good compared to the normal seasonal decline you see in August with Europe shutdowns and everything else. So, so far, off to a good start. But as we know painfully well, it's a very unpredictable year, and we'll have to see how economies are impacted by the resurgence and if there's things we don't see coming that mitigate demand.

Operator

We'll take Frank Mitsch from Fermium Research.

Frank Joseph Mitsch - *Fermium Research, LLC - Senior MD*

If I could follow up on that, really appreciate Slide 5. It gives us a good confidence level in terms of the snapback and most impacted and the mixed impacted businesses. The resilient business looks like it is down 10% year-over-year in July. In the text, you suggested a moderation in that area as consumers go back to a new normal. Can you elaborate on that and perhaps offer thoughts on when that moderation may be over and what you're seeing -- what your order books are seeing in August?

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

Sure, Frank. And thanks for the question. As far as the resilient markets go, obviously, some of those markets had a real benefit from the people stocking up for COVID from grocery stores and things like that or care chemicals, same type of product. So packaging care chemicals did well, and there were some people buying some product ahead of time because they're worried about security of supply and want to make sure they had enough inventory on hand to run their operations. So you saw a little bit of that going on in some of these resilient markets.

The -- and really, what we see is demand coming off in some of those cases to what we call more normal than sort of that additional buying. So that's part of the story in some of the sort of packaging consumer markets that we all talk about and read about.

You also have to just remember, there is a seasonal trend down in volume from 2Q to 3Q in some markets like ag, right? So some of this volume is coming off because those markets just naturally seasonally come off sequentially from 2Q to 3Q. So you got those dynamics going on.

I wouldn't say there's anything more dramatic than that. The only other place I can think of is in medical. We had a very high-value product in Advanced Materials where people were buying to make sure they had inventory. Then elective surgeries, obviously, didn't play out as well. So some of the demand of those products wasn't as great as they expected. And so there's some of that destocking going on.

But I think that from a timing point of view, Frank, it's this month. July, August is where people are sort of adjusting their inventories. I don't think it extends through the rest of the year as far as some of that volume adjustment goes, and we just sort of level back out to more normal in these end markets. But we're not seeing a steady decline for a long period of time.

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Frank Joseph Mitsch - *Fermium Research, LLC - Senior MD*

That's very helpful. And one of the key focuses of the "new better Eastman" is innovation. And these are obviously not normal times, but what might be helpful when people talk about innovation is providing some metrics around that in terms of the pace of progress and -- that you're making in that regard. Is there any way that you can provide some quantification on the innovation front?

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

Well, I think that the key metric we've been using with you in the past is one we'll continue to use in the future, it's just not as useful at the moment, and that's the amount of new business revenue we close from innovation products, right? So we have a very detailed tracking system with our digital tools on every business we win, whether it was innovation-related or just good market segmentation strategy or just transactional as well as why we lose every bit of business and what we can do about it.

And so we've been driving towards the $500 million number this year on new business from innovation, and we are well on track to hit it, even with the trade war last year, where we delivered a very good number. But obviously, this year, we're not going to get to that $500 million number when everyone has been sheltered in place for a good period of time.

What is encouraging is we see people stay highly engaged. We've had a number of wins in the circular economy, with like H&M, as I mentioned earlier, with the story we told in the prepared remarks around Triton Renew in the hydration area with Nalgene, CamelBak and a bunch of other brands that are coming on board with that recycled content offer that is so important to that customer segment that buys those kind of hydration vessels.

So we are seeing good wins. But there's also a lot of places where virtually, we're still working with our customers on coating additives, tire additives, odor-free adhesives, the next-generation of HUD and acoustic interlayers that we're launching. There's activity in every place where people are still working their innovation agenda, which is the only way you grow out of this and create your own growth. But we're not going to have a -- we're not going to get to the $500 million in this context. But I do expect with the activity we're seeing that we'll snap to it pretty quickly once we get into recovery mode and people can start interacting with each other physically.

Operator

We will now take our next question from Jeff Zekauskas from JPMorgan.

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

Your fluids business, I think, in 2019 was $460 million in revenues. How much of that is aviation fluid? And how much is the aviation fluid down? Or where do you expect it to be down this year?

