REFINITIV STREETEVENTS

EDITED TRANSCRIPT

EMN.N - Eastman Chemical Co at JPMorgan Industrials Conference (Virtual)

EVENT DATE/TIME: MARCH 15, 2021 / 12:00PM GMT

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

CORPORATE PARTICIPANTS

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

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

CONFERENCE CALL PARTICIPANTS

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

PRESENTATION

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

Hi, good morning. This is Jeff Zekauskas at JPMorgan. I'd like to welcome everyone to the kickoff of the 2021 JPMorgan Virtual Industrials Conference. Our format is virtual in the interest of health and safety. Thank you very, very much for attending this morning. (Operator Instructions)

It's my pleasure this morning to introduce Willie McLain, the Chief Financial Officer of Eastman Chemical. Willie is a 20-year veteran of Eastman who knows the company exceptionally well. He's held positions in finance and strategy in Eastman's U.S., European and Asian operations. Also joining Willie is Greg Riddle who is the Investor Relations Head at Eastman Chemical.

Good morning, Willie. How are you?

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

Good morning, Jeff, and I appreciate getting to participating in today's conference and also the fact that this was my first conference a year ago when I became CFO. So it's amazing what has passed in the last year, but I think excited about what the future holds for Eastman. So look forward to the questions today.

QUESTIONS AND ANSWERS

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

That's good. I'm glad you've chosen to return. Maybe you need to begin, Willie, can you explain in general why it's a good idea for investors to invest in Eastman Chemical? What are the strengths of the company?

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

Thank you, Jeff. There's, I'll call it, probably 4 key criteria I would highlight. One would be our free cash flow strength; the stability of our earnings and cash flow; more importantly, I would say, the long-term growth potential; and also how we deploy capital and focused on returns on investment. And I think we're doing well on all fronts and taking actions that will make Eastman even stronger.

For example, on free cash flow, we've demonstrated in many environments, so 2017, 2018. 2018, we were talking about global synchronized growth, and then we had a trade war and COVID, and we've delivered and converted net income at a very high rate, roughly 130% last year, and expect to be there around 100% over the long term. And in 2021, we actually expect to deliver our fifth consecutive year of $1 billion or greater in free cash flow.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

On the revenue front, I think we delivered stable relative earnings and revenues. And our end-market diversity has proven to be a strength. And we had strong in the care chemicals, hygiene, packaging, also on the do it yourself and the building and construction during 2020. And we look to build on that as we go forward.

Innovation was also key. We've talked about the applications development and our focus there. Our performance films business delivered flat performance and outperformed peers as well as the key end markets with our innovation there. But it's also in acoustics and interlayers and Tritan to name a few.

On the earnings front, We took significant actions to ensure that in the face of lower demand, we reduced our costs by roughly $150 million last year. And we look to solidify that with $200 million of structural changes by the end of '22. Also the fact that the impact that we took and focused on cash last year, roughly 60% of our earnings decline was due to reducing our inventory levels. And fundamentally, we delivered EBITDA that was only approximately 10% down. EPS was 14% down. So we look forward to building off of that on the long term.

We've got Advanced Materials that's got a strong track record. Pre-COVID, we have had 10 consecutive years of earnings growth. We're gaining momentum in the 2/3 of AFP as well as our textiles focus in Fibers. And we're taking other actions to improve our competitiveness over the long term and also focus on optimizing the portfolio as we've been focused on structural changes in the 1/3 of AFP and looking at both inorganic and partnerships as a way here during 2021 to determine who the best owner of those assets are.

On the capital deployment side, we've had 11 years of increasing our dividend, which we view and pride that. And we're committed to a strong balance sheet. And we took decisive actions last year to ensure that, that balance sheet was strong. And given the outlook that we gave earlier this year, we'd expect to be approaching 2.5x by year-end. So again, the key takeaway, we're always going to return excess cash to the shareholder, but we're looking at growing the invested capital base and generating solid returns.

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

Is it fair to say that because of the cost reduction steps you've taken over the past 2 years that if you were -- if you met a volume environment that was average or above average, the incremental returns would be relatively high?

