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EDITED TRANSCRIPT

EMN.N - Q3 2021 Eastman Chemical Co Earnings Call

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PRESENTATION

Operator

Good day, everyone, and welcome to the third quarter 2021 Eastman Chemical conference call. Today's conference is being recorded. This call is being broadcast live on the Eastman's website, www.eastman.com. I 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, Mary, and good morning, everyone, and thanks for joining us. On the call with me today are Mark Costa, Board, Chair and CEO; William McLain, Senior Vice President and CFO; and Jake LaRoe, Manager, Investor Relations.

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

Now before we begin, I'll cover two items. First, during this presentation, you will hear certain forward-looking statements concerning our plans and expectations. Actual events or results could differ materially. Certain factors related to future expectations are or will be detailed in our third 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 filed for second quarter 2021 and the Form 10-Q to be filed for third quarter 2021.

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Second, earnings referenced in this presentation 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 third quarter 2021 financial results news release.

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

QUESTIONS AND ANSWERS

Operator

We'll now take our first question from Vincent Andrews of Morgan Stanley.

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

And thank you for the updated outlook on 2022. And to that effect, if I could just ask you, Mark, what are you assuming for auto production in 2022 versus 2021?

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

And what we're assuming is that the auto production situation remains pretty challenged as it has been in the back half of this year as we go into next year. But things get sort of modestly better through the year, especially in the back half, but there's no sort of heroic assumptions about auto recovery next year versus this year in the forecast. So depending on everyone's view, you can adjust up or down relative to that assumption.

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

Okay. And if we just look at the third quarter, can you sort of help us bridge sort of how the specialty portfolio volume would have performed if you ex out the impact from auto? So what the other businesses are doing on an underlying rate?

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

Go ahead, Willie.

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

Yes, Vincent. What I would highlight, first of all, is, again, we have mix included in that for the quarter, specifically in our Advanced Materials, which is more exposed to OEM. And if you back that out, volumes would have actually been down because we had very favorable mix in the quarter as we think about year-over-year performance, especially. But sequentially, it was definitely down in the premium areas.

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

Yes. If you think about it, the first half of the year, mix was incredibly strong and driving a lot of variable margin growth and margin improvement. And there was a mix shift a bit in the third quarter. It wasn't just autos. It was also outbound logistics constraints center, especially plastics business and getting high-value products like Tritan to the market.

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Demand is incredibly strong out there, but logistics, as you all know, are also [challenging]. So the earnings could have been considerably better with those two factors, if they were a bit better.

Operator

And we can now take our next question from David Begleiter of Deutsche Bank.

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

And Mark, again, thank you for the '22 guidance. On that guidance, can you just walk through the segments and what -- how you expect them to perform in '22 versus '21?

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

Sure. So -- and here [for me], David. When you think about the overall segments, obviously, when you start with the specialty businesses, as we've noted here, there's just tremendous growth that we see possible on a number of factors, right? We've got volume and mix that should be a significant driver with the economy, to some degree, growing with the markets in it.

And there's also a lot of pent-up demand out there to drive added additional growth versus GDP as consumers fulfill desires that they can't get due to supply chain constraints and we're restocking inventory, which has not at all happened yet in this year. So that's all quite positive.

And when you think about that, especially the pent-up demand part, I think that's more significant in the AM segment. So we've given you a breakdown of AM being about 70% of that variable margin improvement versus AFP. The innovation is also incredibly strong, especially in AM, where we're going to continue to outperform the underlying markets in a significant way. You've seen this in this year.

You saw it last year in AM. You've seen it for the last decade. And the circular offerings are also accelerating a lot of growth for us in the SP business. You've seen $600 million in new business revenue from innovation. So that's a good momentum that we take into next year.

So again, those are a bit more biased towards the AM as AFP businesses also getting traction. And then market segment strategies. We continue to sort of focus on the markets that are growing, whether it's luxury EVs, water treatment, care chemicals, where we pick up a lot of just natural market growth.

And importantly, keep in mind, a lot of the growth I just described, all of its high-value mix, both within the segment and certainly at the corporate level. So there's a lot of leverage to have AM have a significant increase in earnings next year when you think about those elements. And that's also true for AFP to have good solid growth.

And then on the spread side, it's the same thing. You've got really headwinds obviously this year and prices catching up to raws through the year.

And there will be -- with the price actions we're taking through the fourth quarter and a lot of effective price increases on January 1 in businesses, you're going to see a pretty big step-up in earnings there from spreads getting better as long as you believe raw materials are going to plateau relative to the back half of this year and then trend off in the back half of next year, which is sort of our underlying assumption.

So then you pick up a pretty significant spread tailwind. It's the same thing. AFP has done a better job of sort of keeping track with prices this year because they have a lot more cost pass-through contracts. Half of the price increase in the third quarter was CPTs and AFP. Whereas AM, the interlayers business, in particular, has a lot of annual price contracts.

So it takes a while to get those prices moving up. So again, that sort of supports that 70-30 split on the spread side, too.