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

So when I look at the fluids business, Jeff, I'd say it's about half and half. And clearly, the aviation side of that portfolio, which is very high-margin business, is down dramatically, consistent with the miles flown of airplanes. We're very sort of miles flown-driven with that business, and so it's going to recover slowly.

When it comes to the other side, though, I want to highlight the heat transfer fluids business is actually doing great and actually going to deliver growth this year over last year. So one of the bright spots in the 2/3 of AFP in addition to care chemicals and pharma and packaging and even residential architectural businesses, we got a lot of growth going on in a number of those businesses that's held in fairly well.

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

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

And secondly, you talked a lot about cost achievements. But as best as I can tell, SG&A was down $10 million in the quarter, which is about 6% and your sales were down, I don't know, 19. Why isn't SG&A down more? Do you have an SG&A target in terms of the cost reductions?

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

So Jeff, this is Willie. What I would highlight to you is if you think about the $150 million, we're going to get roughly $100 million of that through the, I'll call it, manufacturing cost line is roughly $50 million through the SGA/R&D lines.

As you've seen from Q1 to Q2, we've got some, I'll call it, variable compensation plans that are linked to market-based. And with the recovery in the stock market that occurred in Q2, that basically offset the cost savings within the quarter.

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

How much was that? How much got offset?

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

The way I think about that, roughly, it's in the -- I'll call it, the $10 million range.

Operator

Moving on to our next question, we will take David Begleiter from Deutsche Bank.

David L. Begleiter - *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*

Mark, can you discuss trends in raw materials, what you saw in Q2 and what you were expecting in the back half of the year?

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

Sure. Dave, so the raw material trends, as you think about it, obviously, have come off in first quarter, second quarter. And it's actually helpful to think about raw material trends back to the third quarter of '18, right? So with the trade war, we saw price of our petrochemical derivatives that we're buying, for example, come off a lot last year faster than oil did. So even though oil came off a lot this year, many of the derivatives of oil had already come off pretty substantially. So a big part of the raw material trend from all of this happened last year as opposed to this year. But we certainly have seen some benefits in raw materials through the first half of this year.

As we look to the second half of the year, some raws, I think, are expected to stay relatively flat or moderated, if you will, like paraxylene. But then you've got other places like you saw already in the second quarter where propane moved up pretty dramatically and PGP didn't. So you've got things moving around a lot of different directions.

We're not expecting a huge raw material headwind as we look at the back half of the year. Our forecasting and plans assume that there's going to be some increase in some of those raw material costs, but we have a bunch of plans in place like in Chemical Intermediates, we're moving prices up already consistent with the raw material environment to stay track. But we think we're in good shape as far as spreads go when it comes to the back half of the year.

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

David L. Begleiter - *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*

Very good. And just lastly, just on -- do you see those capital allocation priorities for the back half of the year, you did some buybacks in Q1 and Q2. Maybe discuss buybacks versus debt reduction as well as other actions.

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

Thanks, David, for the question. Obviously, first and foremost, focused on our strong and solid dividend being the first priority. Also, as we've highlighted, we're expecting to pay back greater than $600 million. Our net debt is down almost $200 million in the first half. We would expect that to grow to roughly greater than $600 million in the back half. And we've paused the share buybacks until we meet those objectives. And as we look into 2021 with growth and recovery, we'll reevaluate the pace at which we do that.

Operator

We will now take our next question from P.J. Juvekar from Citi.

Prashant N. Juvekar - *Citigroup Inc., Research Division - Global Head of Chemicals & Agriculture Research and MD*

Mark, can you discuss your intermediate business? Some products like glycols, you already had new capacity before the pandemic started. And that was weak -- actually, this was weak also for you. So can you just discuss what happened and then outlook for second half?

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

Sure. So obviously, in an environment where demand drops significantly relative to capacity available in Chemical Intermediates products, the prices are going to follow raws, which is predominantly what we've seen. The only place where we've really seen material spread compression due to competitive activities is in this disconnect we saw in the second quarter between propane and propylene. And that really resulted in some challenging raw material costs in the market that sets the price in the marketplace, which is PGP obviously didn't go up and went down, and that was a tough combination. Fortunately, we've already seen that sort of corrected back to a more normal relationship through July into the beginning of August here where PGP has gone up dramatically, where propane has been sort of holding steady. So we feel good about how that's corrected already into this quarter.

