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PRESENTATION

Operator

Good day, everyone, and welcome to the Fourth Quarter Full Year 2021 Eastman Chemical Conference Call. Today's conference is being recorded. This call is being broadcast live on the Eastman 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, Tracy. And hello, everybody, and thank you 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 closed, we posted our fourth quarter and full year 2021 financial results news release and 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 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 fourth quarter and full year 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 third quarter 2021 and the Form 10-K to be filed for full year 2021.

Second, earnings referenced in this presentation excludes 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 fourth quarter and full year 2021 financial results news release.

As we posted the slides and the accompanying prepared remarks on our website last night, we will now go straight into Q&A.

Tracy, please, let's start with our first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will now take our first question from David Begleiter from Deutsche Bank.

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

Mark, just on Advanced Materials, very nice guidance for 2022. Can you talk to how much lines that you have to that \$700 million EBIT being performed this year between price increases and innovation?

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

Sure, David, and it's good to hear from you. And we are really excited about Advanced Materials and its ability to deliver pretty substantial earnings growth, as you just mentioned.

And I think to talk about it, it's best to start with the context of last year because it really feeds into why we're so confident about this year. So last year, both at the company level as well, in particular, at the Advanced Materials level, primary demand was incredibly strong at the consumer level, strong in transportation, B&C, durables, a variety of markets, textiles, et cetera. And so there -- the constraint in serving it, especially in Advanced Materials, was -- in a demand situation, it was an outbound logistics and operational concern, because the demand did come back in such a strong way, we -- across the world, of course, ran into supply chain outbound logistics constraints in the industry. And we at Eastman had operational constraints. And so you've got all this primary demand.

Then you've got the innovation driving the growth to be well above end markets, especially in durables, and transportation and textiles -- textiles is in fibers. And you've got these operational constraints, right, that were in 3 buckets. There were planned shutdowns and in particular, in Advanced Materials, we had a pull forward, the line conversion of Tritan, because that demand was so strong, we weren't able to serve it with the existing capacity. So we had that line conversion that took a bunch of capacity off-line during the second quarter of last year. And then we had a long shutdown in the fourth quarter to expand capacity and improve reliability. And bringing that facility -- set of facilities back up online in December took a lot longer than we expected. So operationally constrained demand through last year.

So when you look at this year, from a volume mix point of view, we expect to have a lot more capacity. And we're in a better logistics position to serve all that demand. Innovation will continue to deliver a lot of strong growth on top of that, that allows us to have a big -- a very large driver on that front.

In addition to that, of course, with the market being so constrained and tight last year, we had extraordinary inflation across the company and in AM. And it really accelerated through the back half of last year, Advanced Materials in particular. And so we -- there was a period of time, as always, that takes prices to catch up to raws. Now on that front, we did a great job of getting all of our prices back up in specialty plastics as well as new contracts and interlayers to recover the distribution energy and raw material headwind that we had incurred.

And as we look forward, those prices are sufficient to cover -- raw material and energy costs being similar to fourth quarter and an increasing logistics headwind this year. So you've got at least \$100 million of spread tailwind that is fairly well defined by the prices we have in place now. So you put those together, that's very strong growth. But then there's still a cost tailwind as well for this segment. So when you have all those operational shutdowns like we did last year, it's not just the higher maintenance costs, the lost volume opportunities, it also led to a very high air freight expense. At the company level, airfreight was probably \$65 million last year relative to a normal \$10 million, and a lot of that was in Advanced Materials.

So our supply chains are in much better shape where we're not going to incur that air freight this year, already have good plans to materially reduce it back to that more normal level. Not all the way there, but good progress. So you've got cost tailwinds, to some degree, offset by gross spend. But when you put it all together, it adds up to a very impressive earnings outlook for Advanced Materials. And you'll see that immediately in the first quarter with strong sequential improvement as that volume and mix improves without the operational constraints of that fourth quarter, which was over \$25 million there.

Spread expansions are going to occur by those prices that are already in place as we talked about and costs will be a bit better. So we feel great about the segment. And it's really a testament to the innovation, right? It's not just about markets. We're growing well above our markets, even in automotive being above the automotive challenges by a significant amount.

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

Very good. And just one thing, lastly on Fibers, Mark, you referenced strong growth in textile products. Can you help talk about the growth of those products in '21 as well as your earnings profitability and what you foresee for 2022 in textile products?

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

Yes. Textiles is a great story. As you know, we've been investing in building out a new set of markets with an improved Naia textile fiber. And then we've been able to add sustainability to this value proposition with, not just the biopolymer content that we've had forever, but now the acetyl component, the other 40% being derived from waste plastic. So you've got a product that is sustainable and sustainably growing force wood pulp made from moist plastic and certified biodegradable as microfibers if they get into the ocean through the washing machine, et cetera.

So that value proposition, especially for luxury brands and the women's wear market, where sustainability is a very important factor, is driving just tremendous growth from that market, combined with market recovery from 2020. So you saw a very good revenue in the Fibers segment that was driven by this. Revenue volume mix was relatively stable in tow. And so the revenue growth is really being driven by the great success we're having in this space. And it's exciting because we see that continuing, right? The growth we're seeing in women's wear, also starting to get in athleisure is creating a lot of opportunities to grow. In fact, this is like Tritan, where we're moving quickly now to convert more tow lines to making Naia textile fibers to keep up with the growth that we see this year and the years to come.

So it's an exciting story. And they obviously -- and this business, by the way, on the textile side did a nice job of keeping prices to keep up with raws. The spread compression that happened in this segment was really on the tow side.

Operator

We will now take our next question from Vincent Andrews from Morgan Stanley.

Vincent Stephen Andrews - Morgan Stanley, Research Division - MD

Mark, maybe you could just talk to us a bit more about the recycling plant announcement in France. And 2 particular areas I'm interested in is, one, just on the milestones that -- the boxes you need to check and your comfort that you're going to check those boxes, and maybe over what period of time you think you'll be able to do it.

And then following up on the textiles line of discussion. I did notice that you did include textile applications as an outlet for the France project. So I'm just curious, in that overall project, how big of the mix textiles might be? And if the -- versus maybe a year ago, if the incoming on textiles for that type of a facility is really increasing, and maybe that's going to be another vector for this application.

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

Thanks, Vince. And we're really excited to get this second project announced. Obviously, we're incredibly excited about the first project we're building that will be online at the end of this year, proving out this technology at much larger commercial scale and enabling very attractive specialty growth here in the short term.

But as we look at the French project and getting a position in Europe to serve and enable the circular economy is just an exciting opportunity. We looked all over Europe, and France was a very unique opportunity that we're very excited about. The French government was very committed to be a leader on plastic waste and climate, as you might imagine, and really trying to develop a circular economy. So they were willing to be aggressive on how they're going to improve their recycling infrastructure to support this plant. And they were helpful in making sure we found the right set of incentives, right understanding, and very available green feedstock for the recycling feedstock, as well as green energy and steam. So a lot of factors came together to make France a very attractive location.

And Europe as a market, very attractive, because, especially in France, those brand leaders, especially in the cosmetic luxury space, are very forward-leaning on sustainability on plastic waste and dealing with climate. So strong engagement. They wanted to have a plant in their backyard. So once again, good choice in France. That allows us to have a very strong competitive position and being a solution provider in this space.

So market demand very strong. As you saw, a number of LOIs in place. One of the milestones that has to be completed, Vincent, is just completing those agreements to lock in both the specialty offtake of this plant as well as the PET offtake. And I'll come to textiles in a moment. But it is -- this plant is going to be a mix. So the first plant is going to be primarily specialties. This plant will be a mix of continuing to have our specialty capability there around our copolyesters as well as making PET for packaging. So we've got to complete those agreements. Engagement is very strong and make sure that's done.

The second thing, of course, is sourcing feedstock. And we're making great progress with a number of suppliers in the feedstock. One of the attractive aspects of France is there's over 600,000 tons of polyester waste a year, and so tapping into that as well as other countries across Europe. So we're confident we're going to get the feedstock, but you got to make sure you've completed that sourcing.

And then the site selection is the last part, which is we have 3 very attractive sites identified. They all have very attractive green energy supply. But we're working through what is the best one with the right logistics for both inbound and outbound as you're moving a lot of material here as well as that green energy, which is key to our carbon footprint and our cost structure. And so we're working through all of that. But I'm very confident. All 3 sites are attractive. We just need to decide which one. So we feel good about the track we're on. It's just completing the work that we have going.

On the textiles part, Vincent, textiles will be part of it. It's not our primary focus at the moment because we've had so much engagement in the packaging and the specialty side. We've been primarily working with customers on that front. So we're starting engagement on the textiles side. Right after packaging in plastic waste, the biggest second contributor to incineration and landfill is textile waste. So there is going to be a significant and meaningful circular economy. That's why we're having so much success in our Naia cellulosic fibers is for the same reason, but we expect textiles to be a part of this project. But I'm not yet sure what percent, so I don't want to get into that at this point. But no doubt, it's a source of feedstock and it's a source of offtake.

Operator

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

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

In your script, you talked about elevated spreads in your Chemical Intermediates business that you thought in the second half might be more narrow. Which are the spreads that are elevated now that might narrow later in the year?

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

Sure, Jeff. So obviously, spreads on the olefin side are the area where we've had the most expansion through last year. And there was a belief, at some point, markets will sort of normalize as supply and demand come into more balance. And we thought that would happen in the fourth quarter, and it's held up better than expected, as you can see in our results. And we expect, frankly, those spreads to continue to hold up as we go into the first quarter. And then our forecast is based on moderation, starting in the second quarter and becoming more towards normal in the back half of the year. which is just a forecast. As we all know right now, Jeff, no one really knows exactly how that spread normalization is going to occur. But just to be clear, that's what's in our assumptions.

It's important to remember that there's other things that go on in this segment that create a lot of value, right? So we've got very good volume mix upgrade, especially mix upgrade, and the growth we have in ag functional means -- and especially plasticizers. And acetyls will actually be up in earnings in a meaningful way this year versus last year. Because last year, we had a very large shutdown in our acetyl complex. So we're going to have a lot more volume to sell this year. And acetic anhydride because of contractual reasons didn't improve that much last year and it's catching up to the better market conditions this year, and so we're going to have better sort of margins in the acetic anhydride, which really is the larger part of our business. You have to remember, acetic acid is a small co-product for us. And so we're not that levered to what's going on in that market.

So you've got a lot of positives going on, not to mention substantial cost tailwind for this segment when you think about -- the high shutdown schedule I mentioned in Advanced Materials, and how that's a tailwind, that applies across the company. And a good portion of that high shutdown -- unusually high shutdown schedule last year was in CI, right? We delayed a bunch of maintenance turnarounds from 2020 into '21 for safety reasons and keeping people from getting COVID. So we had a high schedule there. We also had some unplanned outages like Uri and a few other outages in CI in the fourth quarter that were a headwind, that will be -- all become a tailwind. So you've got cost tailwinds, operational cost savings, improvements. And then you've got these other businesses growing that net against whatever the normalization of CI is on the olefin spreads.

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

In your proposed French plant, can you give us some insight into what you expect your customer agreements to look like? Do you want to carve up the plant into certain segments and have some, I guess, more defined rate of return that's less volatile based on various changes in costs? Or do you wish to go about it in a different way?

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

So we definitely are focusing and designing these plants with an absolute focus on maintaining steady spreads as much as possible to provide a very reliable source of EBITDA for the company and margin stability and how it shows up every year. So that's our focus.

Now there are 2 models in how you do that. The first model is a certain percentage of this plant will continue to be specialties, like what we're doing in Kingsport. There's a tremendous amount of demand in cosmetics, in electronics and some very sort of unique high-value packaging items that are specialty products that we sell every day now. And we base those prices on value. And we have good differentiated positions in the marketplace to maintain prices relative to raw material costs. And so our pricing strategy for the specialty part of the plant would be what we do every day in Advanced Materials.

In addition, and a good portion of the volume will be making PET for packaging. And that will be the circular contracting model we talked about at Innovation Day. Brad covered it pretty thoroughly. And those will be take-or-pay long-term contracts that the prices are based on the value that

we have in providing mechanical recycling content to the marketplace. Remember that current food grade rPET is trading at a 40% to 50% premium to sort of virgin PET today and for the last couple of years in the European market. And these will be cost pass-through contracts. So we're not going to be taking risk on what the feedstock costs are, which makes a lot of sense for the customers, because if the feedstock cost for us go up, the food grade mechanical recycling costs are going to go up even more. So this is a hedge for them about the risk of buying mechanical recycle content relative to what the cost pass-through contract would provide, which will be relatively more stable. So those are the kind of contracts we have. So stable margins derived from both parts of the plant.

The exact mix of what is going to be specialty versus PET and textiles is still being determined by us because we're seeing a lot more specialty demand than we originally expected. And so that's good. Those are higher margins. And so we're working on how to balance all of that out. But whatever we build is going to be flexible. So the lines that make PET will have the ability to flex and make our specialty copolyesters in the future, so we can always mix upgrade these facilities over time if that opportunity presents itself.

Operator

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

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

Mark, you were in the PET business before, then you got out. What is your confidence level to get this 12% ROIC that you were talking about in this French plant? And you talked about recycled PET, rPET. We know it swings wildly. I mean is that -- the spread is kind of locked in, in your mind to get that 12% ROC? Can you just talk about that a little bit?

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

Sure. And our absolute focus has been on this question because I have no intention of getting back into the merchant PET business that had wide swings in profitability. I ran the business for quite some time in a number of years ago and not going back there.

So we've been very clear with investors as well as customers that the approach we're taking here is different. And it goes back to what I just said to Jeff's question, right? The PET part of this business is going to be in long-term offtake contracts with cost pass-through structures where we're not taking spread risk on what the price versus feedstock cost is. That's the only way we're going to build this plant, right? So those contracts you have to get in place, customers are engaged, understand that. That's what's in these LOIs that we're getting. And of course, we've got to still work through all the details to get to complete agreements, which is one of those milestones that Vince asked for a moment ago.

But to be clear, we're not going to build the plant unless we get it that way, right? We're not going to give -- slide back into sort of that volatile business that is the normal PET business.