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

Yes. I think we showed what the incrementals could be as we came out of the trough last year if you think about the levels of incrementals being at the 50%-type level plus or minus, what we've continued to see as we've accelerated volume and the robust growth that we saw in Q4 continuing into Q1. To your point, modest growth as well as any acceleration, it benefits us 2 ways, Jeff: it's first, the incrementals; and then two, with the growth leading to a mix upgrade. That is the double benefit that Eastman will deliver as end markets continue to recover.

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

In the first quarter of 2021, many companies were beset by difficult weather conditions. Was that something that struck Eastman? Or was that something that was, I guess, less meaningful for it? More meaningful or less meaningful?

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

Well, just broadly, as we started '21, demand has been and continues to be very robust. We do have a few headwinds, and you highlighted one. The recent polar vortex in Texas will result in reduced earnings of approximately $25 million in first quarter. And that's primarily related to our operations in East Texas at our Longview, Texas site. Mostly, that will impact our Chemical Intermediates segment. Overall, the impact of the cold weather has tightened already tight markets. And as a result, we are already raising prices. For the full year, we actually expect the total impact of the polar vortex will be positive, but it's too early to tell to see how positive at this point.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

And secondly, we've also had a headwind with higher logistics costs and just logistics sourcing in general. Strong demand, combined with the impact of the weather is causing those higher costs and disruptions. Overall, despite the headwinds with Texas and the cold weather and logistics, we still continue to expect first quarter to be similar or even a bit better than the year ago quarter, depending on that momentum and getting things out the door here at the end of the quarter. And we also expect second quarter EPS will be higher than we had previously thought, just given the current dynamics of robust demand, rising raw, but more importantly, the tightness leading to higher pricing.

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

When you talk about general demand conditions for Eastman, maybe geographically in the United States, Europe, in Asia.

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

I would say the continued strength is led by Asia and the U.S. We continue to see that play out in both demand and orders. We see Europe continuing to lag and just the momentum there has been slower. I think what we're going to see as we continue to see the treatment protocols and the vaccines continue to gain momentum, under that scenario, I think, again, Asia has been leading the way. The U.S. will only gain more momentum.

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

And in the way that you described your businesses when you reported your fourth quarter earnings, it seemed that Advanced Materials was a segment where there was particular strength. In general, can you do a little bit of a sweep of your businesses in terms of which ones are faring well? And which ones have more challenges.

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

Sure. I appreciate you highlighting the strength of performance in Advanced Materials. And as I said earlier, this has been a business that delivered 10 consecutive years of growth, and we've continued to make investments, including the circular economy investments that we highlighted on the year-end call.

What I would highlight is the innovation is driving better growth than the underlying markets. That's key as we look at going forward. That's been in autos, medical, durables is where our innovations have been focused. Also, I'll call it, some of our unique capabilities of bringing applications with our specific products that enable our customers to create and generate more value in the end markets. We also have an outstanding team of business leaders with deep customer engagement, and that has been key to the getting those applications to market faster. I would also highlight that, again, performance films had a tremendous year in 2020 with being flat year-over-year. And their channels to market in both Asia, specifically China and the U.S., they've continued to generate wins, and we're looking at how do we replicate that into the European markets as well.

Interlayers continues to deliver that next generation of acoustic and heads-up display, and we continue to win more iconic brands. And we're also winning, I'll call it, more space beyond the windscreens to the sunroofs and the side lams, especially as EVs continue to gain momentum. And in that space, noise reduction is critical. So again, the circular economy that we announced is a new vector of growth, and that will only add to our abilities in Advanced Materials and also in the Fibers business.

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

Is the strength in performance films to more to your OEM business or to an aftermarket business?

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

Oh, I I would say it's a combination of both, actually, Jeff. So part of this is, as you think about OEM, it's more on from the OEM to the 4S to the dealerships. We're winning in all of those spaces. In 2020, we actually launched a digital technology called Core that enables the window businesses to actually speed the ability and the accuracy of the cuts and also that we can source them because we have real-time feedback of our products being used at the consumer level.

We have business models, as you've highlighted, like in Asia, where we will actually take and apply the films before they go to the auto dealership. So we're winning on all fronts with paint protection and our next-generation films there as well as continued in our Core business of the window films. So it's across multiple applications as well as those channels in the different regions.

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

So in these auto-related parts of Advanced Materials, the key dynamic is the year-over-year change in auto production. And are you -- do you feel that you're taking market share to supplement that growth.

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

I would highlight in the Advanced Materials space is where I would say the -- or the advanced interlayers segment of Advanced Materials as where we are more exposed to the direct OEM. And we are seeing the growth that you highlighted on OEM production. I'll call it the chip shortage just had a lot of media, but that's been less of an impact for us. We've seen some of that in Europe. But there's going to be winners and losers in that space based on the supply chain, and we think we're well positioned there. And you've seen some of the growth rates coming out of Asia as well as the strength of the markets in the U.S. So there in the interlayer space, we're benefiting from that year-over-year growth and as well as the applications and growing our footprint.

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

If I could just real quick reinforce that mix is also an important part of the growth here. So as you think about our growth rates relative to what the underlying markets are, part of what we're doing is showing improving product mix, which is what Willie walked through.

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

Over a longer period of time, Eastman is a company that's trying to change itself from being either a more commoditized company to a more specialized company, or a specialized company that's becoming more specialized. And it seems that Advanced Materials is the part of your business that's really made the most progress. Is that fair?

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

I think it's been very clear with the Advanced Materials. I would highlight that the 2/3 of AFP has performed very strong and resilient throughout the trade war and COVID. And that's why we're looking at the strategic actions that we've highlighted on the 1/3, whether it's in the coatings and heat space, also our care chemicals and animal nutrition. Those have performed, I would say, very well. And we're looking to show how can we take the actions that you can see that growth and advancement in the applications here in the near term.

But Advanced Materials has outperformed. It's executed on strategy across each of the 3 key business: specialty plastics with Tritan, advanced interlayers, which we've just talked about as well as performance films. And the cycle time of taking an application to market there is much shorter, and we're showing how we can win routinely.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

And that's where we're trying to get our new business revenue back to that $500 million level. And with the advancements in the circular economy, that -- grow that number to $600 million or greater. But it is a strength. We think we're replicating that strength in the 2/3 of AFP, and we'll be focused on the actions that enable our owners and investors to see that.

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

Maybe if we can take a step back and look at 2020 for a moment. In the beginning of your presentation, you spoke of Eastman's inventory levels being reduced in 2020 in the interests of cash generation. Can you describe the cost to Eastman? And how you think that the building back of volumes will affect Eastman in 2021?

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

Sure. If I think about it, in 2017, 2018, we had robust demand. And as we enter 2020, pre-COVID, our inventory levels were still back at, I'll call it, 2017 dollar values. And we immediately saw that as an opportunity because we didn't know the level of the magnitude of the drop or the, I'll call it, the timeline or the horizon of the recovery at that point. So we took pretty significant actions trying to drive close to $300 million of inventory reductions.

Fundamentally, what that did in 2020 resulted in $100 million of earnings impact from reducing inventory. So the way I think about that is we had our fixed cost at normal levels, and then we pulled another $100 million out. As we think about going into 2021, that obviously becomes an immediate tailwind. As we think about holding inventory constant and meeting this year's demand, we should benefit $100 million or roughly $0.60 in EPS. As we think about potentially having to build the higher levels of inventory as we go through the year to new demand levels, that could be a small incremental benefit on top of that number.

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

So I thought that last year, the penalty though, was $200 million in inventory reductions rather than $100 million. Am I misremembering that?

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

So the way I would highlight that, Greg -- or Jeff, is there is $200 million of fixed cost utilization of absorption, but we also had lower volume. When you net all that together, you get to the net $100 million of impact. The $200 million was just the full impact of utilization overall, not spend only.

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

So if it turns -- because what I thought was that your inventory penalty had to do with reducing your inventories below your 2020 demand. And as you pulled them down much lower, the inventory penalty became greater. And as you build your inventories back up to handle what would have been 2020 demand, I thought that would have benefited you by about $100 million. But as -- but if it turns out that your demand is closer to 2019, then you might get something closer to $200 million. Is that correct? Or that's not correct?

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

So the way I see it is we took -- we had reduced demand and then of about, I think, 15%. We also took the additional reductions above that to reduce the inventory. And that incremental piece that was above demand -- so put volume and demand impacts together. The incremental impact of reducing above that was $100 million. And as we bring demand forward, we would expect to benefit at flat volume, $100 million.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

I think in your model, as you think about going to higher levels, we will get better utilization. That will, to me, come through variable margin and incremental drop-throughs where you will see that. Some companies will call that demand-related benefit or utilization. And I think that's where the nuance is here. We've called that $100 million due to the inventory actions and $100 million due to the demand levels. That's the $200 million that was referred to in our press release.

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

So it may be that your assessment of $100 million benefit is conservative given the current demand environment.

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

Well, again, I think depending on the volume that we actually sell in the year, there's upside in the incrementals that drop through. Because to your point, in that case, there's no additional fixed cost absorption.

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

Eastman is a vertically integrated company. Can you talk about the importance of vertical integration to Eastman?

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

Yes. Maybe I can highlight that through our capabilities with molecular recycling at our Kingsport, Tennessee facility. You've heard us talk about carbon renewal technology as well as polyester renewal technology. We have a polyester stream as well as our acetyl stream, both co-located at our Kingsport site. And as we think about our investment in methanolysis that will enable us to more cost efficiently take on a broad stream of feedstock, i.e., recycled plastics, at our Kingsport site. And part of that will enable us to meet the raw material needs for methanolysis, which will go into our polyester stream. And the products that aren't used in that stream will be from plastics recycling diverted to our carbon renewal stream, and we'll be able to run that through our gasifiers.

So as we think about capital efficiency, as we think about logistics costs, and we're seeing what logistics can do to companies today from both a cost and/or the ability to deliver, all of that we can overcome at our Kingsport site because we won't be having to physically move that through logistics lines. So that's powerful on the investment base, the ability to source and lower cost and reduce fixed cost over the long term. That's one example.

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

Forgive me. What I was really referring to was you make ethylene and propylene, and you use that in your various businesses. Order of magnitude, how much ethylene and propylene do you make? And what do you do with it?

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

So we basically have $1 billion of propylene needs and -- I'm sorry, 1 billion pounds of propylene.

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

It'll be $1 billion one day.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

As we think about -- roughly half of that is produced through our crackers and the other half is either -- is sourced externally. And the piece that we do through our crackers, part of that is from cracking propane. The other half is through upgrading refinery grade to polymer grade.

When we're running at max ethylene, ultimately, we have roughly 700 million to 750 million pounds of excess ethylene based on our current derivative demand. As we've been focused on, one, reducing volatility And also, call it, raising the level of overall performance for the olefin stream, we've reduced our exposure when we're running the refinery-grade propylene in about half. So we're 50% reduced our exposure. And over the last 2-plus years, that's been a very good investment. And obviously, we've made a return on the refinery-grade propylene investment in less than a year.

As we think about the current environment, obviously, propylene and ethylene prices have improved. And our Chemical Intermediates business is focused on making sure that we maximize the Eastman value and also that we maximize for our specialty derivatives downstream. So as we think about what we're trying to accomplish there, there are upsides. And as we highlighted previously when we made the investment, we can pivot, if we see that there's a longer-term view that ethylene is going to be strong and that we're maximizing value for the shareholder. And that's what the Chemical Intermediates business is focused on right now with ethylene sitting where it is today. We've highlighted that we can shift that in weeks or months. It doesn't take a reconfiguration of our assets.

But as we've been focused here in the short-term on the polar vortex, I would highlight there, again, Longview had 6 days where temperatures didn't get above freezing. And we've shown again how our team members respond in a crisis. And many of our customers are having extremely positive feedback on how we've gotten our olefin derivatives back to market and have ensured that they could continue to run compared to our peers.

But we're focused on maximizing value now. There is an option as we go into the second quarter should this, I'll call it, spreads continue to exist. And we'll provide an update then on how we plan to operate throughout the year.

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

So from my point of view, Willie, Eastman is a very conservative company. And in rough terms, maybe Eastman is involved with 1 billion pounds of propylene and 1 billion pounds of ethylene. And I think last year in the first quarter, maybe spot ethylene was $0.15 a pound and maybe today, it's averaged, I don't know, $0.40 a pound. And if you look on Bloomberg -- or if you looked on Bloomberg last week, it was $0.57 a pound. So maybe your, I don't know, $0.25 a pound to the good, and you make 1 billion pounds of ethylene.

Now I realize that there can be volatility through the course of the year, but it would seem that this part of your operation, assuming that commodity prices remain somewhat close to where they are for a reasonable part of the year, that this really could be a pretty large profit generator for you because. Even if you're up, I don't know, $0.10 a pound or $0.20 a pound, that's $100 million or $200 million. Is that the way to think about it? Or that's too aggressive, or too conservative?

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

What I would highlight, Jeff, is I think your math is directionally correct. What I would say is at a point in time, which is what we're seeing right now in March and February, we weren't obviously able to activate, as many of the companies in Texas. So we've got to see what the market truly settles at on a post-polar vortex type of environment. But there could be potential upside, and we will maximize that upside. Our teams revisit our cracker slate and operating strategies weekly and on shorter terms than that even. So we will maximize the value.

Your rough math is correct. Like I said, again, we've got roughly half of our propylene exposed to internal cracker economics. And we've got roughly, at least today how we're running, half of our excess ethylene. What you've highlighted is the potential upside that could exist for our Chemical Intermediates business should that persist for an entire year. And I think we'll have a clear indication of how tight the markets are going to be, and we'll give an update on the performance for that business here in our April conference call.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

So it's not only ethylene that's been -- that's really elevated in prices. It's propylene. And that, I think, propylene prices, maybe in the first quarter of last year were $0.30 a pound. And maybe they're, on average, $0.75 a pound this quarter, though they've come down, I guess, into the mid-60s. You make 1 billion pounds of propylene. So I don't know, like, it looks like you're $0.45 to the good. And that's a lot of money. And I understand that.

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

The only thing I would correct you on is we made 500 million pounds and we buy 500 million at market. So...

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

Yes, and then upgrade it. Right? Yes. Yes. All right. Okay.

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

No, no, no. So again, the part that we're upgrading is in the 500 million we produce. The 500 million, I just want to be clear are -- is that we're buying, polymer grade.

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

Okay. But the spread between polymer grade and refinery grade was -- has been pretty good, has been pretty good this quarter.

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

That was a good investment. I agree.

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

I agree, too. I want to ask you about the way that you're managing your AFP business in that you've spoken of thinking about making some divestitures. What's the magnitude of the revenues that you might divest? What are the businesses that might be considered nonstrategic? And what, in general, is the timing?

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

Yes. So just to highlight, we've talked about the 1/3 of AFP. The 2 businesses that we're actually focused on right now is the rubber chemicals business as well as our adhesives business. On the rubber chemicals side, obviously, we have been focused on -- actually on both sides, we've been focused on what can we structurally do from an asset footprint operating strategy. And we've largely identified those and are implementing the actions to stabilize the business performance. What I would say is we've seen our adhesive business stabilize in the near term. And we've seen, I'll call it, robust demand recovery from the COVID environment within our rubber chemicals business.

We're looking at are there strategic partnerships and/or, in the absence of that, are we the right owner. And we're in the midst of those processes, so I'm not going to set a time line. But you can think about that being roughly approaching 1/3 between those 2 businesses of our revenue within the AFP business overall.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

As again, I think the market coming out of the COVID environment, there's less progress that you could make. And we're seeing better engagement as we're coming out of the environment, and people can see the actual trajectory of the actual businesses and what it can perform.

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

So 1/3 of your AFP business is about $1 billion, and your average EBITDA margins are 20%. And maybe this one isn't as -- maybe this one isn't just high. Maybe it's somewhat lower. But if you -- so maybe the EBITDA that you would divest would be between $100 million and $200 million. And maybe you could get, I don't know, 10x EBITDA for it. So I guess, this means that maybe over the next year or 2, you'd have, I don't know, somewhere between $1 billion, $2 billion and incremental cash coming in. And I think your leverage level is already more or less where you want it to be. So what would you do with this money?

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

So to your point, Jeff, we're not focused on becoming a smaller company. We are focused on growing the invested capital. And we've talked about initiatives like our circular economy and what kind of business model and at what speed we can invest there.

Additionally, we're looking at how do we, I'll call it, accelerate momentum in our Advanced Materials space and the 2/3 of AFP. So again, we've got the right focus areas, and we're focused on the macro trends and sustainability lenses. And I think your highlighting of what the potential is from an investment base as well as the future free cash flow, you highlighted that this year, we would plan to pay down roughly $300 million in debt. We expect to be at the 2.5x. And we look to put that excess cash flow -- strategic cash flow, as I call it, to work here in 2021 with bolt-ons as well as share repurchases.

As we look forward, the magnitude of the numbers are, let's say, directionally correct. And we're focused on where to make those right next investments, both organically and inorganically, as we determine who the best owner of those businesses are. We would expect to have cash from a, let's say, potentially one of those. And as we look forward, we said we want to be above $1 billion of free cash flow, and my goal is to grow that. And as we grow that, that increases our strategic flexibility as we think about, not the long term, but over the next 2 to 3 years.

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

So it's a big step for you. I mean, this is roughly 10% of your revenues, maybe even a little bit more than that. Do you have acquisitions that are lined up where you think, oh, what we'll do is the proceeds will come in. What we can do is we can buy this kind of company. It seems a lot of money just to put back into capital expenditures. Maybe if you could also touch on your approach to share repurchase.

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

Yes. So to your point, we're going to put cash to use. We're not going to let it sit in our balance sheet. That's been our long-term philosophy, and that's, I'll call it, been prudent in my view. Additionally, as we think about share repurchases, share repurchases are, I'll call it, the -- that's the bottom line threshold that our businesses have to exceed as we think about bolt-ons and/or larger enterprise-level bolt-on.

I think you've heard Mark say that, again, we're not focused on and feeling the need to do something transformational. This is what we need to do to basically continue to execute and accelerate our application developments within the key businesses and key end-market spaces. And our businesses are always focused on that pipeline. And obviously, coming out of the COVID environment, that has been ramped up again through our business teams as they are trying to achieve their strategies.

So we look at it on 2 levels: first level being how do we accelerate beyond the organic capital investments to achieve the end business goals; and then how do we potentially add in our macro spaces to accelerate that. But again, we're focused on driving, I'll call it, that 20% to 30% growth this

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

year, taking decisive actions within the 2/3. And what you're highlighting is the strategic upside that we believe we have and taking the strategy that we believe is the right strategy and the sustainability spaces and the key end markets as we go forward.

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

Well, I've thought a little bit about your guidance, which I think in the midpoint is about $7.70 a share. And what you would need is something like $265 million in growth in EBIT. And maybe we're going to get $100 million or more from better utilization rates. And when you look at the ethylene, propylene constellation, it seems that there is a much wider margin, whether it's, I don't know, $0.10 a pound or $0.20 a pound or more. You've got generally good growth characteristics in your business. You're holding your overhead structure flat. So I think you've got a good year ahead of you. Maybe I'm wrong, but I think you do.

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

Well, I appreciate that, Jeff. And to your point, what we said, we feel like it will be similar to or a bit better in Q1. We've got even more positive momentum going into Q2. And we'll see what the second half has in line for us. I think we'll have a lot more visibility as we wrap up the quarter and see how momentum comes out of the weather environment that we've had here in Q1. But demand continues to be robust. And as long as the margin holds up, we'll see what that means for Eastman in 2021.

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

Okay. Thank you very much. I think we've gone over a little -- we've gone over our time just a tiny bit. But I look forward to seeing you next year.

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

Thanks, Jeff. I appreciate your time.

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

Okay. Thank you, Willie. Thanks, Greg. That will close our session.

DISCLAIMER

Refinitiv 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 REFINITIV 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.

©2021, Refinitiv. All Rights Reserved.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV