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EMN.N - Q2 2021 Eastman Chemical Co Earnings Call

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PRESENTATION

Operator

Good day, everyone, and welcome to the Second Quarter 2021 Eastman Chemical Conference Call. Today's conference is being recorded. All is being broadcast live on the Eastman's website, 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, Christina, 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.

Yesterday after market close, we posted our second quarter 2021 financial results news release and the SEC 8-K filing, our slides and the related prepared remarks in the Investors section of our website, www.eastman.com.

Before we begin, I'll cover 2 items. First, during this call, 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 our second quarter 2021 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 for first quarter 2021 and the Form 10-Q to be filed for second quarter 2021.

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Second, earnings referenced in this call exclude certain noncore and unusual items. 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 2021 financial results news release, which is available on our website.

As we posted the slides and accompanying prepared remarks on our website last night, we will now go straight into Q&A. Christina, please let's start with our first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll go to our first question from Mike Sison with Wells Fargo.

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

Nice quarter. Mark, I guess when you think about the second half of the year, how much of the improved outlook do you think will come from the specialty businesses? And how much of it comes from the -- from intermediates?

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

Sure. Mike, it's a great day here in Appalachia, beautiful morning. And we're really excited about the results we had in the second quarter. And to your point, really excited about the momentum we're building in our specialties as we go forward into the back half of the year, which will be the driving force for earnings in the back half.

When you think about it, we had strong volume and mix growth in the specialties, especially relative to last year or '19 or even '18, and the progress that we're making. And that momentum will continue into the back half of this year. Now some of that strength in volume and mix growth was offset by sort of temporarily high distribution costs and some of the other supply chain factors that we faced in the second quarter and expect those to abate. So not only do you get the volume and mix growth, you get some improvement in spreads relative to the first half. So that's going to drive a nice improvement for specialties.

And I would say that it's going to hold up better, I think, in the fourth quarter than what is normal seasonality as we look at the lack of restocking customers have made to date. And we don't think that they're going to make much progress on it really through this year, and that will extend into next year. So that's a big driver.

In addition to that, you've got lower shutdown costs. A lot of that hit AFP in particular. So you've got that as a benefit. You've got lower operating costs from all of our operational transformation work and, as I mentioned earlier, this distribution coming off the spike that it was.

There are, of course, headwinds as we expect some moderation in spreads in Chemical Intermediates, and we have increasing gross spend. So there are some factors that offset some of that, but it's definitely much more of a specialty story and how you deliver a back half that's better than the first.

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

Got it. And as a quick follow-up, Slide 6, I noticed you got a lot of cool companies in terms of the new Q2 sign-ups or commitments for your new facility. Are you close to selling out that facility at this point? And at what point do you sort of consider maybe continuing to expand given the momentum you've had there?

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

Yes. Mike, great question. So we're really excited about how -- our circular economy investments are both solving a serious challenge in the planet, a dual challenge really, of getting plastic waste out of the environment and deploying a technology that avoid using fossil fuels and does it in a way that has a lower carbon footprint than our current traditional process. So really a win on both fronts.

And our customers see that benefit, and it's important. Both elements are really important in the solution. And we've had tremendous engagement. As we talked about in the first quarter, you saw a spectrum of brands signing on to take our recycled content both from our polyester renewal technology as well as our carbon renewal technology into the biopolymers. And getting P&G and Ferragamo and a variety of other brands to sign on top is putting us in a great position to fill out this first facility that we're building that will come online.

Now we're already getting benefit from those because we have a bridging capacity in place with our current assets. So we're building volume and momentum this year and into next. That's part of our growth story. But with these commitments, we're going to be in a good position to sort of fill out that plant really quickly with specialty products, which is great. And that's the best way to build a plant is when it ramps up full, especially in specialty product line that's not normal and certainly improves the return.

And yes, there are interest in going beyond this. We have, of course, specialty strategy we're really excited about, and we're going to continue to invest in that. But beyond that, a lot of customers out there in the fast-moving consumer goods world still have to do a lot of packaging. And they realize that the best carbon footprint is plastic. It's important to keep that in mind when you think about solving these problems. Because in our world of polyester, glass has double the carbon footprint even with much higher recycling rates than polyester day, and aluminum's 50% higher.

So we need to solve this problem. Our brands understand this problem needs to be solved by recycling polymer as the best carbon footprint solution as well as a way to get the waste out of the environment.

So we have a number of countries actually engaged with us about how to help them think about solving their waste problem, and we have a number of brands engaged with us on how we would potentially build facilities for their packaging needs that really solves this dual challenge. And so we're engaged.

But to be clear, we're not going to get back into the sort of merchant PET business. We are happy to get back into making this product, but it's got to be in a more Airgas model. We bring a lot to the table in the technology that's proven and scalable. We have a lot of operational capability, a lot of ability to build and scale up facilities as well as operate them really well and a lot of history with methanolysis that allows us to know exactly how to operate this kind of technology, which is difficult when you've got a variable feed stream of content coming into it.