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So those businesses are both going to deliver considerable growth in earnings in AM as well as when you look at AFP on a recasted basis, minus the divestitures. So that's a lot of the growth there. Fibers, I think, will also be renegotiating, putting prices in on probably more than half of their revenue come January 1. And so earnings will improve there.

And then, of course, in CI, you've got normalization. That's going to happen in that business, but it's going to be offset by volume growth that will be pretty substantial next year relative to this year in ag, plasticizers and some other growth opportunities that we have as well as less shutdown.

So that all helps out. And of course, there's the cost tailwinds that we've given to you that's spread across all of these segments that give them sort of added growth. So that's sort of how it balances out, David.

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

Perfect. And just on buybacks, Mark. Could buybacks approach $1 billion next year?

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

Willie, you want to take that one?

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

David, thanks for the question. And maybe a little bit. As we think about every year, we're focused on growing free cash flow to that $1 billion level. As we go into '22, obviously, we'll have the impact of the divested EBITDA. But we believe fundamentally, with the working capital abating, given the raw material assumptions that Mark just outlined, right now, year-to-date, we've had roughly $450 million of inflationary pressures on working capital.

We see that reverting also as we continue to invest in circular and growth in our capacity assets. Net-net, we think, excluding the dividend, debt being back, we'll have $600 million of free cash flow. Then if you take proceeds from our divestitures on top of that, it definitely, is possible.

Operator

We can now take our next question from Kevin McCarthy of Vertical Research Partners.

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

Mark, you announced a nice deal to divest the adhesives business, and of course, the Crystex deal is still pending. I was wondering, if you could just walk us through, at a high level, what your thoughts are on capital redeployment and just the portfolio composition moving forward. Does this bring the company to a reasonably steady state in 2022? Or is there more work to do in terms of the mix in the portfolio over the next couple of years?

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

Yes. So we certainly like the portfolio we now have. We think that AM, AFP businesses are very well-positioned to deliver strong growth and earnings and increasingly improving margins. And the Fibers and the olefins part or the CI part of the business is an integral part of our integration, scale, cash flow, et cetera.

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So we like the portfolio as it's configured right now as we look at deploying capital to your question, Kevin, on delivering more growth from the total company.

When it comes to capital deployment, obviously, our free cash flow remains incredibly strong. And our balance sheet now is also strong, with delevering being in our rearview mirror. So as we look forward, I think we should think about how we deploy capital on sort of multiple fronts.

First, you should expect CapEx to increase a bit next year as we have the combination of specialty growth and the first methanolysis plant that we're building here in Kingsport. So normal CapEx growth to support our specialty strategy is in that $500 million to $600 million range. And then, of course, you've got a good portion of that $250 million of the Kingsport plant being spent next year.

Now we're balancing some of the specialty CapEx between next year and pushing some of it to '23 to keep this sort of imbalance across the 2 years, but CapEx will be a bit higher for that.

Then after that, you look at how am I going to deploy my balance sheet and cash, and there's really sort of four buckets. The first is the potential to continue investing in the circular economy. We're pursuing multiple projects beyond this first plant.

If we can achieve the conditions that we've talked about in the past about those being very attractive investments and very stable sources of earnings, those projects could be very accretive to earnings and ROIC. They're very attractive from a return point of view. And that could be a use of where we go with our balance sheet.

The second, of course, is bolt-on M&A where we'd like to ramp up that level from where we've been in the last couple of years. This is returning cash to shareholders, which I think will be significant as we move forward. And, of course, a growing dividend.

So it will be a balance of capital deployment, I think, like we've always had across these areas. There's a lot of attractive investment opportunities for us right now. And so we're really excited about how we can sort of deploy capital and create growth for our shareholders.

Operator

And we can now take our next question from Frank Mitsch, Fermium Research.

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

Congrats on the divestitures. And just a follow-up, Mark, you did talk about uses of cash and possible bolt-on M&As. What are the current valuation levels like? And what does your current pipeline look in that regard?

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

Yes. So the bolt-on M&A pipeline, there's a number of ideas that we have that are -- can be attractive in Advanced Materials and AFP, as we try and build out our additive portfolio in AFP and accelerate our access to additional markets in Advanced Materials, especially in specialty plastics.

But as you've noted, Frank, you have to be careful. There's a lot of buy-side interest in pursuing M&A right now as everyone has improved balance sheet and cash. So we're going to be disciplined as always. We're proud of the fact that we don't overpay for assets, whether it's at the large ones we've done in the past or the bolt-ons we're focusing on now.

And so we'll see. There may be some constraints because we're just not going to run around and overpay.

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

Got you. Got you. And if I could come back to the automotive piece. You referenced that you are doing better than you had back in 2018. And obviously, with builds being off, where do you stand in the interplay between your sales into the automotive space versus where the build rate is today? And how should investors think about that interplay going into next year?

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

So in Advanced Materials, our OEM exposure is bigger than AFP. That's another one of the differences, AFPs. Their automotive exposure is about half refinish and half OEMs. So they're a lot more balanced in the OEM production drama as refinished is just continuing to improve.

But on the OEM side, the supply chain is really short between OEM production and the production of our interlayers. So that actually happens pretty quickly. So as they're adjusting their production rates weekly, we're adjusting right there with them. So we're realizing that in a pretty quick fashion.

The performance films business has actually done really well through the third quarter because companies -- the dealers -- the auto dealers are out there trying to upgrade the value they were getting on each car. And so selling our paint protection films, window films was a nice adder to the few cars that they have to sell.

But even that, seem start to catch up to us on what they have to sell right now.

So we're feeling a bit of that as we go into the third -- the fourth quarter.

But I think that as they have more cars to sell or produce more cars, you're going to see that pickup in sales happen pretty quickly for us because there's really no inventory in the channel between us and the primary market. So that, I think, is good news, as supply chains at some point are going to start getting back in control and production will be there.

Clearly, end market demand is quite strong. So there's plenty of pent-up demand of people who want to buy cars. When you look at just how much they're paying for used cars right now, they're clearly -- there's a lot of demand out there. So I think, if we have a recovery, it will be pretty fast. And it will be a little bit slower in AFP because that supply chain is [longer].

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

Fermium is going do its part to increase car sales, just so you know. And looking forward to December 7.

Operator

And we can now take our next question from Arun Viswanathan of RBC Capital Markets.

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

I just wanted to, I guess, talk about '22 initially or list your initial comments there. What are you expecting, on the last question, as far as global auto production? And it appears to us that many companies in your position are actually assuming rates below the IHS recovery. So maybe you can comment on that first.

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

Yes. So on a 4Q basis, I think our view is below IHS. And I think IHS is from what I can tell, moderating their view downwards for the fourth quarter. So production, obviously, what we're assuming is similar to maybe a little bit better than the third quarter, but not any significant change to help in the quarter.

When it comes to next year, let's be honest, it's anyone's guess, right? When the supply chain on components is going to improve and production is going to improve. I think, we are being cautious and not assuming much improvement in the first half of the year. But we do assume that eventually, these issues are going to get addressed and so there'll be some modest improvement in demand in the back half of the year. But our guidance is not based on some substantial improvement in auto demand.

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

And then, I just wanted to also ask about strategy, I guess, going forward. Following the sale of Crystex here, are there other properties within the portfolio that you think are noncore anymore?

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

No. Not at this time. So we're very happy with the AM and AFP portfolio. The two obvious questions that come up in the past is Fibers and olefins. On the Fibers front, I remind everyone that it is deeply integrated into our overall cellulosic biopolymer business. We have a lot of biopolymers, specialties we are selling off of the stream in Advanced Materials and AFP.

And with the significant change in the world's view around waste plastic and climate, we just have tremendous growth opportunities in front of us in both AM and AFP, with that integrated stream.

You're going to learn a lot more about that at Innovation Day where we're going to identify a bunch of new opportunities we're pursuing that can be quite substantial. And textiles growth in itself, in Fibers, has been actually quite strong. It's incredible how the textile growth had been 80% up year-over-year, obviously, on the challenged market that still tremendous growth, offsetting not just total market decline, but also that discontinued product.

So that business as well is at the position now where textile growth will offset to market decline or better. And we're, in fact, demand exceeding our expectations, where we're having to pull forward conversion of tow assets to making textiles. So that business is on track and it generates a huge amount of cash flow that supports all the investments we're making in growth in AM and AFP.

Olefins, it's a bit of a similar story where we're dramatically improving the quality of the earnings in that business. Obviously, it's doing really well. But we've been taking a lot of actions over the last 3 years to improve what is a new normal for this business, which is more likely probably around $300 million.

And there are things like closing the Singapore plant where we had a very disadvantaged raw material energy position. That's a big upgrade in the quality of that business with it closed. A lot of operational cost transformation work that we're doing across the company does flow into the big assets that flow into Chemical Intermediates.

The RGP investment is giving us flexibility to reduce ethylene when it's not attractive and make it when it is that it reduces sort of volatility around that. And we've got a new investment, we'll tell you about an Innovation Day for modest capital that will significantly improve our olefin production flexibility.

And mix is getting better, right? The amines business inside that overall portfolio is great, growing and stable. And we have a lot of our businesses on cost pass-through contracts that give us a certain amount of stability, probably about 40% of revenue.

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There's a lot of things in the olefins space we've done to improve it. We're obviously disciplined about our portfolio. But as you look at the significant growth opportunities we have in front of us and that balance sheet strength that we want to leverage, deploy and grow the company, the cash from both Fibers and olefins creates a lot of value. So when we look at the portfolio today for what we want to do now, this is the right portfolio to grow.

Operator

The next question from P.J. Juvekar of Citi.

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

Congrats on being named in the Fortune Magazine. I think, you're one of the few chemical companies. Also, you're creating this specialty brand with circular economy -- in the circular economic products like Titan, on one hand. And then you have to fight commoditizing businesses, on the other hand, like adhesives and tire additives.

And so like many other chemical companies, you have to constantly fight that battle between businesses commoditizing and then innovating. So given that you think you have the right portfolio, to move that portfolio solidly into specialties, would you look at making a big specialty acquisition? Or would you look at just sort of continuing more bolt-ons?

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

It's a fair question, P.J. We're always looking at how to enhance our portfolio. And obviously, we did significant portfolio change way ahead of many with the addition Solutia and Taminco and divesting a lot of commodity businesses. It's easy to forget history sometimes, but we moved out about $3.5 billion of commodities and added $4.2 billion of revenue in specialties out of $10 billion is a huge portfolio change.

So we do really like a portfolio we have now. And yes, we had to optimize it around some underperforming businesses. And I'm proud of our teams delivering on that restructuring activity, which is never easy to sort of get to where we are.

We don't really feel the need to get a lot bigger. We think we're at a good scale to continue to invest in fundamental R&D, product development as well as application development to grow. And I think that the circular economy, on top of very attractive specialty growth and where we could take that with multiple plants, is a game changer for how we can grow the company and how it could be valued.

So we really are focusing a lot on how we focus on circular. We've got two extremely advantaged streams. Polyester and the way we can do circular economy is a very advantaged stream to grow in this current macro environment that wants to get rid of plastic waste and improve our impact on climate.

And the cellulosic stream is also incredibly compelling. There's just a tremendous amount of opportunities when you've got a polymer that's 60% biopolymer with our new recycling technology there, 40% recycled plastic waste. And the biodegradability of the product is tunable for different applications.

And that last part about biodegradability is increasingly important, and we'll tell you more about that in Innovation Day and some of the opportunities in front of us.

So we see a lot of growth in capital deployment in that direction to deliver a lot of organic growth from the portfolio we have right now, where we don't really feel the pressure to run out and do some large M&A. And at the prices today for large M&A that's really attractive, you're going to have a challenged situation in getting a good return. So we don't really -- we're not really focusing on that.

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

Okay. Great. And then you made more propylene in the quarter using your refinery propylene investment, and you had to buy less propylene as a result. Propylene had spiked. So when you look back, it looks like that refinery investment made a lot of sense. But when you look back, what kind of returns do you think you achieved on that? And can you just talk about that?

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

Yes. P.J., this is Willie. That paid off in less than a year, and we're at multiples now. So it is a great investment. And we're going to be excited to tell you about some additional options that we have to further raise the floor as we think about the long term because of our ability to optimize our olefins at the Longview site.

So again, the modest investment that Mark talked about is another option that we think similar to RGP that will be multiples. And again, most of our capital, as Mark just highlighted, is focused on the specialties and the new vector of circular. But we're still going to make the right optimizations to improve the quality of the portfolio long-term.

Operator

And we can now take our next question from Aleksey Yefremov of KeyBanc.

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

Could you discuss free cash flow conversion. What kind of conversion in terms of percent of EBITDA? What percent of net income do we see next year?

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

Yes, Alex, this is Willie. What I would say is, again, at a growing EBITDA number, we strive to be around that 50% level. If you think about $1 billion, $1.1 billion and $2.2 billion of EBITDA pre divestiture, and we're going to grow back to that level as our focus based on our '22 bridge that we gave you earlier. So think around that 50% level.

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

And Mark, a question for you on Circular Polymers business. Feedstock availability is a major issue, as you know. Could you discuss what progress you're making this year in securing access to necessary waste streams to grow that business?

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

Sure. Yes, we're making great progress. The advantage we have right now is we're pretty much ahead of the industry and going to commercial scale and building the largest molecular recycling plant on the planet, I think, at this point. So that gives us an advantage in how we show up with different suppliers for what we need.

There's no doubt that there's plenty of plastic waste. I mean, when you look at polyester just in the U.S., you've got over 20 million pounds of waste a year. About 40% of that is packaging and only about 25% to 30% of that can be recycled today. So -- and when it gets recycled, frankly, most of it goes into textiles, not bottle to bottle.

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So as you tap into that stream and the advantage of methanolysis is it can use what can't be mechanical recycled from packaging, but it can also use carpet textiles, which almost all end up in landfill. So accessing 100,000 tons of feedstock out of that significantly large number when you're the first showing up to sort of secure, it is challenging but doable.

And the infrastructure out there clearly needs to improve in the U.S. as we get consumers to recycle more and policy to support it and infrastructure in place to sort of recycle it as we look at plants 2, 3 and 4.

But as we look at the first one, we're confident that we can do this, and we will provide more detail in Innovation Day. You're going to hear that a lot today about -- you'll get more detailed Innovation Day, but it's a better forum to provide more detail on this question, which is incredibly important, and we're very focused on it.

Operator

And we can now take our next question from Mike Sison of Wells Fargo.

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

I didn't know you had a lot of material on Fermium and Ferrari, but in terms of your -- for AFP, can you maybe talk about each of the businesses you noted in the prepared remarks that you felt these are businesses that are well-positioned to grow? And maybe just talk about some of the growth prospects for each of the remaining businesses in AFP?

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

For next year, Mike?

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

Yes, for next year.

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

Yes. So when you think about it in the specialty plastics world, we have just tremendous growth in Tritan. Market demand exceeding our logistics capability serving the market, and we're even capacity constrained into the second quarter, which is why we converted line over to serve Tritan. And now, we've got that capacity that came online through the third quarter and a position to serve growth next year.

And it's coming from a range of markets. So there's the traditional markets that are being driven with accelerated growth with our renewed recycled content like hydration that's delivering a lot of growth in housewares, those traditional markets that we've always grown in are being accelerated.

And then on top of that, we're getting access to new markets that we wouldn't have normally had. The story we shared with you with Stanley Black & Decker a great example. I mean, it's a power tool. We're not normally in power tools. We normally go into optical clarity kind of applications with Tritan but this is the housings for power tools.

And that customer adopted us because one, they're committed to addressing their Scope 3 climate from suppliers and recycled content was a way to start making progress on that, especially as our technology has a lower carbon footprint in a meaningful way relative to a normal fossil fuel process.

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And they wanted to maintain their quality, right? So a lot of these applications, you can't use mechanical recycling at all because when you're just blending mechanical recycling with virgin, the quality of the product goes down on multiple dimensions.

And you can't have that kind of a compromise in the power tool. So we were able to provide recycled content, carbon footprint improvement, zero compromise on the performance of the product. And that's an incredibly important aspect of why we're growing.

And then the third part of it was actually a partnership for them. So they want to make sure they're aligned with a company that could scale with them and it was going to be a reliable supplier of this product. There's a lot of companies starting up out there, but they're start-ups, right? And they haven't scaled their technology.

So when we can show up and provide a product where we've been -- have a 40-year history in doing methanolysis and we've got 100 years of history of supplying products to people very reliably, that was incredibly important to them and who they're going to choose. And we've had 10 other brands sign up in this quarter -- in the third quarter for those sort of similar set of reasons, which we'll tell you more about.

But we're really well positioned. It's not just Tritan. It's Cristal Renew, which is our high clarity copolyester recycled content and cosmetic packaging. It's a wide spectrum of things, including our cellulosic into eyewear, et cetera. So a lot of growth in specialty plastics.

Obviously, the interlayers in performance films businesses are tied to the auto production recovery as we discussed. But mix is still important, and we still see the mix improving faster than the absolute volume in production because the first thing that the OEMs are going to produce are more luxury high-end value cars when they start addressing their chip and component shortages.

And we'll pick up that volume with our products are aligned with that market and the mix value of that is also incredibly important. So a lot of growth that can occur across the entire segment.

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

Mark, you might want to do something similar to that for Additives & Functional Products as well?

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

Sure. Yes. Wow. Question from my own team. That's a new one. So Greg, on [AFP], I think it's the same thing. Coatings has had tremendous growth this year. And that growth will continue. And there's a lot of pent-up demand in coatings, as you all know, with our customers struggling significantly with supply chain challenges.

So add to them ramping up just to build inventory to serve the seasonal demand next year is good as the supply chain issues continue to get resolved on a availability point of view. So I think, we'll continue to see very strong growth there.

The care chemicals business has great steady growth, same with water treatment that will continue going into next year. And then Animal Nutrition is really accelerating their growth in higher-value formulated solutions through the 3F acquisition. And there's, of course, recovery in the aviation business. So there's a lot of different vectors across the entire segment that remains that's well-positioned for growth in the markets that it serves.

And then of course, we've got innovation like Tetrashield in the packaging that will be a vector of growth. And continued growth in some of the care chemical opportunities and some really exciting new ones that we'll tell you about on Innovation Day.

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

Great. And just a quick follow-up on Chemical Intermediates. EBIT margins have been in the high teens for the last couple of quarters. It sounds like, it will stay maybe in that range for maybe the next 3 quarters. And then, I think in the prepared remarks, you mentioned that you felt it would

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normalize in the second half. So just curious what normal means these days, but any thoughts of where that level kind of settles in versus much lower levels in the past?

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

Yes, Mike. So I think that when we think about normalized, we think that's going to be around $300 million. Obviously, there's a path to normal as we go through next year where we expect, at least, in the first half, market conditions to stay relatively tight.

Obviously, there is some loosening of those markets even as we go into the fourth quarter based on our guidance. A lot of it is -- we had tremendously high-value spot sales and incredibly tight market conditions when you look at the second and third quarter. As. demand gets a little bit more sort of balanced, those spot sales go away, and that's a bit of that headwind you're going to see from 3Q to 4Q for CI.

But the overall fundamental dynamics of these markets at the derivative level, in particular, I think we expect to remain reasonably tight as we go into the first half of next year and then assume normalization towards that $300 million level in long-term. So -- and I already went through all the details of how we've raised that, what is normal up in the actions that we've taken. I won't repeat it. But there's a lot of things we've done to improve this business, and this new investment will be another step change improvement when it comes online.

Operator

And we can now take our next question from Matthew DeYoe from Bank of America.

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

So I want to hammer in a little bit more on the strategy to offset dilution given all these sales. Will you look to pay off any debt given the lost earnings? And if this is all -- or sorry, is it all buyback? And if it's the latter, I guess, why not execute more aggressively on a buyback now ahead of proceed collection just given your cash balance?

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

Thanks for the question. Let me frame it this way, which is we expect total proceeds to be about $1.8 billion from these transactions and actually $1.7 billion in that over the next few months. So as we look ahead also, this was about 8% of our EBITDA. So as you think about the flow of market cap, we're looking at roughly $1.2 billion. I'll look at that as probably the floor.

As you think about offsetting dilution and paying taxes, that will raise the number up to roughly $1.5 billion or so. We're going to put that money to work starting here in Q4 with the tires closing, which we expect here in the near term.

With that, also given our balance sheet on the tires position, we don't expect to pay down any debt related to that. Obviously, as we look at 2022, we'll see at the timing of getting the proceeds and also managing our debt ladder as we look at '22. We'll have a refinancing in the August time frame and have plenty of time to optimize that when we get there.

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

Okay. And I know COVID obfuscate us a little bit. But if we were to look between, I don't know, 2015 or 2018 and 2021, what would pro forma growth for AFP have been ex the problem child with Crystex and adhesives just given -- maybe even a better question like what should we expect as the pickup in organic growth in the next 5 years versus the last 5 given the lapse in these businesses?

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

Yes. So if you looked at -- and we will be providing a recast, so you can see it in specific numbers. But roughly what you'd see between 2018 and '21 is a roughly flat similar to EBIT from '18 to '21, when you have excluded sort of 1/3 of AFP as we've been discussing it. So I think that's quite stable when you consider the China trade war and the pandemic and sort of recovering out of it.

And that is based on -- when you look at it relative to '21, an improvement in volume and mix that's been meaningful.

Spreads are probably a bit challenged relative to '18 just as pricing is still catching up to raws. But overall, very well-positioned segment to deliver pretty strong earnings growth next year relative to that recast number.

And that volume mix comes from everywhere. It's coatings, it's animal nutrition, it's care chemicals water treatment, even specialty fluids except for aviation in '21. So -- but that will obviously start correcting itself as well as you go into '22 on that front. So it's an across-the-board sort of volume mix story.

Operator

We can now take our next question from Daniel Rizzo of Jefferies.

Daniel Dalton Rizzo - *Jefferies LLC, Research Division - Equity Analyst*

Mark, a quick question on your portfolio. I mean, it has definitely changed over the years, but you still have a mix of specialty and non-specialty businesses. So if you look over the course of 12 to 18 months, are higher raw materials good or bad for you? Or is it neutral over time?

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

If you look at it on a combined basis, it's probably -- from a raw material point of view, I would say you got to then convert that to spreads. Raw materials are up everywhere, but obviously, prices are up more than raw materials and CI where we're lagging price-wise in the specialties.

Those two do hedge each other out. That actually provides earnings stability. So if you're focused on earnings stability, a bit of a balance when you've got CI at just 20% of your earnings actually provides some benefits in times like this as your prices are catching up to specialties. And the opposite will be true next year as the price and spreads will improve and the specialty, obviously, you're going to have some spread normalization in CI.

The important part of our strategy and our story is not spread, right? We've been very clear about this, right? Our strategy is growing volume and high-value mix in that volume against an asset base that we continue to upgrade with that mix to deliver increasing ROIC as well as deploying more capital for that high-value mix. And that's why you drive value long-term, right? It's not to have spreads bouncing up and down. And so, they actually sort of hedge each other out and provide some balance, and that will be true of next year like it is -- has been this year.

Daniel Dalton Rizzo - *Jefferies LLC, Research Division - Equity Analyst*

Okay. And a quick one, a follow-up on -- I mean, you've talked about the bolt-on M&As. Like is the focus mainly in the U.S. or other opportunities ex-U.S.?

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

Yes, as we look at the pipeline, it's -- we're focused globally. As Mark highlighted previously, it's obviously looking at our specialty plastics business and across the new AFP portfolio. And we're focused on that and also on our circular projects from a growth standpoint. So it's about focus now that we've completed the 2/3rds action -- or the actions on the 1/3rd, so that you can see the value of the new AFP.

Operator

We can now take our next question from Bob Koort of Goldman Sachs.

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

Mark, I was just observing that over the last 6 months, the '21 earnings for you guys seem to have climbed about 14% or 15%, at least the estimates and the stock's done the opposite. It's down about 15%. You've had this derating that seems very consistent with commodity companies, commodity chemicals like a Dow or Lyondell, they've sort of seen that same derating.

And yet you've been on this evolution upgrade the portfolio. And so there seems to be a pretty stark dislocation from the market perception or appreciation of those efforts and what I would guess are the internal expectations and perceptions there.

So I guess at some point, does the Board decide to get more aggressive or consider an LBO or maybe as Matt suggested, do an ASR before the market catches on to what I would suspect you guys believe internally?

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

Well, I'm not going to answer that question, Bob. But what I can tell you is the Board is incredibly excited about our strategy and the value creation opportunity that it presents. In the end, you, the market, decide what the company is worth, not us.

But as we focus on what we're doing in the specialties, as you noted, I think we're going to demonstrate incredibly strong growth next year relative to this year in that part of the portfolio. I think, we're going to manage capital deployment in a responsible way to deploy it in ways that create a lot of very attractive ROIC growth, leveraging the core technologies and platforms that we have.

And then you pile on the circular where we could deploy significant capital, if we can get these projects done under the conditions that we have that they provide stable earnings is a significant vector of new growth that isn't remotely factored into our valuation from what I can see at this point.

So there's a huge amount of upside as you're pointing out, and where I think our stock price can go from today. And as that all plays out, and our balance sheet strength that is quite significant now going forward gets deployed, there's a huge amount of upside. And we're confident investors are going to see that value and invest in the company.

And that's why we're doing our Innovation Day in December is to say, lay that all out for you to make sure all of you can see sort of how that can create compounded growth in earnings and cash flow as we go forward.

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

Got it. You mentioned in Advanced Materials, a decent chunk of contracts that reset annually. I was wondering, if you could give us more description there. Is that typically or exclusively to the automakers? Is there any opportunity to shorten up those contract durations, so you can have more market-based pricing or give us some sense of that?

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

Yes, these contracts are between us and the glass companies, right? So we don't sell to the OEMs. We're selling to the glass companies that use our films for laminating that glass. It's been a traditional structure in this market since we bought it with these annual contracts. We are looking at how we negotiate both price and structure to these contracts going forward.

Obviously, in years of declining raw materials, we like them. In years where raw materials spike up, especially when they spike up like this, it's a problem. It's the same issue in Fibers, where you've got these annual or multi-annual contracts where the prices are locked in.

And so when you had that huge spike up in energy and raw materials in the back half of this year, you're going to sort of have to wait until January to sort of recover it. But we are aggressively going out with price increases in both interlayers and Fibers, Jan 1.

Operator

And we can now take our next question from [Paretosh Misra] of Berenberg.

Unidentified Analyst

With regard to your PRT start-up next year, it sounds like there's a big demand for recycled plastics. Can you give us a sense as to what percentage of volumes are already booked or contracted? And would you announce an expansion, if you say, are 70%, 80% booked?

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

So the uptake in engagement from brands has far exceeded our expectations on the specialty side. We were thinking we have swing assets where we can make our specialty plastics or PET for packaging. And we thought we'd actually be selling a lot of PET for packaging, and that's looking like that's not going to be the case because the specialty demand is so strong.

So I think, we're in very good position for loading the asset pretty quickly into the markets. We're not going to disclose the specific percent number. But I think, it's going to be quite robust and quick.

As regards to demand that goes beyond our first plant, yes, the demand is very much there. And that's why we're working so diligently right now with countries and brands around the world, especially in U.S. and Europe right now, who want to solve those challenges.

When the brands look at this situation, right? They've got two goals. They got to address packaging waste, specifically plastic waste is getting a lot of attention. But if you switch from plastics to something else, you still got to manage that waste.

And so as you look at this, they've committed to very high recycled content targets, and there isn't remotely enough mechanical recycling product out there to supply that need reliably. In addition, the price of mechanical recycled rPET is going up dramatically in Europe and now as well in the U.S. And the brands are worried about how much that's going to keep going up.

And they are also doing life cycle analysis on the carbon footprint of not just plastic, but alternative materials that they could consider. And unfortunately, you run into a problem, which is all the alternative materials have a worse climate footprint. You recently saw Wendy's switched from coated paper cups to plastic because plastics got a much better climate footprint and can be recycled where the coated paper cannot be recycled.

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So the brands are very focused on how to recycle plastic for a lot of applications and realizing that molecular recycling is the only way forward, especially long-term, if you want to keep your product quality the same, then mechanical recycle is limited in how it can be used. And it degrades over time.

So if you want an infinite solution, you've got to have molecular recycling as part of the solution.

So engagement is strong. The need to build more plants is there. And we're driving to find a way to do that under the right conditions. And they are attracted to us because our scale -- our technology is scalable now where the start-ups are still sort of piloting and trying to figure out how to scale up. So that's also drawing a lot of attention to us.

So we feel good about where we're at. We're excited about doing this. But to be clear, we're not going to build any additional plants unless we get the sort of contractual commitments for offtake to give us stable earnings.

Unidentified Analyst

Got it. And then just as a follow-up because CRT process can take a lot more different types of plastics than PRT. So how should we think about the PRT versus CRT mix as these -- both these processes start ramping up in the years ahead?