On the acetyl side, we've seen some compression, obviously, as oil prices and methanol, that sets the price in the marketplace, comes off. We feel some of that compression relative to our cost structure, which is principally based on coal.

So those are the places where we're seeing some of the pressure. But the big -- but spreads overall have been relatively good. So that's not the story. As you can see in our revenue table, the bigger impact for us has been volume as opposed to price on a first half basis, where you've really -- especially in the second quarter, had that impact on COVID-related demand not being there and some of the export markets that we would normally clear capacity not being as available when oil prices drop so much. And generally, that's not a high-margin business for us, but still it has a significant impact on the volume and that contribution margin that comes into pay for some of the integrated fixed cost to the overall complex. So those are really the sort of the key stories there. I think they're all due to extraordinary circumstance in the second quarter. A lot of this will continue into the third quarter, but no reason this won't recover as we go into next year.

Prashant N. Juvekar - *Citigroup Inc., Research Division - Global Head of Chemicals & Agriculture Research and MD*

Okay. And my second question is on the charge that you took in tire additives. There was quite a large charge of $128 million in that segment. What triggered that? Is that due to low utilization? And then what happens when volumes come back next year?

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

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

Sure, P.J. This is Willie. So as you think about the impacts that COVID has had on the transportation market more broadly as well as the impact on utilization, which you've highlighted, we had to assess the value of certain businesses and specifically, tire additives. So the biggest piece of the impairment was related to, I'll call it, the trade names of Crystex and Santoflex. And that's related to a revenue outlook as you look at valuing those on a royalty basis. So as the revenue outlook is much deteriorated at the starting point of where we're valuing this as well as the rates being lower resulted in the impairment that you see. Obviously, with accounting, once you write it off, you don't get to write it back on when things recover.

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

The great part of accounting, which is we dramatically improved the value of businesses like performance films and interlayers from what we bought it, but you don't get to write up the asset values, but you have to take the impairments wherever these kind of issues occur.

Prashant N. Juvekar - *Citigroup Inc., Research Division - Global Head of Chemicals & Agriculture Research and MD*

Right. You are not alone in taking these charges this quarter. But does that mean that margins look better next year when volumes come back?

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

No. P.J., I think as we've highlighted through this, if you take roughly half of the $140 million across the company, $70 million of that was due to the, I'll call it, utilization impacts across the company, and that will result in a tailwind at even flat volumes. So as we think about growing volumes next year in a recovery, holding costs flat, this will result in good momentum as we go into 2021.

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

And specific to tires, we're actually seeing a strong recovery in volumes into the third quarter. So that's one of the -- when you look at that line on Page 5 about volume recovering back, a big part of the snapback in that volume is actually in tires. The competitive dynamics are still there, so pricing is going to improve for some period of time, but the volume is really starting to come back.

Operator

We'll now take our next question from John Roberts from UBS.

John Ezekiel E. Roberts - *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst, Chemicals*

It used to be that cig tow held up well in a recession because people smoke more when they're under stress. It was down a little in the third quarter. It looks like the outlook is to be down a little bit further. How comfortable are you that this is just order patterns or that maybe there's something else going on here?

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

So we don't have any evidence that there's something else going on, John. As you said, it was incredibly stable in the '08, '09 recession. There is a general trend where the market is always sort of declining in that 2% to 3% range, as we've said in the past. And we expect that to be the story this year.

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

There's a lot of different stories out there at the moment that are all sort of breaking in the last couple of weeks where different cigarette companies are having -- doing well and others are not doing well. So you really have to get into the details of what's going behind each of those companies. But overall, when we put it all together, we think market demand is sort of decline in that 2% to 3% range outside of China. China and the data suggests it's stable to sort of up maybe 2%, which is about half of the cigarette demand in the world. So that's all sort of put together in the market outlook.

When it comes to customer buying patterns, as we have discussed many times in the past, it is a bit, as we called it, chunky. And what we saw is good demand, obviously, in the first quarter as well as good demand in the second quarter. Some of that was buying some incremental tow for security reasons with all the uncertainty of COVID. And that's why we expect volumes to trend off modestly as we go into the third quarter. But overall, we still view this as tow very stable and especially with the cost actions we're taking at the earnings and cash flow level.

On the textile side, of course, which has been growing to offset some of this underlying market decline on tow, we're not going to get that this year with the textile market being so challenged. It doesn't give us any concern for the long term. I think textiles is an incredibly exciting opportunity for us, especially now with the circular economy, as I answered in the first question. Really, see a lot of opportunity to grow in the target markets, right? So if you think about women's wear, down about 15% year-over-year in the first half of the year versus a market of 30%. As I said, when we look at the forecast for this quarter, probably a 40% sequential improvement off of the second quarter in women's wear. The problem right now is some of the traditional markets that we've gone into, like suit linings, obviously, not much demand for those right now in this environment as everyone is working virtually. And so that's offsetting some of this. But that will correct itself, and we expect good growth out of that in next year as a way to continue filling the assets and levering the integrated complex up.

John Ezekiel E. Roberts - *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst, Chemicals*

And then are you having any issues getting recycled material for your gasification process? And is pricing for green material an issue now that virgin raw material is cheaper or virgin materials are cheaper?

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

Yes. So it is a very complicated market when you look at recycled content, and we are doing our best to segment it. What's great about our strategy is molecular recycling does not require high-quality recycled content. We can use which product that has no other use. So we can take carpet, we can take textiles, we can take plastic that cannot be used in mechanical recycling and grind it up and use it in the gas part and we can grind it up and use it in the methanolysis plant for polyester recycling. So we don't have to compete against that high-quality stuff that is -- and the price there is going up a lot, significantly higher than virgin PET in Europe right now. Last year, almost 60%. But we don't have to compete with that. I mean, there's a little bit of that we'll buy in the beginning, but we can really access what is truly has no alternative use that's going into landfill.

Operator

We'll now take our next question from Mike Sison from Wells Fargo.

Michael Joseph Sison - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Just curious how you think about the fourth quarter. And I know it's a lot of variables there, but can you get sequential improvement in earnings again? And you do have cost savings pick up some of the inventory reductions. But clearly, the question is, what you're hearing from your customers. Do we see a normal seasonal downtick in the fourth quarter? Is it possible that we can continue to improve sequentially? So just curious your thoughts there on the fourth quarter.

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

Yes. I think that the fourth quarter is awfully difficult to call at this point with all the uncertainties of what's going to happen with COVID, the election, et cetera. But what I do think will happen is there'll be some markets where you'll have just normal seasonal decline demand like construction activity in the winter. But I don't think you're going to see the same kind of inventory destocking that you've seen in the past because we've all been doing it pretty aggressively in the second quarter and the third quarter. So I think you avoid that relative to what happened last year. And if people are looking at next year and the economy is looking positive, you're going to actually probably having some people start building inventory to serve that demand as they go into the first quarter.

So I couldn't pretend to know how all those are going to balance together. I know that we've managed our inventory aggressively in the second and third quarter, so we're not going to be doing much destocking in the fourth quarter. So that's certainly going to help not just where we go with inventory, but also asset utilization will continue to get better as we go from 3Q to 4Q.

So I think we'll have some benefits on the cost structure side, both in asset utilization getting better as well as the cost actions we're taking. Demand could be a bit better than you might think. So as we look at it as a sequential improvement from 3Q, I'm not sure we can get all way back to 4Q of last year, but somewhere in that range seems feasible. But I got to emphasize, we're not giving guidance for the year for a reason, which is we have no idea what fourth quarter is going to look like at this stage. No one does.

Michael Joseph Sison - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Understood. And then one quick one on the inventory reduction, $140 million number that was reduced by EBIT. I think you said that you got $70 million or half back on flat volume. What volume level do you get it all back in '21?

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

Yes. So the way I think about that, Mike, is, basically, you've got to get back to 2019 levels, as we think about fully absorbing all of that. Because at the end of the day, what we did is we pulled fixed costs from 2019 inventory levels into the P&L here in 2020 as we reduced it.

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

And you use the $140 million number for the year-over-year number when you think about '21 versus '20, not the $120 million sequential from 1Q to 2Q. So it's about half of that $140 million. You definitely get back with just flat volumes, and then the rest is upside with volume growth.

Operator

We will now take our next question from Alex Yefremov from Keybanc.

Aleksey V. Yefremov - *KeyBanc Capital Markets Inc., Research Division - Research Analyst*

Based on what you saw in July and early August, so how are volumes tracking for the third quarter versus second quarter on a year-over-year basis for the company overall?

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

I think, as we had highlighted earlier, we've got good momentum. We had 8% growth from June to July. And we continue to see things in August to be roughly flat with July, which is, I would say, positive overall. Normally, we would see a seasonal decline in the August in Europe, but continued good momentum.

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

We certainly see volumes for the third quarter and second quarter.

Aleksey V. Yefremov - *KeyBanc Capital Markets Inc., Research Division - Research Analyst*

Right. It's just hard to do the math because the base effect is so difficult in the second quarter. So maybe I'll try a little bit differently.

In your monthly volume slide, it appears to show that you were about down 12% year-over-year in July for corporate average. So that seems to be roughly in line with minus 13% that you posted for the second quarter on average. Am I looking at this correctly? And do you expect on a year-over-year basis, August and September to be better from a volume perspective than July?

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

Alex, I think that's a reasonable assumption based on the momentum that we see.

Gregory A. Riddle - *Eastman Chemical Company - VP of IR & Communications*

Let's make the next question the last one, please.

Operator

Sure, and that comes from Laurence Alexander from Jefferies.

Laurence Alexander - *Jefferies LLC, Research Division - VP & Equity Research Analyst*

Can you help on 2 things? In the markets where you are outgrowing the end market because of innovation and better market relevance, should we expect a slingshot effect where volumes come back, you should have a multiplier on that? Or should we see the spread as being roughly stable in the recovery because it makes quite a difference in how we think about operating leverage over the next 2, 3 years?

And secondly, to the extent that you're -- the structural realignments that you're doing, to what extent should this be viewed as establishing a playbook so that future acquisitions will be integrated with a higher level of synergies upfront? Or is this a kind of one-off geometry and we shouldn't read beyond that?

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

I'll take the first part and let you take the second part, Willie. On the revenue side, look, we expect recovery. And as I said, the mix hit that we took on the way down was our highest value segments. And the innovation we're driving also tend to have margins way above company average in all the different products we've launched. So as you see volume recovery come, that mix leverage is pretty significant. You'll see that in Advanced Materials this quarter, and you've seen it for years in Advanced Materials. So we expect a lot of pretty high incremental margins in a recovery scenario, especially with the cost actions we've taken. So you don't have any fixed cost headwinds offsetting that variable margin growth. And you've got this utilization benefit we've identified.

So I think we're feeling pretty good about how the earnings can come back in that scenario, but it requires economies recover. We're not about to try and tell you when we think we're going to get back to '19 or '18 levels in this economy. But we certainly expect, given what we know today, '21 to be better than '20 when it comes to economy and demand.

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

And innovation, I think, is still key. You've got markets where we've had incredible success in innovation like performance films, where we set a record in revenue in June in this very down automotive market, heads-up display, Tritan, the circular economy, new coalescence and architecture, et cetera. We have a lot going on across all 3 segments, including fibers, where we're creating our own growth despite the economic circumstances.

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

And on the synergy question, what I would say, we were very pleased with the synergy levels that we achieved on our previous acquisitions, with above, I'll call it, industry benchmark levels. But what I would say is, obviously, we've gone through a trade war. We're going through a pandemic. And also on the digital front, there are more solutions today than when we did this acquisition. We continue to learn, and we will apply those as we move forward and as we think about future acquisitions and portfolio changes.

Gregory A. Riddle - *Eastman Chemical Company - VP of IR & Communications*

Okay. Thanks again, everyone, for joining us this morning. We appreciate your time. I hope you have a great day.

Operator

And that concludes today's call. Thank you for your participation. You may now disconnect.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2020, Thomson Reuters. All Rights Reserved.

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS