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# EDITED TRANSCRIPT

EMN.N - Eastman Chemical Co at Citi Basic Materials Conference (Virtual)

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## CORPORATE PARTICIPANTS

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

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

## CONFERENCE CALL PARTICIPANTS

**Eric B Petrie** *Citigroup Inc., Research Division - VP & Senior Associate*

## PRESENTATION

**Eric B Petrie** - *Citigroup Inc., Research Division - VP & Senior Associate*

Well, good morning, everybody. My name is Eric Petrie, Citi's mid-cap chemicals analyst. And our next fireside chat is with Eastman Chemical, and we're joined today by CFO, Willie McLain, who joined the company back in 2000 and served in 2000 and served various roles in finance and accounting across continents in the U.S., Europe and Asia and he was named to his current position in 2020.

We also have Greg Riddle from Investor Relations.

## QUESTIONS AND ANSWERS

**Eric B Petrie** - *Citigroup Inc., Research Division - VP & Senior Associate*

So I'd like to get started, Willie. I think the main question everybody wants to know is volume mix was coming back to year-over-year levels. How has that proceeded in fourth quarter? And what do your order book show headed into December?

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

Yes. Thanks, Eric. And again, thanks for hosting us today. As we wrapped up Q3, we had strong momentum, and we had highlighted the fact that orders weren't seeing the typical Q4, I'll call it, traditional pattern. And part of that is because we were seeing the recovery from the bottoming of COVID in Q2. And as we've seen the order books play out in October, things wrapped up strong as we expected. And we had seen orders being solid even into November. And what I would say is November has wrapped up stronger than we had expected. And as we look at the order books today, they continue to be, I would call it, robust for the month of December.

And again, no impacts of, I would call it, the rising impacts of COVID. Part of that strength has been within continued improvement in the automotive space, the durables markets. And I would also highlight in our Care Chemicals as we think about that being a key area of focus. So as we see the demand outlook, I would say the volume mix is now expected to be at prior year levels instead of approaching.

Additionally, as we've seen that unfold, we've seen the pace of raw materials actually and Energy, especially, stay more, I'll call it, at more modest levels than we had expected going into the quarter. All of that being said, strength in the top line, I'll call it, in our Additives & Functional Products business as well as the spreads being better than we had expected in our Chemical Intermediates business, we now expect our Q4 earnings to be above our prior year levels. So strength around overall, and it continues to be positive -- to the positive side.

**Eric B Petrie** - *Citigroup Inc., Research Division - VP & Senior Associate*

Great. And then transportation is Eastman's largest end market, but roughly 20% of sales. How do you see the shape of recovery in tires and autos into 2021?



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

To your point, we had highlighted transportation as being in our most impacted segments as we tried to give an increased transparency to the COVID impacts. And I'll call it, early Q1 this year, it was at prior year levels. But very quickly, it went down to as much as 50% to 60% below prior year volume levels in the April, May time frame.

And what we've seen since, I'll call it, the May bottoming is continued month-over-month improvement across transportation, broadly, in the tires and OEM and replacement space. And that, I would call it as approached even prior year levels in the September, October time frame.

And while we don't expect it to significantly increase above over the next 2 months, we do expect it to be at least at prior year levels as we wrap up Q4. So that's the slope that we've seen to date. So it's -- within any segment, I would say that's the one that has, to date, looked more like a V shape. But it's also, as we've highlighted previously, we've benefited in some of that with some of the innovation and channel work that we've done in our Advanced Materials space as well. So again, that's the shape we've seen.

How do we look forward into next year? I think we're still trying to see how the year wraps up and also were auto inventories and demand start the year. So we'll obviously have more insight into that as we do our January call.

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

Eric, if I could just add one thing really quickly. We've got a small piece within transportation that's exposed to the aviation market and that's through our fluids. And obviously, that market continues to be more muted. So a small piece of it, but nevertheless, worth mentioning.

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**Eric B Petrie** - *Citigroup Inc., Research Division - VP & Senior Associate*

Great. Thank you, Greg. Again, focusing on those specialty products and Advanced Materials, what is the growth outlook for acoustic interlayers and heads up displays compared to global auto builds? How much market share do you have with those global auto OEMs? And where do you see that going forward?

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

Thanks, Eric, for highlighting the performance there. What I would highlight is it's performed much better than the market year-to-date. And a lot of that goes to the credit of our performance films, business leadership team and our advanced interlayers. As we think about the performance level in that business, it's benefiting from 3 or 4 key items.

First, I would highlight, it's got a great strong windows film business that we continue to expand the markets in both Asia and North America. We're also leveraging, I'll call it, what's in the early innings of paint protection becoming a large growth and innovation with our polymer science. And as -- this used to be a luxury car market, it's becoming into the midsize as well as developing economies like China. These are significant investments and people want to protect their investment. And again, great margins in this business, and we're bringing a solution to market that can be applied to the whole car or it can also be applied to the key areas of impact from the hood to the doors, et cetera.

And the key thing is the great channel to market strategy where not only in aftermarket, we're also growing with the largest U.S. and China dealerships and creating value for Eastman, but also creating value for our key partners and those channel strategies.

And recently, I would highlight, we've also added digital solutions to this, where we can enable the installs and how these are applied to the cars to be done more accurately and with greater speed. And that's been also an added to make that tangible and resilient in the marketplace. So that growth, we believe it, leads to those segments being at higher levels than OEM growth and, more importantly, at a better mix and ultimately resulting in above-average margin growth as that volume grows at higher than OEM.



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**Eric B Petrie** - *Citigroup Inc., Research Division - VP & Senior Associate*

You mentioned a little bit on your coatings offering. What is Eastman's exposure to industrial and architectural? And how is your Tetrashield protective films performed in the industrial and packaging and the applications?

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

Yes. So as we think about coatings broadly, the way I think about it is roughly half of that is in the automotive space, both refinish and -- as well as OEM. And then the other piece being, to your point, in the broader architectural, and I would say it leans more towards the residential. As we see the growth opportunity in, I'll call it, the can coatings and the automotive, it can be in both spaces.

On the can side, what I would highlight is, ultimately, we've got a unique solution that's offering value-added benefits and a pathway to market for a key unmet need as they look to transition the can coatings.

The challenge there is it can take up to 2 years of cans being put on shelves for testing in those key markets. So we're making great progress. All the preliminary tests that are coming out are showing that it's not only superior to existing products. It also comes with the benefits of being BPA free, et cetera. And we see that being part of the growth in the '22 and beyond.

**Eric B Petrie** - *Citigroup Inc., Research Division - VP & Senior Associate*

Helpful. And before I move to the next segment, just a reminder to our investors that you can ask a question on your left-hand panel, and I'm going to address that later on in the fireside.

And AFP, you've talked about 1/3 of that business being under competitive pressures and having lower-than-segment margins. Can you just provide an update on where those businesses, including adhesives, tire, additives and formic acid stands and what potential strategic alternatives you're looking into?

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

Thanks, Eric. We're being proactive and, first and foremost, focused on how do we structurally change, how we run, operate and the cost structures of those businesses. And you've seen some announcements on those fronts of optimizing our tire additives footprint with the site closure there and then also probably at least one other announcement as we move forward in that space.

Additionally, we've seen, I'll call it, great transition to our Cure Pro, next-generation Crystex and leveraging our asset investment in Malaysia with the adoption there. So that's helping us, one, grow the footprint and optimize that. Additionally, as I think about the adhesives, that business is also, I'll call it, stabilizing with spreads and pricing holding at the back half of '19 levels as well as in the COVID environment, we're seeing volume growth in those key markets.

As far as the process, ultimately, having the businesses stabilize and then looking at the volume growth that we're seeing as automotive recovers, that's allowing us to move and engage on potential partnerships in both spaces. And with those, there are synergies that could be achieved, and it also sets the watermark and gives us a batten as we think about taking those businesses to market. We're going to be diligent. But with the market recovery, with the actions that we're taking directly, that enables us to ensure that we create shareholder value as we choose to move forward with those different options.

But that gives you a full view of the landscape of the business and what we're looking at undertaking.



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**Eric B Petrie** - *Citigroup Inc., Research Division - VP & Senior Associate*

And then you mentioned spreads, which is a good lead into Chemical Intermediates. Could you talk a little bit about the propane, the propylene spreads today and how that impacts profitability? Maybe also address your reduction in merchant ethylene exposure with the introduction of refinery-grade propylene.

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

Yes. And maybe I'll start with the last point. Ultimately, the decision and the small investment we had to make to go to refinery-grade propylene has turned out to be a very good investment, and it's reduced our exposure to market sales of ethylene by approaching 50%. So as we think about reducing that exposure, enabling us to maximize the value of our propylene derivatives has been a great outcome. As we think about not only the propane, the propylene, we're exposed to merchant. We're a net buyer of propylene. Some of those are, I'll call it, market based. Some of those are propane based.

And as we think about the olefins landscape, it's the spreads from that all the way to the derivatives. And as I highlighted earlier in the call, that's playing out to be better than we expected here in Q4 and, honestly, in the back half of the year. So that's an improving mark.

Demand, I think, is also key here as we continue to see industrial activity to pick up and demand across the space for not only olefins, but plasticizers has been a net positive within the Chemical Intermediates business. And more and more, our exposure to just the cracking spread is a smaller impact to the overall company. And we won't be giving the specific numbers there.

But it tells you that, one, we're reducing the volatility of Eastman overall, which is a key objective that we have with the RGP investment. And we're looking at the end-to-end margins within that space more broadly. And what I would highlight is our plasticizers business and our functional amines as having a very strong, not only Q3, but that's continuing to play in the Q4, although in the functional amine space that's got some seasonal decline due to the ag exposure.

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**Eric B Petrie** - *Citigroup Inc., Research Division - VP & Senior Associate*

Covering really Eastman Chemical for so long, I think I remember the spread contributing maybe 10% to 15% of earnings. Is that in ballpark or less than?

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

Less than.

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**Eric B Petrie** - *Citigroup Inc., Research Division - VP & Senior Associate*

And then just propylene prices have roughly doubled from the trough that we saw in May, could you talk about what the typical lag is into derivatives like oxos and what you're seeing in the year-end?

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

Yes. I think, again, our businesses are looking at the supply/demand landscape, and that affects our Chemical Intermediates as well as our coatings. And I know in the coating space, they've been looking at price increases as well as in the Chemical Intermediates. So what I would expect is with energy being lower and with propylene and the spread being slightly positive, that's why we're talking about our guidance being above and it's a contribution of the spreads of CI as well as the volume mix overall.



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**Eric B Petrie** - *Citigroup Inc., Research Division - VP & Senior Associate*

And then with the rise in propylene, would you say it's a couple of months, like 2 quarters' lag? Or is there any kind of margin squeeze as propylene prices have increased in the short run?

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

Again, I think we've got to think about it twofold, which is, one, there's the propylene-to-propane spread and there's a positive aspect there for our merchant propylene.

The other thing that I would highlight that typically in this demand environment, it's going to happen over months. This isn't going to be quarters.

And the other thing I would highlight is, as we're rationalizing our Chemical Intermediates footprint with our Singapore facility, our exposure to purchase propylene will go down as we look to optimize our footprint there.

**Eric B Petrie** - *Citigroup Inc., Research Division - VP & Senior Associate*

And then just focusing in on, I think, your MEG technology, how much in-licensing income can we expect over the next few years?

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

Thanks for highlighting it. I mean we have a lot of valuable technologies. And the MEG, there's a lot of coal gasification in China, and they're looking to convert that into MEG. And as part of our gasification processes from earlier, we developed this with JM Davy.

What we committed to as a multiyear program of licensing that could achieve up to $50 million over a 3-year period, this is a great step and it gives us confidence that we're definitely going to be at that high end over the next couple of years. And as this proves success, we believe we'll only have a greater interest in not only our MEG technology, but also as we've licensed some of our other technologies in the past that we'll be able to add to that.

So I think roughly approaching $20 million this year. So over the next couple of years, I think $20 million to $30 million additional is very reasonable and we look to ultimately inform that as we build success off of this first one.

**Eric B Petrie** - *Citigroup Inc., Research Division - VP & Senior Associate*

And switching to Fibers. Now how do you see the structural decline in acetate tow and given cigarette consumption trends globally?

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

Yes. Again, I think we would still say it's in the 2% to 3% range over time. And that's also why we're focused on growing our textiles business, which is, we call it, roughly our yarn business is 15% of our Fibers today. And it's -- the COVID environment has been very challenging. But I think we've had some key successes with the circular developments that we've made with brands like H&M.

So long term, we think trying to stabilize that business. Well, we've not achieved that yet. I think we're demonstrating that we're getting very close to being able to do that. And again, we have the capacities there to repurpose and can do that in a very cost-efficient manner over the long term.



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And it's through taking a product that already had a driving trend, which is -- it was 60% on the textiles from certified renewable forest. And now we're adding on top of that the other component being based upon recycled plastic material.

And that's been a great success and has at least sustained the ability of that product line in a very difficult environment.

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**Eric B Petrie** - *Citigroup Inc., Research Division - VP & Senior Associate*

Well, since you brought up recyclability and circularity, I think it'd be a good opportunity to share the highlights that you announced in your sustainability goals this morning. So why don't you take us through a road map?

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

Well, let me maybe start with highlighting on the circular and our technologies there. And then I'll also engage Greg to come in on the sustainability report that we issued today. We've been focused on sustainability and the trends there for a decade in our innovation portfolios, whether it was with Triton, as you think about textiles that I was just talking about, Tetrashield. There have been a macro factor behind that and sustainability is the lens that we've always been looking through.

Our recycling technologies are at the molecular level. And that's exciting because fundamentally, it's the same product and we're using carbon that's going to waste in the landfills and now have solutions through both our molecular technologies and both polymers as well as leveraging our gasification processes and cellulosic processes. And we've launched our new brands in Tritan and textiles with some iconic brands that want to be seen as having sustainable solutions.

And it's not only that. As the CFO, I want returns on the investments that we're making. And you're seeing premiums on the shelves, whether it's in hydration bottles, whether it's also in the materials that we choose to purchase or the simple -- as in single-use plastics, in Europe as the example.

And the great thing with these renewable molecular technologies is also it ties into the sustainability initiative as it actually consumes 20% to 50% lower carbon and at a lower energy than it takes to produce the traditional methods.

So one, you renew; two, you reduce the carbon and energy footprints. And we believe this is a revenue opportunity in the next several years to $200 million to $300 million. We're going to be more specific on our year-end call around the investment levels. But I think as we've highlighted, we can continue to achieve our greater than $1 billion free cash flow levels with the required investment levels to make this successful.

Some of the key sustainability messages is around the carbon footprint and energy footprint and also how we make things circular, which is the theme of the report.

So Greg, let me -- let you give some highlights into that for Eric and those on the phone today.

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

Yes. Thanks, Willie. And we're really excited to have issued our 2020 Sustainability Report this morning. As Willie mentioned, there's really 2 primary areas or 3 areas in total that are the areas of focus for this report.

One of them is carbon emissions, where we are committing to reducing our carbon emissions by approximately 1/3 by 2030 and to be carbon neutral by 2050. And so how do you get there? What is it that it takes to be able to achieve those objectives? One is we need to continue the strong performance that we've had for many years in energy efficiency. And if you think about Eastman, we've been named 8 times, say, energy partner for the EPA's program and so have a very good track record there.

And with responsible care at the American Chemistry Council, we've been named a star in energy efficiency for a number of years as well.



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So it's continuing the record that we've had on energy efficiency, building on that as one element of reducing carbon emissions.

A second is process breakthroughs. And this is something that there are a number of people within our company that are working on today. And we've made progress before and expect that we can continue to do that as we go through the next decade and then onto 2050.

A third element is introducing more renewable energy into our mix and expect that we'll be in a position to do that and leverage that to help us get to these objectives.

And then lastly, we're expecting that there'll be technology breakthroughs over the next several decades. So that will help us and many others get to a position where carbon emissions are significantly reduced.

So if you think about these objectives, they're consistent with the Paris Accords, and it's a commitment on behalf of Eastman that we take very seriously. It's very important to us, and we think that we have a clear pathway to achieve that.

On circular economy, just to build a little bit on what Willie said, if you think about our advanced recycling technologies, the polyester and the carbon renewal technologies, we expect by 2025 that we can be using approximately 250 million pounds of waste plastic in those processes. And by the end of the decade, so by 2030, that number can go to 500 million pounds. Now those are annual numbers.

So each year, we would be using that and you would ratchet it up from where we are this year to 2025 and into 2030 and so that gives you a sense of -- we believe that we can scale up what we have. We're already at commercial levels today, but we feel like we can scale that up and the opportunity is significant, both in promoting and enabling the circular economy. And then as Willie said, there's a business opportunity here for us as well.

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**Eric B Petrie** - *Citigroup Inc., Research Division - VP & Senior Associate*

Great. And then just as a follow-up to that comment, Greg. Are these investments in recycling going to be taking place more so in Europe or U.S. Gulf Coast or Asia? How do you see the developing world for recycled and renewable plastics?

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

Yes. I think for Eastman, initially, it would be in the U.S. And so when you think about the polyester renewal technology and what we'll talk about on our fourth quarter call, that would be in the U.S. But as you look further out, certainly, it doesn't necessarily have to stay in the U.S.

We can have investments in other regions, Europe, Asia, et cetera. We'll just have to see how that plays out. You're already seeing that there are other technologies that are in the U.S. or in Europe, and you're starting to see it in Asia as well.

Now I will say we are at commercial scale today. That is something that's fairly unique for where Eastman sits in our journey. But these technologies are going to be applicable in more regions than just the U.S.

Go ahead, Willie.

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

I think one of the key points that we see is we want to be a leader in making this successful. This -- ultimately, I think there's value for Eastman, there's value for our shareholders, and we need a wider scale adoption for this to be successful long term. And that's what we're doing with our commitments and the sustainability reports. And I think you can see that the differentiation that we can create is, one, we're at commercial scale today. And two, we've got a track record of success of linking to sustainability lenses before it became, I'll call it, in fashion.

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**Eric B Petrie** - *Citigroup Inc., Research Division - VP & Senior Associate*

Good. And I just remember, going back to original Tritan launch days, the adoption of those plants when you were announcing those 50,000 kt expansion filled up pretty quickly. How is that progressing for Tritan Renew and the other renewed portfolio? Are customers adapting as quickly? Or is price a hurdle to that?

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

No, I think what we would highlight is, again, I think there is differentiation in premium in the marketplace at the consumer level that's being achieved by key brands. And there's, I think, an appetite and demand for, one, the functionality and then; two, products that are certified. And I think we can uniquely see that in the marketplace today.

So we're not building a plant and testing the model, we're actually testing it with assets that are in the ground today at commercial scale. So we're getting market insights and have a 100-plus type of collaborations that are going on today with renewable products. And so that's informing the market strategy and the market premiums that are in play here.

So again, excited about the opportunity. Two, I think this is a time when the financial ends and the hurdles for reinvestment are there and are clear and it's just a matter of pace. The great thing here is the functionality is proving like in Tritan. So now we don't have to prove the functionality to the marketplace. It's actually delivering the same functionality that's in a sustainable solution. So the adoption rates and the transition for customers, there's not recertifications or requalifications that they have to go through. So the barrier is lower on that front than with the original investment. So what we would expect is, we've made -- we've basically doubled the capacity of Triton. As an example, now we're expecting to fill out those rates faster. And that's the commitment that we'll be making as we move forward.

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**Eric B Petrie** - *Citigroup Inc., Research Division - VP & Senior Associate*

Can you give any broader sense to investors in terms of duration of the adoption into the products? Is it up to 6 months to a year versus a couple of years? Or how quickly are those renewed products going into consumables?

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

What I would say and, Greg, correct me if I'm wrong, this can be months, it's not years.

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

We're seeing it already, Eric. I mean you're already seeing -- Willie talked about H&M and textiles, you can talk about CamelBak or Nalgene or others in the hydration space. There are others that we're working with beyond that. And so it's already starting now. The question, I think, that underlies where you're going is, when is it going to be meaningful for us?

And Willie talked about $200 million to $300 million of revenue opportunity over the next couple of years. And again, we'll talk more about the capital investment we're going to make and what the potential is with that capital investment moving into the fourth quarter call.

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**Eric B Petrie** - *Citigroup Inc., Research Division - VP & Senior Associate*

We have some questions coming in. Can you talk about your market share with the chains in the auto filming and how your performance films volume mix declined only 5% compared to underlying market down 20%?

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

Yes. Well, I'm not going to highlight the specific, I'll call it, levels of share. Again, I would re-highlight the 3 or 4 things earlier. It's a combination of: one, having existing solutions and brands that are winners in the marketplace; two, it's leveraging those brands in new forms and I would highlight the paint protection film, which has been more of a clear; three, we're adding the capability to add colors and other market demands into the paint protection space; and the final one is we're adding digital solutions to that channel strategy. And it's through all of those and through broader penetration into a market space. And again, it comes back to we have material science, and we're delivering solutions that are differentiated in the marketplace relative to any other offerings.

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**Eric B Petrie** - *Citigroup Inc., Research Division - VP & Senior Associate*

I remember over past investor days, LLumar had opportunity in Asia. Is that still the biggest kind of underpenetrated market for Eastman?

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

I would actually say, I mean, there's other markets. So with paint protection, window films have been more focused on a couple of things. One, it's typically in warmer geographies. But paint protection really opens up all geographies. So as we think about it, it opens up the European market as you think about the cars that are there. And there's other spaces that we can grow and leverage our LLumar, V-Kool and other brands in those spaces.

So part of this is taking those channel strategies and digital solutions and replicating that in broader geographies as well. So I think we can continue to expand as we make investments in those areas as well.

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**Eric B Petrie** - *Citigroup Inc., Research Division - VP & Senior Associate*

And I'm getting quite a few questions. Your hallmark free cash flow of greater than $1 billion every year for the fourth consecutive year in 2020, can you talk about your expectations in 2021? And what's your capital allocation plan is?

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

Yes. I think I probably have to lead with a caveat of the scenario that we're assuming, right? So a scenario is that we continue to make progress on economic recovery. Let's assume that we're at least at 2019 economic activity. And there, EBITDA, cash earnings are going to be a growth on a year-over-year basis. We expect capital to increase modestly. We'll give a number on our year-end call. But that being said, we think we can make that investment into circular and still achieve greater than $1 billion free cash flow. And ultimately, that's just with being disciplined on working capital.

So as we see -- as I sit here today, I'm still confident that under those types of scenarios, $1 billion plus, where I'm focused on is how do we actually grow not to the $1 billion level, how do we grow it to $1.1 billion to $1.2 billion. Ultimately, that's where we need to be challenging ourselves. It's not about just being $1 billion every year. And that's what I tell my internal teams that's not success. Success is that number and it's growing going forward. But under reasonable scenarios, $1 billion is achievable even as working capital may need to be consumed with increasing business activity.

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**Eric B Petrie** - *Citigroup Inc., Research Division - VP & Senior Associate*

And then a question from a credit investor. Are you comfortable with your BBB minus? And any plans to further delever?

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

Yes. So, one, we made the decision this year to allocate $600 million of our free cash flow to net debt reduction. Additionally, we've already paid off our January of '21 maturity here in Q4.

As we think about EBITDA recovering, again, let's use that 2019 scenario. We expect that there will be less debt that will have to be applied or pay down going forward. We're still targeting getting back to that 2.5x level. We'll be below 3x at year-end on a net debt basis. And we're committed because we believe there's more strategic flexibility at that 2.5x, which -- that gets you back to a solid BBB level.

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**Eric B Petrie** - *Citigroup Inc., Research Division - VP & Senior Associate*

Great. And then a broader strategy question. You've done larger deals in the past, Solutia and Taminco. Now do you see further transactions of that type of size? Or is it more bolt-ons to continue your expansion into specialty products?

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

Yes. Our focus right now is, one, we like the portfolio that we have other than a couple of items that we've highlighted.

Two, we are challenging our business teams in Advanced Materials as well as Additives & Functional Products, we're putting our organic capital to work to have the ideation. And ultimately, it informs our strategy to a greater degree as well to have bolt-on options.

And we see maybe there's larger bolt-ons in Advanced Materials and Additives & Functional Products as the pathway to continue to increase our exposures to high-value additives and Advanced Materials. That's the focus we're looking to deal with the underperforming assets, but we're also looking to grow our invested capital base in the long term and deliver the value-creating returns that go with the cash flow.

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**Eric B Petrie** - *Citigroup Inc., Research Division - VP & Senior Associate*

Great. Another question on cost savings. Of the $150 million, how much of that is temporary in the next year? And what is your net savings target?

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

Yes. So as we think about 2020, we're well on track to delivering the $150 million. We said 2/3 of that is more discretionary. But we've been focused on delivering structural changes as well here in 2020. And we're taking actions that by year-end, we will structurally change our cost footprint from a site and also from a personnel standpoint by $100 million or greater. So as we think about that discretionary coming back and we can pace how that comes back, we've already implemented $100 million of cost actions.

Additionally, we will have productivity that offsets the inflation that comes with wages and benefits, et cetera. So we expect our cost structure to be flat between '20 and '21. And ultimately, net down $150 million compared to '19 and that offsets many of the headwinds from the underperforming 1/3 of AFP.

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**Eric B Petrie** - *Citigroup Inc., Research Division - VP & Senior Associate*

Right. And then Willie, could you just give us an overview of your lower utilization rates to meet lower demand in Advanced Materials and Additives & Functional Products and how that swings into next year, assuming flat volume?

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

Thanks for the question. As we've talked about this year, one, we ran our assets actually lower than demand because we've taken through the first 9 months, we've reduced inventory $300 million.

So as we look next year at the same demand levels, that we'll have a $100 million tailwind from utilization. That doesn't include demand being above 2020 levels. So that's additional upside and ultimately higher incremental margin drop-through as a result of utilization rates. So net-net, we're starting with what we believe is a $100 million tailwind.

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**Eric B Petrie** - *Citigroup Inc., Research Division - VP & Senior Associate*

And then going back to Fibers, I believe last Investor Day target for margins in that business were 25%. Is there additional cost-cutting or manufacturing realignment that you can do there? Or is it just a function of growing your textile applications?

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

Well, I think it continues to be both. So, one, as we think about our corporate initiatives on our Fibers business, we'll be taking actions that benefit and are tied into that as well. Additionally, the textiles will also be a key component of that as we look to stabilize and offset the earnings decline that we talked about earlier of the 2% to 3% over the long term in volume.

So I think we've been at that 23%, 24% level. Maybe recently with the combined effects of our streams being at lower utilization rates this year, we're probably closer to the 22% level. But we look to stabilize that and how are we at the upper end of that 20% to 25% range.

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**Eric B Petrie** - *Citigroup Inc., Research Division - VP & Senior Associate*

Right. And then maybe in the closing minutes, I'll give it to you or Greg to kind of talk about what investors miss on the Eastman's story? Or as underappreciated by investors?

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

So, one, I think it's about how we're moving forward with the strategy and the strength of and stability that we're demonstrating currently. So, one, cash for what we see will also probably be 5 years of $1 billion and $1 billion plus. So there's resiliency in the cash flow across cycles and across different dynamic environments.

Two, we're focusing on taking actions, whether it's cost or underperforming businesses.

And three, it's the leverage to the upside. So as the economy recovers in the mix of the products in Advanced Materials and Additives & Functional Products, the 2/3 the upside that comes with our innovation-driven growth model. And we're excited about continuing to deliver and execute on the commitment that we give and delivering the earnings and cash growth that go with that. So -- and it's the upside of sustainability because I do think we're differentiated in the solutions that we'll provide and also the achievements that we'll have against the commitments that Greg highlighted today from a sustainability lens. We're focused on delivering on all fronts, and I think we've delivered throughout this COVID environment.

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**Eric B Petrie** - *Citigroup Inc., Research Division - VP & Senior Associate*

Great. Well, on behalf of Citi's chemicals team, thank you, Willie, thank you, Greg, for your time, and happy holidays.

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

Thank you, Eric. Appreciate the time.

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

Thanks, Eric.

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