And for what we bring to the table, we want sort of spread stability. So we need to have long-term contracts with customers that give us a sort of predictable margin and as well feel certain we've got access to raw material supply, which is significant but still complicated to access.

So we meet these conditions, we'll for sure build these facilities. And we think that the return on capital and the amount of EBITDA each of these facilities could generate would be quite substantial. We're not going to get into the details of that now. But we're really excited about doing this, but it depends on the customers and the countries engaging in the right way. And hopefully, we'll be able to build several of these plants going forward.

Operator

We'll take our next question from P.J. Juvekar with Citigroup.

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

Just a couple of questions. With the sale of the tire business, you took a big loss on the sale of $0.5 billion. Did this business decline significantly in the last few years? Was the supply/demand getting worse that the loss was so big against the book value?

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

P.J., this is Willie. Let me start out here. I would also highlight the Solutia was a transformative acquisition that's created significant shareholder value and positioned us for growth through the innovation and the innovation-driven growth model that we have. And that's been highlighted in interlayers, performance films and specialty fluids, which are doing incredibly well right now. And we've highlighted that on many calls.

Also, over the past couple of years, we've highlighted the fact of the headwinds in the 1/3. Many of those being macro with trade, also the competition. So as we assess this business, as you know, the accounting rules don't let us reallocate the goodwill back to the purchase date. So overall, we've got a strong portfolio and have transformed, but we also need to move forward. And I think we've been decisive with those actions.

And yes, it's resulting in a $500 million write-off, but we believe we've contributed -- created a tremendous amount of value. And now we're wanting to focus on what Mark just spoke about, which is investing in the circular economy and growing the 2/3.

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

Okay. And I'll follow up with that with Greg later on. In molecular recycling, Mark, where do you get the raw material waste plastic and at what prices? And then on the other side of that, if the recycled plastic costs, if they're higher, are the consumer companies planning to pass that through to their customers, i.e. consumers? Is that what they're expecting to do?

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

So the supply is one of the more interesting conversations around the circular economy, which is there's a vast majority of plastic waste out there, but it's also -- you have to have a plan and a structure to access it.

So when you think about polyester in the U.S., just around the first point we're building here, there's about 20 billion pounds of polyester waste annually produced in this country that goes into packaging, textiles and carpet. 40% -- only 40% of it is actually packaging. And when you look at what can be mechanically recycled of that 40%, only 25% to 30% can realistically be mechanically recycled. And the vast majority of that recycling is actually into textiles, not back into bottles because you have to have extremely clean polymer to clean up and melt back into a bottle. So it's very limited on how you can actually solve the packaging problem with mechanical recycling. And then all the carpet and textiles pretty much ends up in landfill because mechanical recycling, again, doesn't really have an ability to do something with it.

So under any of these scenarios, when you look at all this waste, and we want as much mechanical recycling to happen as possible because it has a good carbon footprint, it's going to be very limited. And it also doesn't have a long-term life because, through mechanical recycling, the polymer breaks down after sort of 5 cycles. So molecular recycling, which is what we're doing, is essential to really solving this problem. And again, it's essential because the alternative materials have a worse carbon footprint.

So we're really excited to be a leader in how to solve this. And the advantage of being a leader for our feedstock teams are out there engaging on multiple sources is we're way ahead of everyone else and going to commercial scale, right? We only -- in the polyester world, we only have other sort of small start-ups attempting to get into this space on the planet. And they don't have the resources that we have in technology, operations, how to build a skeletal plant, et cetera. So when we engage with the brands, we have a compelling story, not just of a solution but our ability to actually deliver it and be scalable in how we do it.

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And when you're willing to assign value to a waste that's going to landfill versus landfill, customer -- suppliers engage quite actively. And so we're feeling very good about being able to access that. So we're not going to get into what the price is. We're keeping our strategy and details of how we're accessing feedstock confidential as a competitive advantage in our point of view, but we're very confident we can access waste at a very affordable level.

And then on the customer side, the customers recognize that recycled content is going to be at a premium. As we shared with you all the way back in January, the premium that rPET is getting relative to fossil fuel-based PET is substantial, 60% to 80% premium in Europe right now. And the premiums aren't that far behind as they're now starting to climb in the U.S. as well. So they know that this is going to cost additional money. And what we can provide is more certainty on the price and predictability than what you can get from the spot or PET market that's at the food-grade level.

So that's also part of a value proposition in our Airgas models. While we want to make long -- while we have to have long-term commitments for our customers to make our economics work, it also is structured in a way that gives them a lot more price certainty in how to manage their business. So I think it works for both parties.

Operator

Go to our next question from Jeff Zekauskas with JPMorgan.

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

In your commodity business, you earned $144 million and I think last year, you earned $22 million. Can you analyze the year-over-year change in that operation? And I think sometimes you talk about intermediates, plasticizers and functional amines as being the larger chunks of it. How did those sub subsegments do year-over-year? Can you talk about the dynamics?