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

Yes. Well, first of all, they're actually a great complement of technologies together at this site because we have a unique proprietary way to separate unsorted waste plastic that just separate it from polyester to everything else at a much lower cost. So that's one of the feedstock sourcing advantage that we have that I should have mentioned earlier.

And that allows us to take that mixed waste plastic in the CRT, take it into our acetyl stream and make cellulosic biopolymers that gives us a lot of sourcing flexibility. So we see both technologies creating a lot of value, and the CRT is also, through the cellulosic, drawing a lot of attention.

We've always had -- we've had a biopolymer for 100 years, if you want to go back to acetate film with Kodak. And we've created this huge spectrum of applications off of that core technology in AM, AFP and Fibers.

But with the recent change in focusing on climate, focusing on plastic waste, instead of recycling, you can also have biodegradable products as a way to sort of have circular life and that's drawing a lot of attention around the cellulosic stream. We can take back polymer and put it back in the CRT or we can also provide ones that biodegrade based on the application. So a lot of interesting growth there as well that we're really excited about.

Operator

We can now take our next question from John Roberts of UBS.

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

I thought the formic acid business was also in the underperforming category. I may be confusing underperforming with noncore, but has that improved a lot now and is part of the core operations?

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

John, this is Willie. On the formic side, yes, it's a much smaller component. It's a fraction of the size of the two businesses that we sold as we've taken operational and transformational and the operations there. We think, we've got the results that we need and the performances is adequate.

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

Okay. And then are automotive films and automotive coatings ingredients being impacted equally by the automotive curtailment?

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

So from a film's point of view in Advanced Materials, the interlayers and the aftermarket performance films are more impacted. They're more OEM exposed than our coating additives, where about half of it goes into refinish. And therefore, that's obviously a lot more stable in the current situation. So we feel more of the impact on the film side.

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

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

Operator

We can now take our final question from [J.D. Panda of On Field Research.]

Unidentified Analyst

Just one question really is on your guidance for 2022. I mean, hearing in the call and hearing you talk about so many factors that are going to catch up and be beneficial. Just wondering, are you being just very conservative with regards to your EPS range of 9.5% to 10% because considering all the sort of catch-up on raw materials and the volume leverage that you were talking about in your specialty businesses, I'm just trying to understand what is the conservatism, if there is?

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

Look, I wouldn't call it conservative or optimistic at this point. I think, what I'd say is we're sharing our best thinking with you right now of what we know. Obviously, there's a lot of uncertainty in the future.

Things we're certain about is we know we can control our costs, right? And we have a very aggressive transformation program going that when you look at operational transformation cost cutting plus variable comp tailwind, that's about $200 million of tailwind that offsets about $80 million to $100 million of inflation.

We know that we're going to invest in growing this business. We have tremendous growth opportunities right there across our portfolio. And so we have growth investments in that sort of $50 million to $75 million range that is controllable. We can control the pace of that based on how the market is doing. And that does include some preproduction expense on starting up methanol and some other plants when you think about that number.

But those are controllable. Obviously, there's uncertainty about where CI is going to go. I think we've got a reasonable assumption, but we'll see. We'll defer to the -- to some other companies on that and where the markets are.

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And then on the specialty side, what I'd say is we do feel good about the growth potential, the innovation to create levered growth on these markets and that spreads will be a tailwind. But there's still a lot of uncertainty about automotive demand as many of these questions have highlighted, there's uncertainty about where raw materials are going to trend and how they progress from where we are now into next year as well as distribution costs.

So there's a lot of uncertainties out there that none of us can, frankly, predict.

So what we're confident is if you look at it in three buckets, you've got divested earnings offset by share repurchases. You got a bucket of CI spread normalization offset by cost reductions. And then you're asking a question, which is can specialties grow next year relative to this year in variable margin. And I think we've laid out a case where we think the answer to that is very much yes.

But I'm not going to get into trying to be more precise about that until we get to January. We're going to have a better look at the world we live in at that point.

Unidentified Analyst

Great. And well done on the Synthomer deal.

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

Thank you.

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

Thank you.

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

Just to wrap up, what I'd like to say is deeply appreciate the questions, the interest in the company. We're incredibly excited about the Innovation Day coming up in December. It's been a while since we've had that kind of opportunity to really get more into the detail with investors on how we're going to grow this company and deploy our balance sheet to create a lot of very attractive growth.

And we're excited. When we look at -- the Board and I, we're having this conversation at our last meeting in the beginning of October, and this is the most exciting time I think, we've had when we think about all the different ways we can grow this company. and create value. So we look forward to sharing that with you in December. Hopefully, it will be virtual, but I hope I will get as many people as possible show up in person as well as be available online so we can have a better chance to interact with all of you. Thank you.

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

Thanks again for joining us this morning. I hope everybody has a great day. That's the end of the call.

Operator

Thank you. This concludes today's conference call. Thank you all for your participation. You may now disconnect.

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