And the specialties, we have a very long demonstrated track record for a few decades now, especially the last decade of delivering very strong volume growth, but also very steady spreads over time. Obviously, there's like, all specialties, sort of expansion contraction with movements in deflation or inflation of your raw materials, but we have very differentiated positions. And frankly, this plant is going to give us even more differentiated position relative to competitors, because we're going to have recycled content in our products in a plant based in Europe that gives a much better circular economy benefit for anyone who wants to buy from this plant. The circular economy is a very regional concept. So when we build plants in Europe or in the U.S., it's a significant advantage relative to Asian competitors in how we can sort of provide sort of within region solutions.

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

Great. And congrats on that plant. My next question is...

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

Thank you. We're really excited.

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

Thank you.

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

Yes. My next question is quickly on inventory levels. And it looks like inventory must be low given that you're airfreighting raw materials here. What's the inventory levels at your customers when you look down the chain or look across your portfolio? Is it quite low? And are some companies are expecting some coil back in business activity because of low inventories? What's your take on that?

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

Yes. So inventories are historic lows for us, and as far as we can tell with our customers, historic lows for them, too. I should have put that in my stream in David's question around Advanced Materials. That's another driver of volume growth on top of good market pent-up demand and the logistics constraints being freed up and our innovation driving growth. There is this need to rebuild inventories all the way down the chain, pretty much across every market. I would say the only exception I can think of across all of our markets is to where the cigarette customers are about normal inventories. But automotive obviously has a huge amount of pent-up demand and need to build reinventory. Building construction, same thing. Durables, where we've seen a lot of growth, there's still a lot of inventory rebuild in that stream. And the list goes on. And that's in AFP as well with coatings and care chemicals and animal nutrition. So another upside that creates a lot of demand, this year we'll still be pegged against what we can make and ship as we continue to expand capacity to enable more growth next year.

Operator

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

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

You signaled plans to deploy \$1.4 billion of capital in 2022. And I was wondering if you could help us understand what the mix of repurchases versus M&A might be, also the timing of that deployment, recognizing that you're set to close the adhesives deal, I would think, relatively soon. And then as a matter of clarification, is that deployment included in your EPS range?

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

Yes. Thanks, Kevin. This is Willie for the question. So yes, we actually put a lot of the proceeds and the free cash flow to work at the end of 2021. So I would highlight that we repurchased roughly 1 billion shares, of which 700 million was during Q4, mostly in November and December. As we think about having \$1.4 billion next year, it's a combination of the proceeds from our adhesives divestiture, and we anticipate that, that will be at the end of Q1 from a closing standpoint, as well as the additional, I'll call it, cash flow that we'll have from operations as we think about also increased organic spend. So \$1.4 billion, we would expect to start putting that to work in Q2, is when we would expect to do that. And you can think about probably greater than \$1 billion on share repurchases, with the additional optionality as we think about the other \$400 million as we get into the back half of the year and see how things develop with our portfolio of bolt-on and pipeline.

Kevin William McCarthy - Vertical Research Partners, LLC - Partner

Great. That's helpful. And then maybe, Mark, as a follow-up to that, what are you looking to do with the bolt-on M&A pipeline strategically? And I don't know however you want to frame that in terms of product interest or geographic interest or other objectives.

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

Yes. So we are looking at bolt-on M&A. I would say that we are exceptionally busy with our top specialty innovation growth programs across the company and ensuring we deliver on that as well as building out the circular platform, right? We've now got the project in Kingsport. We've got the announcement in France. We're still working on that third project in the U.S. and making progress on that. So that is a huge amount of EBITDA in play for long-term growth from an organic point of view from -- on the specialty side, accelerated by all this circular opportunity. So bolt-on M&A is a priority, but it's after those 2 topics.

We do see opportunities in Advanced Materials and AFP. As I've said before, our priorities remain the same around ways to open up new markets with compounding capability in a few targeted areas, and specialty plastics. The renewable content of Tritan is opening up new market opportunities in the opaque space and some other more engineered performance dimensions than what we've had in our typical value proposition in electronics and automotive. There are a lot of opportunity there that we want to sort of make sure we can exploit and grow.

We're always interested in growing our Performance Films business and have had a great track record of continued bolt-ons there, and that should continue. And then whether it's performance, personal care or coating additives, there's -- those opportunities that leverage our very strong position in our technology platforms and our market positions, that we'll look at. So it's sort of those 4 areas and animal nutrition, right?

So a number of different places where we could consider doing it. And -- but the markets are pretty overheated. And we're going to always remain disciplined in our capital deployment to make sure we get an attractive return for investors. So we'll just have to see if that gets done. If it doesn't happen, as Willie said, that extra \$400 million of cash above the \$1 billion this year, we'll turn into share repurchases.

Operator

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

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

A quick one on AFP. You're looking for 10% growth versus last year. Any commentary? You have 4 for businesses in the segment now. Will they all sort of grow in that line, some above, some below?

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

Yes. So first of all, we're really excited to have the new focused AFP. And it is very attractive growth when you look at what we're guiding to recast \$450 million EBIT last year of the AFP business, excluding tires and adhesives. So that is very strong growth.

And it really is the same story, just not as extreme as the Advanced Material story earlier, right? So we've got very good volume mix growth in coatings, in personal care, in water treatment, in animal nutrition, in specialty fluids. All of those elements of the market were drivers of growth last year and are expected to continue to be drivers of growth this year. This is also a place where we had an usually high shutdown schedule, last year especially for the care solutions business. And so you've got just that freed up capacity to enable more volume growth on top of market growth as we go into this year.

And then you've got restocking, because none of these customers have inventory, as I mentioned earlier, so there's the restocking benefit. And then there's the innovative growth that is continuing to gain traction here and starting to sort of build like what we have in Advanced Materials across coatings and care solutions. So that's all contributing. You've got spread improvement.

Now this business increased prices a lot faster last year because a lot of their positions are in cost pass-through contracts that track pretty quickly with the raws by definition. And so those prices increased a lot. So we didn't have as much of a spread headwind in this business last year as we did in Advanced Materials. Therefore, this year, we're not going to have as much of a tailwind, but we're still going to have a meaningful tailwind.

And then, of course, you've got the overall net cost structure being considerably lower this year for the company, and AFP will pick up part of that. Then it gets netted off by gross spend. So well positioned to deliver growth. And it's really across all the segments: coatings, residential. Construction is obviously incredibly tight. Automotive has plenty of room for recovery this year. We've got some actually great growth in semiconductors in the coatings business. And animal nutrition is going to have a very good solid year. And personal care is a great, stable business, with more capacity to sell this year.

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

Got it. And then a follow-up in Advanced Materials. Just curious if you could give us a little bit of maybe sensitivity in the \$100 million spread recovery. Oil is pretty high now. And if inflation gets worse, how does that affect that \$100 million? And I guess, would you just sort of make it up in Intermediates in the event that happens? So the net-net number would still be pretty good?

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

Yes. So first of all, we said greater than \$100 million. So we have some room for air with more recent inflation to deliver that \$100 million. Second, we have good pricing power and a strong demand environment. We just spent considerable time talking about how primary demand and our direct customer demand is well in excess of what can be provided. And they need to rebuild inventory on top of that. So we feel confident in that environment. We have pricing power. And if we see raw material inflation go up, we'll increase prices further from where we are today. But I think the team has done an excellent job when you look at -- the raw material inflation really didn't accelerate until towards the end of August. And by January, we caught up to it. That's actually -- in the world of specialties, actually very good excellence when you think about the extremity of this inflation we were chasing, to be in a very good position for the first quarter.

And to be clear, what our assumption is, on a full year basis, this year, raw materials and energy are going to be a headwind relative to last year, which is basically assuming those prices remain elevated around fourth quarter. We are also expecting distribution costs to be a headwind this year as the supply chain tensions are not resolving anytime soon. And the prices we currently have in place gets you that greater than \$100 million tailwind. So I think we're in a good position. And if oil keeps going up, we'll raise prices.

Operator

We will now take our next question from John Roberts from UBS.

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

Are there any constraints on growing the green textile fiber business? Can we assume that for many years, you can convert capacity from cig tow? And are there any constraints on putting more waste plastic into the gasifier to grow the acetyls component of that?

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

Yes. So there's no limitation to our ability to grow the Naia textiles business long term. So we definitely have tow assets available to be converted. And obviously, the tow market continues to have sort of a 2% to 3% decline, making additional capacity available. So it's just time and CapEx to convert those lines to make the Naia fibers. And we've had some really interesting breakthroughs on the process innovation side to improve our ability to do that in a capital-efficient manner. So we're really excited about that. So we can definitely sort of convert capacity to grow with the market.

And then when it comes to recycled content for the -- when we look at where we can go in Naia textiles, where we can go in engineered thermoplastics and specialty plastics, where we could go in food service which could be significant volume with our biodegradable polymers. We have the ability and the microbeads, which isn't very much volume, but very high value. We have plans in place where we can, with reasonable capital, improve the capability of the front end of the gasification complex to process whatever plastic waste we need to support all that growth.

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

And then should we assume all of the PRT facilities going forward are going to have a mixed waste plastic processing as well? You've got it in Kingsport. Now you'll have it in France. I was thinking before, you would basically only have mixed waste in Kingsport and the PRT plants would be really polyester-only.

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

No, we'll have it everywhere. It's really important. Just the scale of it will depend on the market and the opportunity that we're pursuing. The -- whatever plastic you get, even if it's "all polyester," it's not. When it shows up at the plant gate, there's all kinds of stuff, rocks, aluminum, other polymers that are still in that bale. And you really don't want to put that in the plant. So to some degree, you've got to have this processing on the front to make sure that what you're putting in the front of the plant is as pure polyester is possible. And this is one of the competitive advantages I think that Eastman is going to have versus our competitors, is this is a very efficient process we've developed and patented on how to do that. And if you don't have that ability, no matter how good the bale is that's being delivered to you, you're going to have a serious conversion problem on what's going in the front end to getting high-quality output on the back end.

One of the great things that 30 years of experience got us in working with a commercial scale plant at -- with Kodak and Eastman is, we learned a lot about how to have high conversion efficiency and how to have high energy efficiency. And so our plant's capable of 93% conversion on a polyester level from what goes in, to what comes out, which is incredibly high compared to most technologies. But you still got to make sure it's polyester you're sticking in the front end. So that mix processing is another competitive advantage that you put together with all of our other advantages that gives us confidence that we can be a leader in the space.

Operator

We will now take our next question from Frank Mitsch from Fermium Research.

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

Mark, I can safely say that you had a more eventful Martin Luther King Day than most people on this call. That looked pretty impressive, that backdrop, to be sure. One of the key drivers for growth in '22 is the \$75 million tailwind from planned shutdowns and operational disruptions year-over-year. I do like the slide on -- I do like Slide 16 that shows kind of the planned shutdowns. But if I'm reading that correctly, that's -- it's a \$5 million net benefit and you're talking about \$75 million. Is that just kind of the unplanned outages that you had in '21 or -- that obviously you're not counting on for '22? But how should we think about that?

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

Great. So I'm going to let Willie answer your question. But the Macron visit was great. And I put myself in lockdown for the 2 weeks leading up to it so I didn't get Omicron and couldn't go. So -- but it was -- he was impressive, actually, I have to say. He was well-briefed, detailed conversation that went for a long time with him around what he wants in a circular economy and how we're going to be the largest investment in France this year. And he wanted to make sure that the government is doing everything they can to ensure our success. And so it was impressive to see him spend a lot of time with me and actually on the detail of making sure we succeed. So it was a good experience. But to the cost question, I'll let Willie take it.

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

Thanks, Frank, for the question. To your point, '22, there's several significant tailwinds on the cost front. So first, it's greater than \$75 million versus last year and that's due to the unusually high planned shutdown schedule. And the schedule should be about \$50 million relative to that on a year-over-year basis. But we also had some unexpected challenges like Winter Storm Uri. Obviously, that seems like a long time ago at this point. And if you think about, I'll call it, the momentum from '20, we had to defer several shutdowns in the '21 because of COVID and then also accelerated, as Mark highlighted earlier, debottlenecks and to improve our reliability. And it's not just the higher maintenance cost. It's the impact of that lost capacity that we had in 2021 that gives us the growth potential given the pent-up demand and I'll call it the supply chain that still need to rebuild inventories.

Also, there's an \$85 million tailwind on variable comp that goes back to normal in 2022. And we continue our operations transformations, and we think that will be another \$50 million to \$75 million. Now also, as we enter 2022, inflation is going to be much higher than traditional. We think that number is probably \$100 million to \$125 million. So as you look at this, the net tailwind is greater than \$100 million and it likely offsets any of the scenarios on CI normalization of margins. And in other words, our growth forecast really centers on the belief that we can grow specialty volumes and catch up to the raw material headwinds and also the logistics headwinds that Mark highlighted earlier. And on top of that, we'll be buying back shares.

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

Got you. That's very helpful, very detailed. And then if I could ask a follow-up on the moving of the pricing in specialties up to the level of inflation during this quarter that you caught up. And I know you're guiding to keep raws flat 4Q '21 through the balance of '22. But if you get a situation that perhaps raws do erode, what's your confidence level in being able to hang on to your higher pricing in the specialties arena? Or how should we think about that interplay?

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

Yes. So it all comes down to sort of why things happen, Frank. But if raws are eroding because supply demand just is a little bit more balanced, but demand is still reasonably good, which I think I've covered earlier on our confidence on why that will be the case, that becomes a tailwind. So that would be an additional tailwind relative to our forecast.

Operator

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

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

I'm going to start out on the French announcement, the French plant. You mentioned you're going to have the mixed plastic processing upfront. What do you do with the nonpolyester stuff? Do you sell that to somebody else that gasifies it or burns it? Or where does it go exactly?

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

Yes. So the -- so what we don't use goes back into the recycling stream and ends up being used by another recycling process. So for example, most of what would be left over could be used by a pyrolysis plant, and there are several of those kind of projects being developed in France. So they could take the material and turn it into a circular economy for the olefin world. Worst-case scenario, it gets incinerated like it does today. All of this material these days is being incinerated, right? So you got to keep in mind that the overall recycling industry has a significant need to sort of improve its infrastructure and its recycling, right? So France alone has 600,000 tons of polyester waste. Just over half of that is packaging. The rest is textiles and carpets. The textiles and carpets is incinerated. It has no alternative solution until we show up on the polyester side of carpet and textiles with a solution where it can be recycled.

So -- and on the packaging side, only about 15% to 20% of what is captured by the mechanical recyclers actually finds its way back into a bottle. The rest of it is being down cycled. So as we sort of optimize the system, we're -- the mechanical recycling feedstock, as we've talked about, degrades over time so we have to have this molecular recycling technology to close this loop. And it has to be done because plastic is by far the most carbon-efficient product versus other materials. So if we're going to be science-driven, that's where this opportunity is so significant for us. But there's a whole ecosystem of recycling infrastructure, Bob, that gets created. And this mixed plastic processing actually just -- doesn't just enable polyester for us, but actually enables a cleaner feedstock for other technologies at the same time.

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

And can you license that technology? It sounds like you've got something that's novel there. Maybe there's a stream, a licensing stream there?

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

Yes. We're looking at licensing and partnering opportunities because it in itself can really unlock and enable a lot of feedstock recycling infrastructure affordably. So we are very much looking at that and how -- it's part of how we partner with people who are going to source us feedstocks and other opportunities.

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

And then I guess in Kingsport, you're going to use some of your material to do some Tritan Renew. Would it make sense if you're going to have a suite of products, one of those being a PET resin plant, to not just send then that DMT and paraxylene to an existing PET plant and have them toll it because they could still get the same sort of renewable certificate for it, and then you wouldn't have to spend the capital or maybe have a subscale plant versus a fossil fuel plant?

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

Yes. So it's unfortunately not that simple. A long time ago, DMT is a relatively high-cost way to make the intermediates for making PET. It enables a much higher performing product, which is why we use it in our specialty products. It gives you much better clarity and better performance on many dimensions. So we're DMT based as a competitive advantage for specialties. But the existing PET infrastructure that's in Europe and really across the world for that matter is based on PTA. And so you can't just swap out PTA and use DMT in an existing PET plant. You'd have to spend a significant amount of capital to convert the facility. And once you start looking at that capital conversion cost, you might as well just build a new plant. It's more -- it's a better integrated return.

Operator

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

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

I wanted to talk a little bit about Naia and tow and the conversions. I mean is there a point where converging -- converting tow lines can happen at a big enough rate that you'll substantially tighten the tow market? Or is that unlikely or too far out or not the right way to think about it?

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

No, it's a very good question, one we spend a lot of time on. And as we look at the Naia tow conversion as well as before you get to tow, the ability to redeploy flake, the intermediate, the polymer basically that goes into the spinning lines, into food service and in the thermoplastics creates different ways to sort of redeploy the entire integrated stream. And it created a very tight stream relative to where it is today. But yes, there are ways to look at converting capacity on the tow front.

There's also new technologies, the next-generation technology we're working at that I'm not going to get into detail now, that would be a different way to make the fiber at a much more capital efficient and advantaged greenhouse way. So we're pursuing all those options. And whether it makes the total tow industry exceptionally tight isn't just about us, right? It's also about what happens with our competitors and what they do with their capacity. And we're very fortunate to have a long multi-decade history of innovation in cellulose to all these different specialty applications that allow us to create all these new opportunities for growth that allow us to keep our stream tight and grow it when you include the specialties with the fiber complex.

But it's not as clear that everyone else can do the same thing. And so I'd hesitate to say that the industry in total is going to become extremely tight. But I would tell you with the capacity reductions that have already happened in the tow industry over the last several years, and we're doing -- certainly tightening the market in a meaningful way.

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

I appreciate that. And you might have kind of answered this a bit in Mike's question. But if I think about kind of the cadence on raw material recapture and AM, I mean, is it really like January, you're back? I mean what quarter are we looking at here where price overtakes raws, because I'd think things like advanced interlayers could see a meaningful step change kind of day 1, just given annual pricing, but I don't know that that's the correct way to think about it.

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

Yes. So day 1, this quarter relative to the fourth quarter, you're going to see substantial spread expansion with the prices that we've put in place relative to Q4. That's a big driver of the, not just annual outlook for Advanced Materials, but the strong improvement we're guiding to you about Advanced Materials on a Q1 to -- I'm sorry, Q4 to Q1 basis. Combined with the volume and mix growth, it really is a big substantial step up from where we were in the fourth quarter. So yes, it's going to start happening right now.

It picks up momentum though. So the expansion gets more significant in the second, third and fourth quarter when you look at it on a year-over-year basis for where all the value comes from, not just on spread, but also on volume mix improvement. We were really constrained because we're normally seasonally stronger in the second quarter on volume mix. But last year, we couldn't do that because of the shutdown that we had to do to do the Tritan conversion. So a lot better ability to grow volume in the second quarter as well as spread improvement. So AM will actually have a very good second quarter relative to the first quarter when you put that together. So no, it's happening now.

Operator

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

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

Mark, so waste sorting is one of the key steps in recycling. You talked about your experience was proprietary sorting process. So in terms of scale, what you've done so far in this area, how much of a scale increase is what you're going to be doing in France or other sites? How much of an increase of operational risk is it?

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

Yes. There's really not much operational risk in the mixed processing part of cleaning up the feedstock before the plant and it's very low capital in the way to do it. So we've already -- are constructing the facility here for our sort of 110 KMT of inbound feedstock to this facility and the same larger scale facility will be built in Europe. What's interesting is it's modular. So as we look at this, there's an opportunity to actually do it in multiple locations to be more logistically efficient in how we source waste and collaborate with sourcing partners. So we're still debating on how much we do it on site versus closer to where the feedstock is being sourced to get a more streamlined stream moving across the road to us. So there are definitely some design options there with our sourcing partners or feedstock sources on how we're trying to think that through.

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

And a follow-up on rPET. What is your cost position relative to food-grade mechanical rPET? And on the pricing side, do you think your customers would be willing to pay a premium for chemically recycled PET versus mechanical rPET?

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

So our cost structures, we're not going to sort of get into debating and discussing sort of detailed cost structures. But what I can say is that when we look at our cost structure and the pricing which is being centered around the alternative material, which is mechanical recycled content, we are in a very good position to have spreads that will then be sort of locked in, in cost pass-through contracts to deliver a greater than 12% return.

From a premium point of view, when you think about the quality of mechanical recycle versus our molecular recycled product, our product is much higher quality because the nature of unzipping the polymer and purifying it allows us to then have identical intermediates to what we use today from fossil fuels. So the products we make both especially as well as PET will literally be identical, no compromise, right? There are quality compromises with mechanical recycle in haze and color and its limited ability to be recycled over time. So we think and believe that it's a more valuable product. Customers, I think, understand that.

So -- but what's interesting is the way they -- many of them are looking at it is while our premium is going to be in this zone, it's actually likely to be a hedge against the risk of mechanical recycled PET being a lot more expensive. You got to remember, mechanical recycling can't remotely provide enough material for the recycled content targets the major brands have set for themselves in Europe and the U.S. So this supply-demand situation on the mechanical is going to continue to get tighter. And so we provide a reliable source of very high-quality product, and we believe that demands a reasonable premium.

Operator

We'll now take our last question from Laurence Alexander from Jefferies.

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

Two quick ones. Just the level of urgency at customers about restocking, do you see it as more of a 2022 couple of quarters event? Or do you see it as a more drawn-out tailwind that spills into 2023? And can you give -- update your thinking on the carbon renewal platform, specifically, given the feedback you've had in the urgency, both political tailwinds and customer interest, what we should see on that front?

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

Sure. So on the inventory restocking question, presuming we've got a growing economy this year around the world, I think that the world is going to struggle to keep up with demand. So it's hard to see that anytime soon. We're going to -- the customers or Eastman for that matter, are going to get inventories back to where they should be for a more stable level of performance. So I think this could drag out through the year and go into next year, especially if the economy is reasonably good.

When it comes to the CRT, lot of attention on the polyester renewal technology and where we're going with those circular platforms. But I'm equally excited about what we're doing with our cellulose. That's a stream that's core to who Eastman is. It has been around for almost 100 years. And it's amazing to see how sustainability has changed the mindset around these products, right? They've always sold on performance. They've never sold on sustainability until 3 years ago. And now you've got all these great performance elements in different applications, from engineered thermoplastics to textiles to now new food service being compostable and microbeads being biodegradable. So you've got a tremendous amount of growth opportunity across that spectrum of businesses that drive growth in AM, AFP and fibers.

And as I said earlier, we're confident in the technology. We've been operating it now for quite some time and has been processing plastic waste really well. There are reasonable capital ways to sort of expand that capacity and grow with all of these markets. And the margins in our cellulose are some of, if not the highest margins in the company. So as we grow this stream, you're getting a nice mix upgrade, not just a volume growth and asset utilization benefit. So it's all good.

So with that, I'd like to just wrap up and just make a couple of quick comments. We're really excited about our strategy to grow the company, believe in the specialty model, the circular platform, the strength of our cash. We think these are all differentiators. But what's incredibly important for me to mention and highlight right now is I couldn't be on this call talking about all of this if it wasn't for the employees we have around the world. They've encountered phenomenal challenges in the chaos that we've faced with this sort of snapback in demand and how to serve it and get through incredibly difficult logistics situation, supply chain situations, pushing our plants incredibly hard. And supporting all of that in every function across the company.

And at the same time, they were able to continue our specialty growth platforms of innovation across the company and add a circular platform on top of it. to position us for a very strong EPS growth this year and well positioned to keep it going as we go into the future. So I just want to thank all of them because with COVID and constraints in the work environment and, in particular, I want to thank the operators out there because they go into the plant every day since COVID started, managing in a very difficult operating environment, while having to wear a mask and follow all these safety protocols, that's incredibly difficult. And the real heroes in our company is the operators who showed up and kept customer supplied around the world every day. And they get my deepest appreciation out of everyone for what we've been able to do.

So with that, I'd love to thank you for -- complement all of them, and thank you for your interest in Eastman and have a good day.

Operator

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

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