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

Sure, Jeff. And yes, it's quite the recovery in Chemical Intermediates like many other companies who have similar kind of products versus last year. And it's a combination of better volume but significantly better spread that's driving that success in the portfolio.

But before I get to the spread part, I want to just get to the composition of CI first, as you asked. So about 25% of the revenue in CI is actually amines -- functional amines. They're mostly on cost pass-through contracts. And so they've had very steady spread since we've, frankly, bought Taminco in the way their business is structured. And they've had a nice solid steady volume growth over time, delivering very predictable and attractive earnings. And they've got a few accelerants on top of that beyond just the normal ag growth.

So we've got a plant that we just built and are ramping up for Corteva for their Enlist product that's giving us a lot more additional growth on top of that core business. So that's just been a nice, great steady business.

Then you do have plasticizers, which has been a very attractive business. We've been a leader in non-phthalate plasticizers for a long time. And so we get not just underlying market growth but above-market growth in that business as we've been replacing other plasticizers. And the spreads there, of course, connected to the olefin chain have done quite well this year. But it's not just spreads, it's also a nice growth story with the position we have in that marketplace.

And then you've got olefins and acetyls. Olefins and that set of intermediates that we make there is by far a bigger part of the business than acetyls. And spreads have obviously significantly improved with the dynamics in propylene relative to propane. So that's been a driver of the performance.

Acetyls is a much smaller business for us. And it's important to remember, we're not really in acetic acid very much. It's just a co-product. We make acetic anhydride. We're the largest player in acetic anhydride in the world to make cellulosics, right? So when we look at the value of that stream

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with all the specialties that are made off of that in Advanced Materials, AFP, and of course, Fibers, the margins are -- that integrated acetyl stream is quite significant and above company average.

So it's really about the olefins part where we're having some benefits, obviously, right now as well as -- at some point, we'll expect moderation. But even there, we've made investments to improve CI and stability. So we have a lot of that business on cost pass-through contracts versus spot because we want a predictable earnings that really showed a lot of benefit in how well CI held up on an annual basis in '19 and '20 relative to '18. So we did quite a bit better than others on that front. And of course, we're getting a benefit this year, not quite the same spot prices as some others might have. And we're happy to make that trade-off.

But we've done other things like the RGP investment, which has been a phenomenal investment to give us the ability to reduce the amount of ethylene we produce when it's not attractive and still make it when it is. So that's been a great way to stabilize that business.

And we've optimized sites like taking Singapore down, which has been one of the highest parts of olefin volatility in our portfolio. And shutting that down will improve not just earnings, but reduce volatility.

So a lot of things going on across the board to optimize value here. And it's important to keep in mind, Chemical Intermediates exists to support the specialties, which are growing really well. And part of the reason you'll see volume going down this business is because the specialties are consuming it so fast in their growth. So overall, it's playing its role, creating the value of reliability for customers, creating value to optimize our cost structure. And we're really proud of the team in how they've optimized value here in the first half of the year.

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

How much of what's produced in the commodity segment is used internally roughly? And how is that changing in the current environment?

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

Yes. So Jeff, what I would say is approximately 50%. And as Mark has highlighted, we continue to debottleneck and get 1% to 2% growth a year in that space. So over time, we're trying to keep the reliability for our customers, but at the same time, be there when our specialties need it.

Operator

And we'll take our next question from Frank Mitsch with Fermium Research.

Frank Joseph Mitsch - *Fermium Research, LLC - President*

Just following up on Chemical Intermediates in terms of the margins and the spreads. How did July turn out relative to the 2Q average? Any sort of pace that you could provide for us on how Chemical Intermediates profitability has been trending to be great?

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

Yes. So as we look at July, what I'd say, Frank, is prices have held up similar in July to the second quarter, but propane costs are trending higher, right? So part of our commentary is that -- propane was about $0.90 on average in the second quarter. It's $1.10 in July. So you've got some propane headwind. The prices are holding up well.

Now our guidance includes some expectation that prices will start to normalize as we go through the back half of this year. I think there's a wide range of opinions about the rate at which prices may or may not normalize in the back half of the year. I'd say we're probably in the middle of the

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road on -- relative to the commentary out there, where we expect some but not dramatic. And we said we're getting out of the olefin forecasting business a long time ago, and we're going to stick with that. It's a little hard to predict the pace at which these markets can change.

But appreciate the earnings. It's actually been a nice balance as we're working pricing relative to raws and the specialties. And so these sort of neutralize each other out in some ways. And on the spread front, our strategy is focused on growing high-value volume and mix through innovation in the specialties, which is the vast majority of who we are. It's nice to get these benefits out of CI, but it's also nice that it's a small part of the company and not a big driver of our long-term growth story.

Frank Joseph Mitsch - *Fermium Research, LLC - President*

Got you. And actually, that feeds into my question in terms of seasonality on 4Q. It looks like the guide is more heavily weighted on the third quarter. Is that more a function of that you have greater near-term visibility? And just in general, what are your thoughts on 4Q seasonality since there does seem to be some thought out there that it's going to be less than typical in normal years?

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

Yes. So on the specialty side, I'd say our view is demand is going to be strong and hold up well in the third quarter and continue into the fourth quarter, so not that normal seasonal drop as we don't see a lot of progress in customers making sort of improvements in their inventory situation, especially in some markets like automotive or construction. And those kind of markets clearly are being sort of rate limited by supply chain challenges in the way they're serving underlying market demand, which is very strong around the world.

And so they're going to continue to want to sort of ramp up production whenever they get raw materials to serve that need. So we think that continues -- that sort of strength continues in the back half of this year, and frankly, into next year in those kind of end markets.

And then you got other steady markets that are just constantly growing like care chemicals, water treatment, ag, et cetera, that will -- that always provides stability. So we think it's going to hold up better on that side. When it comes to Chemical Intermediates, I think I already hit that, which is at some point, we expect normalization of spreads. I just don't know when.

Operator

Our next question is from Vincent Andrews with Morgan Stanley.

Vincent Stephen Andrews - *Morgan Stanley, Research Division - MD*

Mark, I'm wondering in the sort of molecular recycling arena. You've talked about the PET opportunity on a take-or-pay basis. I'm wondering like in polyester fibers, if there's an avenue into the apparel industry or textile industry. I mean I know you obviously have Naia through the fibers, but that's a different solution. So I'm just wondering if there's another source of customer opportunity to sell recycled polyester fiber.

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

Yes. So there's 2 different opportunities for us, Vincent, in the textile world. First and foremost, we're having tremendous success with our biopolymer, right? So you got to remember, we have a cellulosic polymer called Naia that is half biopolymer from certified sustainable force. And the other half now is going to have recycled content in it through our recycling technology. And it's -- as a microfiber, it's certified as biodegradable. So it's a hat trick of solving the environmental problems that are out there.

And we see really strong engagement from customers on that. It's a nice high-margin product for us and a way to sort of repurpose all of the fiber's capacity that was making tow. So we're spending a lot of time driving that, and it's just a great success story.

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And when you think about just this year, the amount of growth we're having in textiles is offsetting the decline in tow and the onetime hit we took in that discontinued specialty product, which was $10 million alone. So really great progress by that team.

And yes, there is the opportunity in addition to that to look at polyester fiber with recycled content in it. Those are some of the conversations we're starting to have, along with some of the packaging customers on where we could potentially lean in and help on that front. So it's a possibility to add to our growth story in the biopolymer textiles.

Vincent Stephen Andrews - *Morgan Stanley, Research Division - MD*

And could I just ask you on -- I know you raised the free cash flow guidance, but just curious how you're thinking of managing the sort of raw material issues that are out there in terms of inventories and some companies sort of were seeing a bulge sort of during the year while they're trying to procure inventories to make sure they have what they need for customers. Others are talking about maybe they want to have more on hand in general in the future just given we continue to see sort of unplanned outages and things like that, and they want to be a little bit more nimble.

What's the thinking inside of Eastman in terms of how you want to manage inventories, given that you're obviously a very strong free cash flow generator, and that's an important part of the story?

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

Thanks, Vincent. This is Willie. Yes, I would like to highlight, I'll call it, the tremendous efforts that our team members across the world to deliver free cash flow here in the first half of the year.

To your point, we've delivered greater free cash flow this year, almost $450 million in the first 6 months. And that's facing raw material pricing inflation of about $200 million higher than last year.

As Mark highlighted earlier, the supply chains continue, I'll call it, to be, I'll call it thin. And we're looking to ensure security of supply. So there would be choices that we would make to ensure in our specialties that we have the ability to meet our demands of our customers, and we would make those trade-offs. We factored that into our forecasted guidance as we think about delivering greater than $1.1 billion this year. But it is choices that we will continue to make as we see the demand scenarios play out. It's hard to imagine building a lot of inventory right now just if we assume the main levels of Q2.

Operator

Go to our next question from Kevin McCarthy with Vertical Research Partners.

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

Mark, with regard to your specialty segments, margins came down a bit on a sequential basis in that context. So I was wondering if you could talk about how much of the cost inflation has been recovered and how much you think you will need to recover and what role price increases might play in that process for Additives & Functional Products as well as Advanced Materials.

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

Yes. So I think we're doing well on managing prices in the specialties. As we look through the second quarter and the way we're increasing prices here in the third quarter, we think we're well on track to managing prices relative to raw material costs and really incredibly proud of the teams in how they're doing that.

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The challenge we had in the second quarter was the spike in distribution costs on top of the raw materials. A lot of it was just airfreighting, right? So it's not just price per unit delivered, but it's a mode that we had to use to keep our customers supplied. So there just was a tremendous amount of airfreighting going on. We expect that to abate back to more normal modes and as well as sort of calm down a bit.

Now we're getting some price to cover some of those costs, but not all of it, and that's part of the offset that you saw in the second quarter. So as we go into the back half, we feel really quite good about keeping up with raws and managing the distribution total cost. So that's not really our concern. We're focused on just trying to get volume and mix delivered to customers.

And the market demand out there is really good, well above our logistics capabilities that we can access. And so the constraint is going to be more about just access to logistics on how we drive demand in the back half of the year and how much that could limit the level of growth in the back half relative to the second quarter. But we feel quite good about managing the raw material situation.

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

I see. And then secondly, your prepared remarks released last night referenced $100 million of savings from digitization, site optimization, operations transformation, et cetera. So a few questions. Maybe you could elaborate on what exactly you're doing there and how these savings might spread among your segments and what the associated cash outlay might be attached to those projected savings.

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

So what I would highlight is we've had 3 primary buckets that we've talked about of cost savings. So as we think about site optimizations, we, I would say, have substantially executed most of those through midyear. And we expect a tailwind. And we framed that all in to be a $50 million program, of which we would expect, I'll call it, about half of that to flow into next year as well.

We've also talked about how we do maintenance turnarounds. I'll call it spans and layers across our operations front. And we've made those implementations at the end of -- I'll call it end of 2020 going into '21. And we expect as that's fully implemented, there will be additional tailwinds from those actions.

Additionally, as we continue to think about leveraging our sites for other partners as another way of creating value and gaining, I'll call it, earnings from additional capacities that we have. And we're continuing to make progress on those fronts as well.

Year in and year out, our goal is to not -- I'll call it in normal operations is to offset inflation. And also, as you think about going from '21 to '22, I would say on -- the variable comp will also be a tailwind as we manage all 3 of those buckets.

Operator

Our next question from Alex Yefremov with KeyBanc.

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

Mark, where do you stand in advancing this industrial gas-like business model for your methanolysis technology? Are you in any specific discussions with potential partners? And have those discussions been fruitful?

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

Yes. So we are engaged in specific discussions with partners both at the country and the brand level as well as sources of feedstock supply. So we have a lot of conversations going on over now. We have a full team just dedicated to managing this area and quite encouraged by the level and

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seriousness at which the counterparties are taking this and understanding the challenges and what we see in their commitments to make a real difference in improving the environment with their products.

So I feel good about it, but it's not over until it's over. And so we just have to see how these discussions play out. And I'll be excited to share the news with you once I've actually achieved my objective on the structure of these kind of deals.

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

Great. Well, we look forward to that. And as a follow-up on free cash flow, you mentioned for next year, priorities are dividend increase, M&A and share repurchases. The last 2 categories, how do you think about the balance of -- if you can't find bolt-ons, should we think of sort of share repurchases as sort of a default option or repurchase? Is it going to be more opportunistic in nature?

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

Yes. So I'm going to sort of answer the first part of that question, and then I'm going to hand it off to Willie for more of the detail. But first of all, I just want to sort of recognize, we really are proud of how well our teams have managed and delivered free cash flow and the stability in which we've been able to do it in both good and challenging times. Really, when we reflect on it, it's been a decade journey to get to this kind of performance.

When you go back to where we were before the Solutia transaction, our free cash flow, frankly, wasn't as strong. And Solutia dramatically improved the quality of our portfolio along with Taminco being less capital-intensive and improving our free cash flow. So in addition to earnings, there was a significant benefit that came out of the Solutia acquisition on the free cash flow side.

And then we've had just tremendous success in growing these high-value innovation products that are quite attractive margins, which means they generate a lot of cash and improving the cash flow of the portfolio that way. And then, of course, there's recent actions we've taken in optimizing our portfolio like selling tires. That's going to give us additional cash. So we're in a very strong sort of strategic position from a cash and balance sheet point of view.

And as we look at it going forward, just to reiterate our priorities, first and foremost, is doing CapEx consistent with our specialty innovation growth strategy and making sure we have the capacity in place to support our growth. Then of course, there's this acceleration opportunity around the circular economy. The first step is just part of our strategy, which is how do we add recycled content to our specialty products. But as we've discussed on this call, there's this opportunity to build additional plants in this Airgas model that could substantially add to our EBITDA. And so we're going to be looking at those as an option for cash.

And then you get to share repurchases and bolt-on M&A as the next steps. Of course, we always have a growing dividend that is part of that overall cash story. So it's -- the priorities are clear there. To be clear, we're not looking at large M&A, if that question's out there. And we think that pulling all these levers in concert is a way to create a nice balanced growth story for the company.

I'll let Willie give you a little more details around exactly where the cash position sits at this point.

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

Yes. What I would say is with the improving EBITDA, we expect to be done with delevering at the end of this year. And I would also add, we're now not expecting to need to further delever for the tires divestiture. So we've committed to roughly $250 million of share repurchases in the back half of the year and now thinking that we would have roughly $600 million to $650 million of cash to repurchase shares and/or bolt-ons, as Mark has highlighted as we wrap up the year.

Our balance sheet is in great shape. We're below 2.5x net debt-to-EBITDA and expect to also from a rating agency view to achieve 2.5x or below by year-end. We're in a great position. And as we think about going forward, we have roughly $1.2 billion remaining on our current stock repurchase

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authorization. And with the cash that I talked about as we wrap up the year and think about potentially $700 million of free cash flow to put to strategic use of next year, we're in a strong position as we move forward, as Mark highlighted.

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

Yes. And just on the bolt-ons, we're not going to be opportunistic. We're going to be very strategic. In other words, we're only going to do bolt-ons if they really fit with the company, they really create a lot of value and reinforce an existing business. And we're going to be disciplined about what we pay. So we're not going to get caught up in deal fever. Having said that, we very much like to do bolt-on M&A, but it's got to meet those conditions.

Operator

We'll go to our next question from John Roberts with UBS.

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

In AFP, when you say looking at additional actions, is that more divestments or is that taking out stranded costs from the tire and rubber chemical divestment?

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

We're always committed, John, to managing our cost structure, including what residual cost might occur from a divestiture. And so we'll manage that as part of our overall operational and business operating model transition work. But when it comes to other work, we're referring to adhesives, where we're continuing to pursue both JV and divestiture options with that business, where we have good engagement from multiple parties. And we'll see how that plays out.

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

Okay. And then after the conversion of more standards -- standard copolyesters to Tritan, what percent of the copolyester production will be Tritan? How much capacity do you have left so that you can have low capital intensity upgrades there?

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

Well, we certainly have little capital intensity upgrades. That's been the story, especially plastics, since it began, right? It started with a bunch of PET assets handed to it from at that time. If you want to go back far enough in history, they're a big brother. And then repurpose those PET assets to making our traditional copolyesters and then repurposing those polymer assets to make Tritan.

And we did a bunch of expansions in 2018 to support growth across the entire company portfolio and are doing a number of them here that we started last year, expecting recovery on the back end of COVID and the need for growth assets. Tritan's one of those many projects that we have going on, where we've converted a copolyester line in the second quarter of this year to Tritan and will come online this quarter.

And that's a continuous story, in addition to probably -- we're getting to a point where we're probably going to add polymer capacity because the growth across the portfolio, not just Tritan, has been so robust. But I think that, that really has been a big driver of the story. Greg wants to talk. So Greg, go ahead.

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

Sorry. Tritan today probably represents about 1/3 -- a little over 1/3 of the revenue for specialty plastics. So if you're looking for a quantification, that's about what it is.

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

But it continues to grow. But it's important to understand that we're adding recycled content not just to Tritan, but to all the copolyesters. Our Cristal Renew product, it goes on cosmetic packaging. A variety of other polyesters are also growing really fast with the circular addition to our story. That's why we're going to have to add total polymer capacity.

Operator

Go to our next question from Matthew DeYoe with Bank of America.

Matthew Porter DeYoe - *BofA Securities, Research Division - VP*

Congrats on the P&G announcement. And when I read the press release, I guess I understand the agreement for purchasing of Renew, but how are you 2 working together to address the infrastructure problems? You kind of alluded to that in the press release. I'm just wondering what P&G is committing to do in here.

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

Well, there's a lot of policy as well as collaboration with the existing recycling infrastructure that I think is amplified when we're working with brands who have a very deep relationship with the recyclers, right? So they buy a lot of recycled content today from those companies. And working with them and encouraging them to broaden what they do beyond just easy-to-recycle product and making this broader waste stream available to us is a point of collaboration for us.

So there's collaboration with the existing infrastructure and encouragement for them to improve their capabilities. There's also collaboration at the political level, both national and state level and even local level on policy that supports the improvement in recycling infrastructure, encourages the consumers to have the right behavior. There's a lot of different ways to get at that with what's called EPRs, expanded producer responsibility, or bottle bills, et cetera, that can drive more recycling and ensuring that the value of recycling material versus putting at landfill has more value. And policy comes in play there, too.

So there's a lot to be done at multiple levels. And I think P&G, and frankly, a number of other brands that we're talking to are going to be really valuable partners in advocating to help improve our ability to sort of be responsible with this valuable resource and create a true circular economy.

Matthew Porter DeYoe - *BofA Securities, Research Division - VP*

All right. That makes sense. And as a follow-up, so paint protection film has been a nice source of growth for Eastman over the last couple of quarters. Has sales expectations for the year kind of decelerated for that business in line with auto sales forecast? Or is the adoption cycle making up for that kind of downshift in the underlying?

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

No. It's doing great. And it's not been a couple of quarters, it's been many years of how well this performance films business has done both in the window film and the paint protection film. It's been a tremendous growth story. Last year, they grew in a very down market because this category of paint protection film in particular, is just dramatically growing in how people want to protect their paint.

And we just launched a new Gen 3 product that is substantially better than our existing products, which were still market-leading in their performance, but it's much easier to install. It performs better in protecting the paint, and it now actually has the gloss of ceramic coating, if you're familiar with the car industry. So it actually has a better gloss when you put this on than the original clear coat of the car.

I just came back from visiting a bunch of dealers out West and getting their direct feedback about how this is going, and we're just incredibly excited about that. And it's not just the product. We've also rolled out a new software program called Core that has superior pattern cutting, which is a really difficult part of doing paint protection film well when you think about all the different car shapes there and getting the film to fit properly around the car. And this software allows them to make very precise cuts and install much easier with the patterns of all the cars in the last 10 years, which is a nontrivial task to create, I might add.

So it's done really well. And then the channel strategies we've deployed about working with auto dealers, in addition, in the retail market has expanded our market tremendously over the last 5 years. So it's a great business, it's growing well, high-value mix upgrade to the segment. And even with the auto market slowing down, we're seeing this business continue to do well because dealers are trying to focus on what they can upsell onto the car with the limited volume they have to sell. So we're getting good engagement as we're trying to add features to what they're selling.

Matthew Porter DeYoe - *BofA Securities, Research Division - VP*

Would you ever -- if I can just tack on, would you ever look into moving into the installer game for the paint protection film? Because I understand the margins there are pretty fat, and like XPEL is slowly kind of moving downstream. Or is that something that you wouldn't do?

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

No. We're looking at our models to make sure that our dealers and our -- both the retail dealers as well as the auto dealers have the resources to do the installation, I think, is what you're getting at. And there's a lot of different ways to do that. We have no interest in getting into competition with our customers. We don't think that's a very good business model when the retailers have been such loyal and valuable partners with us.

But we do recognize that with labor constraints out there, we've got to have different models to enable installation resources to be in place. And so we're looking at multiple ways to do that. So that's sort of how we look at it. But it is -- an important aspect of what you do is help them develop the high-quality installers.

Operator

We'll take our next question from Bob Koort with Goldman Sachs.

Robert Andrew Koort - *Goldman Sachs Group, Inc., Research Division - MD*

Mark, I wanted to ask you, you highlighted quite a few times about being a specialty story. Obviously, the CI earnings are maybe making that a little more challenging for people to embrace. And we've seen some pretty good devaluation in your stock over the last few months, almost akin to you being lumped in with some of the peak fears that are out there on some other maybe more commoditized names.

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So I guess, how do you see CI -- I mean is it going to fade and create a big step-down that sort of robs from the aggregate growth? As the specialty businesses grow, do you think it can stabilize? And I was just looking at consensus numbers, and it looks like something like 2% EBITDA growth in '22 and '23. Can you give us some inspiration that, that is inadequate?

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

Yes. So Bob, thanks for the question. And look, we think we're making tremendous progress on changing our portfolio and our performance towards specialty. We've done the analysis. And I know all of you can go do it. But if you go look at how we've held up margins over the '18 to now or '17 to now as a total company, how we've delivered earnings performance, we're much more in the specialty category than in the commodity category of our peer set. The data is actually quite clear. At some point, I'll show it to you.

So I think we've actually held up really well. There's no question that people sort of focus on the CI question right now. And the way I look at CI is it's an incredibly valuable part of our vertical integration and our reliability to our customers. We've proven the value to customers multiple times on how it supports that.

And in times like this, where they get some expansion, while prices are catching up to raws and some other parts of the business, it actually gives us more stable earnings. That diversity actually creates economic stability. So I don't see what's wrong with that.

And as I look at '22, we certainly expect some moderation of CI in its spreads as we go into that year relative to this year. But when you look at all the growth that we have going for ourselves and improvements in the cost structure, we're actually quite confident we can deliver quite attractive earnings growth in '22 relative to '21, including the offset of the moderation in CI.

So when you look at it from a market's point of view, a lot of markets that are still going to be in recovery mode next year, whether it's auto, building construction, medical, aviation, you've got restocking that will still continue into next year, I think. And then you've got really steady growth markets like care chemicals, ag, water treatment, consumables that are about -- those sort of stable markets that are about 40% of our revenue.

On top of that, you've got all the innovation driving growth across the whole portfolio, whether it's performance films I just discussed; Tritan, we've hit on. We still got next-gen acoustics and HUD and interlayers growing. We've got Tetrashield and food and beverage packaging, textiles, et cetera. And then you got the circular economy driving more growth. And then we've got good, smart segmentation strategies in the business we're in. So we're in the right parts of the markets like luxury cars and EVs, et cetera.

And it's not just volume. You've got to remember all these things that are growing really well are high-value mix. The challenges we had in '19 and '20 were not spread, right? It was -- as a company, we're in the specialties. It was just that high-value mix coming off, and it's now coming back. And we said, you'll see the mirror image benefit of that, and you're seeing it this year and you'll see it next year.

In addition to that, you got costs coming off by $100 million on the operational level, plus another $50 million in lower distribution and shutdown costs, sort of the onetime things. And then you've got where you think spreads might go and you've got increased growth spend. So when you put it all together, net, we're well positioned to deliver EPS growth in '22 relative to this year.

Operator

We'll go to our next question from Arun Viswanathan with RBC Capital Markets.

Arun Shankar Viswanathan - *RBC Capital Markets, Research Division - Senior Equity Analyst*

Maybe I could just ask a similar question to Bob's here. So if we look at '21 versus, say, '19 or even '22 versus '19 EPS, you're in the $9-or-so range this year. If we look at a 3-year average CAGR, maybe it's around 9%, which is definitely commendable and within your 8% to 12% earlier comments from a while back. I guess, is that still kind of how you're looking at it? And then maybe if you could just put a finer point on some of this. So if you

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look at next year, you have potentially some parts of the $50 million coming on from the recycling technology. Maybe CI falls off a little bit. But how much of AM and AFP is still left for recovery? If you could help us with that, that would be great.

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

So yes, we've been doing everything relative to '18, which was our last peak. And we're really excited that we're going to have EPS well above 2018. And then as I just laid out, we're confident to keep growing it from '21 into '22. And I think that everything we said at Innovation Day is still true, plus we've added a lot more growth from circular economy on to the Innovation Day story.

So thinking about that growth rate of 8% to 12%, I think, is a reasonable way to think about next year at the EPS level. You got to remember, if we succeed in divestitures, that will have an impact on EBIT, but we'll be buying back stock to offset it. So all of our guidance and commentary today is not at the EBIT level, including the impact of divestitures.

Arun Shankar Viswanathan - *RBC Capital Markets, Research Division - Senior Equity Analyst*

And I'm sorry, how much of AFP and AM do you think is still left for recovery?

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

I think there's a lot of growth left in both businesses. As we look at Advanced Materials, we actually expect very strong growth in Advanced Materials next year relative to this year. So that story is going to continue to be strong and be even more compelling next year. So that's really exciting.

When you look at AFP and look at the 2/3 of AFP, in other words, without tires and adhesives in it, the earnings this year are expected to be a bit better than 2018 levels when you look at that portfolio. And a lot of that is just tremendous growth in coatings in line with our customers in addition to good steady growth in things like ag and animal nutrition and care chemicals as well as fluids.

So a good story across the board, and that even includes the aviation headwind when I say that about this year being better than 2018 for the 2/3 of AFP. So -- and that's also positioned to keep growing both through recovering markets and innovation next year. Not quite as much as AM because they're still earlier in their innovation cycle, but still delivering nice growth. So those 2 grow well. Fibers being quite stable, an improving cost structure gives you a very solid position.

Operator

We'll take our last question from David Begleiter with Deutsche Bank.

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

Mark, first, on the molecular recycling facility, when would you be in a position to announce an additional capital investments, either as an addition to that facility or a new one? Could it be in '22? Do you think after that for another investment to -- in molecular recycling?

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

Great question, David. And it sort of depends on the pace at which we go in our discussions with these customers and countries. But for our internal needs, I think that this first facility is what we're going to need for '23, '24. The -- so we're not going to be starting a new specialty plant until we get this one up and running.

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But when you look at these other additional growth opportunities, I hope in the next 12 months or sooner, we could have an announcement around making progress on these other additional plants.

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

Very good. And just rolling on free cash flow. If you do achieve EPS growth, which you say will be attractive in 2022, how much above the $1 billion or $1.1 billion of cash flow do you think you could achieve next year?

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

Yes, David. Thanks for the question. So as I think about it, as we talked about all the comps in being, I'll call it accretive now on the tires as we think about putting more cash to use on repurchases. It will be a headwind as we think about cash flow next year. So again, we're looking, I'll call it, to be in the $1 billion to $1.1 billion as a starting point. And that's taking into consideration the headwind that we'll see from the divestiture of the tires business.

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

So just to wrap up, I wanted to make a couple of quick comments really to my employees and to the investors, which is I can only sit here and talk about the success we've had this year, how well we performed even in holding up last year and our ability to actually deliver growth next year on top of this year is the employees. They've just done a phenomenal job. There's a lot of stress and fatigue out there when it comes to trying to keep this market supplied with how strong demand has been. And every day, they show up and just do remarkable work, not just in sort of operating, delivering against the demand we have in this marketplace and ensuring we get the raw materials that we need, but also keeping innovation alive. To get to $600 million of revenue from innovation this year on top of all of the chaos that comes from working our way through this dynamic environment is a real testament to the team, to our growth model and to the way they engage the marketplace. And I just wanted to express my deep appreciation to all of them for the phenomenal job that they've done.

And with that, I want to thank you for all your questions and wish you all a good day.

Operator

That's today's call. Thank you for your participation. You may now disconnect.

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